

IMMEDIATE RELEASE
January 19, 1981

CONTACT: Everard Munsey
566-8191

CHRYSLER LOAN BOARD APPROVES
CHRYSLER'S REQUESTS FOR LOAN GUARANTEES

The Chrysler Corporation Loan Guarantee Board today approved up to \$400 million in additional Federal loan guarantees for Chrysler Corporation.

The Board acted unanimously after receiving a revised application and revised Operating and Financing Plans from Chrysler dated January 14, 1981. The revised application and plans incorporate new agreements reached with the United Auto Workers negotiating committee and with a representative group of Chrysler's 150 U.S. and European lenders.

The Board found that Chrysler had met the requirements of the Chrysler Corporation Loan Guarantee Act and transmitted its findings to the Senate and House Banking Committees. A statutory 15 day waiting period must elapse before the Board can approve issuance of the new loan guarantees and actual sale of the guaranteed securities by Chrysler.

Before the Board approves issuance of the guarantees, it required that the following conditions must be met:

- * ratification by the eligible United Auto Workers membership of the new wage concessions agreed by the UAW negotiating committee and implementation by Chrysler of identical compensation policies with regard to its other employees;

- * completion of the debt restructuring agreement contemplated in Chrysler's agreement with its lenders and presentation by Chrysler of a program to exercise its option under the agreement to buy out half its long-term debt at a discount;

- * documentation that Chrysler has obtained at least \$36 million in additional supplier concession for 1981 and assurances that the company will use its best efforts to obtain further concessions from suppliers in 1981 worth \$36 million;

* an amendment, satisfactory to the Board, of the agreement among the Government of Canada, Chrysler and Chrysler Canada Ltd. approving Chrysler's new Operating and Financing Plans as they relate to the Canadian government's commitment to provide up to \$200 million in loan guarantees;

* addition of provisions to Chrysler's agreement with the United States "to pursue diligently with all deliberate speed a capital infusion program satisfactory to the Board";

*. evidence of satisfactory progress by Chrysler toward sales of its remaining jet aircraft and of its options to purchase two more jet planes and acceptance by Chrysler of a prohibition on owning and operating corporate aircraft.

* compliance with the conditions of Chrysler's agreement with the Board, including the receipt of all required opinions and certifications;

By law, the amount of Federal guarantees outstanding at any time may not exceed the amount of non-guaranteed assistance accrued by the company. Chrysler expects to have accrued an additional \$400 million in non-guaranteed assistance by the end of January. The Board will review the amount of accruals at the time it considers approving issuance of the guarantees. The amount of loan guarantees will be limited to \$400 million or any smaller amount of additional non-guaranteed assistance that the company has then accrued.

Chrysler intends to sell 10 year notes of \$5000 minimum denomination in an underwritten public offering by a syndicate led by Salomon Brothers, Merrill Lynch, White Weld Capital Markets Group, The First Boston Corporation, E. F. Hutton & Co., and Warburg Paribas Becker & Co. The interest rate on the notes must not exceed 1.5 percentage points above the current average yield on outstanding Treasury securities of comparable maturity. The company has set February 2 as the target date for selling the guaranteed notes.

New Concessions in the Revised Plans

The revised company Operating Plan provides for the following new concessions from parties with an interest in the company:

- Lenders would convert approximately half of Chrysler's long-term debt of about \$1 billion as well as about \$68 million in deferred interest notes to preferred stock.
- The company would have the option to purchase half of the remaining long-term debt in installments over about a year at 30 cents on the dollar.

- Suppliers are being asked to hold January 1, 1981 price levels throughout the year and give Chrysler a 5 percent discount on purchases during the first quarter of 1981, for a cash savings of \$72 million.
- Employees would forego cost of living, other pay increases and certain improvements in fringe benefits through September, 1982 at a savings to Chrysler of \$783 million. Of that savings, about \$622 million would come from employees represented by the UAW and \$161 million from other employees of the company.
- Chrysler would temporarily defer payments to suppliers for a cash saving of \$340 million.

In addition, the Plan provides that Chrysler and the UAW would negotiate a proposal for a profit-sharing plan to be submitted for approval of the Loan Guarantee Board. The Board stated that it "is concerned that the profit sharing plan...be contingent on adequate levels of future performance by Chrysler" and said it feels "no obligation" to approve a plan negotiated by Chrysler and the UAW that is not contingent on adequate levels of future performance by Chrysler. The Plan commits the company to explore all possible methods of strengthening the company's financial positions by the infusion of new capital through merger or other means.

Chrysler's revised Operating Plan also provides for \$60 million in cost reductions by eliminating 1,700 jobs and cutting indirect expenses and cash conservation measures totalling almost \$3 billion: \$150 million from extending beyond March 31, 1981 consignment financing of vehicles supplied by Mitsubishi, \$65 million from deferral of payments to additional suppliers, \$76 million in loans from Illinois, New York, Ohio, and Missouri, up to \$320 million from sale of 51 percent of Chrysler Financing Corporation, \$2 billion from reduction of expenditures on new models, and \$300 million from refinancing of assets.

The main features of the agreements between Chrysler and its lenders and workers are:

Lenders: The agreement would extend to U.S. banks and insurance companies and European banks with \$1,009,000,000 in outstanding long-term debt to Chrysler Corporation. A group of Japanese banks with outstanding debt totalling \$156 million will be offered participation in the agreement.

The lenders would agree to exchange one half of their outstanding loans to Chrysler, plus about \$68 million in notes issued by Chrysler in lieu of cash interest, for preferred stock. The exchange would provide stock with a redemption value of 160 percent of the principal amount of the debt converted to stock, so that for each \$2,000 in debt a preferred stock share with a

redemption value of \$3,200 would be issued. The stock would bear interest at 8-1/8 percent or \$260 per share, but this interest would not be paid or cumulated until the Federally guaranteed loans had been paid off. Without participation of the Japanese banks, \$504.5 million in long-term debt would be exchanged for \$807 million in preferred stock.

Half of the conversions to preferred stock would take place when the new Federal loan guarantees are issued and the remainder within 105 days or sooner if needed to maintain the company's net worth at no less than \$100 million.

The remaining long-term debt -- amounting to \$504.5 million if the Japanese banks do not participate -- could, at Chrysler's option be purchased at 30 cents on the dollar over 380 days after the issuance of the additional Federal loan guarantees.

This debt would be secured by a lien on the company's assets that would be subordinated to liens securing the Federally guaranteed loans and certain other existing liens. If not bought out by the company, it would bear cash interest at 11 percent on loans from U.S. banks and insurance companies and at rates ranging from 11 to over 18 percent during different periods for loans from European banks. The outstanding debentures held by the public would share equally in this security to the extent that the lenders' lien covers Chrysler's domestic automotive plants.

The amount of debt that the company could buy out at discount would be reduced by 25 percent of the original total after 105, 197, 288 and 380 days after the new loan guarantees are issued. Chrysler is required, before the Board's approval of issuance of the new loan guarantees, to present a program to use its option to purchase the debt and to agree not to allow its option to expire without the Board's consent.

Workers: Chrysler and UAW negotiating committee have agreed that the current cost of living allowance of \$1.15 per hour will be discontinued after March 1, 1981 and that no further cost of living increases will be made under the current contract which expires on September 30, 1982.

The workers will also forego two "improvement factor increases," which would have amounted to 3 percent of the base wage. Increases in pensions scheduled for August 1, 1981 will be deferred to January 1, 1982 and pension increases and improvements scheduled for October 1, 1981 and after January 1, 1982 will be eliminated except for an increase of 50 cents per year of service scheduled to become effective on October 1, 1981.

All "paid personal holidays" that would have become available during the remainder of the Agreement will be eliminated and scheduled increases in paid lunch time and contributions to paid educational leave will be dropped.

The company and union agreed to negotiate a profit sharing plan within 120 days with the understanding that the plan must be approved by the Loan Guarantee Board, among others.

Chrysler's Operating Plan states that "the International Union UAW has reviewed with Chrysler the contents of Chrysler's Operating and Financing Plans dated January 14, 1981, and has agreed in a letter from its president it will conduct its 1982 collective bargaining negotiations with Chrysler taking due consideration of the plans and modifications approved by the Loan Guarantee Board, the mutual interest of Chrysler and its constituents in Chrysler's long-term viability and Chrysler's then-existing financial condition and prospects. Based on such agreement, Chrysler has assumed in its Plans that wage increases from September 15, 1982 through the end of 1985 would be consistent with cost of living and wage trends generally prevailing at the time and would be consistent with its need to maintain long-term viability. In addition, the new collective bargaining agreement will be subject to Loan Guarantee Board review."

The UAW agreed to begin the process of submitting the agreement to the Chrysler membership for ratification on January 19, 1981.

Effects on Operating Results and Financial Position

The Loan Board found that Chrysler had met the statutory requirement that it submit an Operating Plan "for the 1980 fiscal year and the three next fiscal years demonstrating the ability of the Corporation to continue as a going concern in the automobile business, and after December 31, 1983, to continue without additional guarantees or other Federal assistance..."

The analysis of the Board's staff pointed out that the Act calls for a reasonable prospect of viability, not that it be assured or guaranteed. Congress clearly viewed Chrysler as a turnaround situation, involving a higher degree risk, for which normal credit standards applicable to the private sector were not to be used exclusively.

Since the Board's approval of loan guarantees in July, the domestic auto market has been a little stronger than forecast by Chrysler, but the company's share of the market has been below the company's projections. This resulted in much lower sales and higher demand for cash than originally forecast. The prospect that this reduced market share will continue created a situation in which only the most drastic action by Chrysler could provide a reasonable assurance of the company's long-term viability.

The company's action to obtain concessions from its workers, suppliers and lenders, to reduce manpower by 3,000 and decrease planned expenditures during 1981 through 1985 by \$1,888 million provided the basis for the Board's determination that the company

has a reasonable prospect of viability. The staff noted that "they result in a company which looks much different than the corporation which first approached the U. S. Treasury in July, 1979."

Chrysler's revised operating plan assumes a 3.5 percent annual trend rate of growth of real GNP after the first part of 1981. It assumes total car sales of 9.6 million units in 1981 and market growth rising from 10.6 million units in 1982 to 11.8 million units in 1985. Chrysler projects its share of the car market at 8.9 percent in 1980, 9.1 percent in 1981, 9.7 percent in both 1982 and 1983, and 9.5 percent in 1984.

Chrysler's plan projects truck sales of 2.5 million units in both 1980 and 1981 and 3 million units in 1982, rising to 3.8 million by 1985. The company projects its share of the truck market at 10 percent in 1980, 9 percent in 1981, 9.8 in 1982, 9.7 in 1983 and 12.4 in 1984.

The staff noted that the industry volume projections are slightly above those of independent forecasters.

The revised Operating Plan also calls for revisions of Chrysler product plans, including cancellation of a subcompact that would have replaced the Omni-Horizon series in 1985, deferral of a premium 2-door version of the K series by six months to mid-1982, deferral of a sport model based on the K series and a 4-speed automatic transaxle, and deferral of plans for an additional front wheel drive plant. These changes will reduce expenditures by \$670 million in 1981, \$603 million in 1982, \$441 million in 1983, \$354 million in 1984, with an increase of \$180 million in 1985, for a net reduction of \$1,888 million in the 1981-85 period.

The Board's staff stated that the revised Financing Plan, incorporating the new concessions, improves the company's financial margins and ensures that it can continue its operations and have reasonable prospects of becoming financially viable over the long-term.

The cash impact of the new actions included in the revised January 16 Financing Plan are set forth in the following table:

Cash Impact of New Actions Incorporated in
the January 14 Plan Which Were Not Anticipated Previously
(\$ millions)

	<u>Reduced Capital and Product Expenditures</u>	<u>Lender Interest Con- sions</u>	<u>Sup- Pliers Con- cessions</u>	<u>Employee Con- cessions</u>	<u>Fixed Manpower and Other Reductions</u>	<u>Total New Con- cessions</u>
1981	670	25-34	45	293	97	1,130-1,139
1982	603	58-81	--	490	35	1,186-1,209
1983	441	61-84	--	--	41	543-566
1984	354	56-79	--	--	44	454-477
1985	<u>(180)</u>	<u>56-79</u>	<u>--</u>	<u>--</u>	<u>48</u>	<u>(76)-(53)</u>
Sub- Totals	1,888	256-357	45	783	265	3,237-3,338
Less:	Cash Needed to Purchase Debt at 30 cents on Dollar (75% in 1981, 25% in 1982)					<u>(155)-(178)</u>
TOTAL CASH IMPACT OF NEW ACTIONS						<u>3,082-3,160</u>

While Chrysler's cash requirements are increased by \$106 to \$116 million in 1981 as the result of purchasing half of its long-term debt at 30 cents on the dollar, the company's need through 1985 for cash will be reduced by \$270 to \$365 million as a result of the debt buy-out. If the debt which previously would have matured after 1985 is also considered, Chrysler's cash savings from the buyout would total between \$1.1 and over \$1.3 billion.

The improvement in net worth from the debt restructuring exceeds the cash savings, particularly in the period through 1985. Net worth will be improved \$931 million to \$1.057 billion in 1981 and by \$1.711 billion to \$1.931 billion by 1985. A large portion of this improvement results from the earlier conversion of debt into equity. After September 30, 1986 (when the June 24 debt restructuring plan contemplated the conversion of \$750 million of debt into equity), Chrysler's net worth will be \$1.22 billion to \$1.48 billion greater than it would have been.

Details concerning the effect of the debt restructuring on the company's cash position and net worth are shown in the attached tables 1 and 2.

Under the revised Plans, the company's financial reserves -- consisting of cash in excess of \$150 million in normal transaction balances and unused loan guarantees, will rise from \$662 million in 1981 to \$3,115 million in 1985 assuming that the company is able to achieve the results in its plans. In that

event, the reserves may be used for future capital expenditures. In addition, up to \$100 million in 1981 and up to \$350 million in 1985 could be provided by careful management of working capital.

Forecasts of the company's profit and loss statements and balance sheets through 1985 based on the staff's analysis of the revised Operating and Financing Plans are attached as tables 3 and 4.

The forecasts show losses of \$1,774 million and \$253 million in 1980 and 1981, respectively, and profits of \$319 million in 1982, \$587 million in 1983, \$1,089 million in 1984 and \$1,273 million in 1985. New worth rises from \$377 million at December 31, 1980 to \$4,396 million at the end of 1985.

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Table 1

Financial Impact of Chrysler's January 14 Financial Plan Debt
Restructuring Plan Versus Current Debt Arrangements
(\$ millions)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Total</u>
<u>Annual Cash Position Increased <Decreased></u>						
• Cash needed to purchase debt	(116)-(133)	(39)-(45)	—	—	196-227	41-49
• Cash Interest Savings	25-34	58 - 81	61-84	56-79	56-79	256-357
• Lost Interest Income on Funds Used to Purchase Debt	<u>(15)-(17)</u>	<u>(11)-(14)</u>	<u>(6)-(9)</u>	<u>0-(3)</u>	<u>5-2</u>	<u>(27)-(41)</u>
Annual Total	(106)-(116)	8-22	55-75	56-76	257-308	270-365
Cumulative Total	(106)-(116)	(98)-(94)	(43)-(19)	13-57	270-365	270-365
• Plus: Debt Repayments Saved After 1985						<u>835-960*</u>
TOTAL CASH SAVINGS						1105-1325

* Additional interest savings totalling between \$100 million and \$200 million per year would be realized beyond 1985 until all \$835 to \$960 million remaining debt is repaid.

Table 2

Financial Impact of Chrysler's January 14 Financial Plan
Debt Restructuring Plan Versus Current Debt Arrangement
(\$ millions)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Total</u>
<u>Annual Increase <Decrease> in Net Worth</u>						
• Cash Interest Savings	25-34	58-81	61-84	56-79	56-79	256-357
• Lost Interest Income on Funds Used to Purchase Debt	(15)-(17)	(11)-(14)	(6)-(9)	0-(3)	5-2	(27)-(41)
• Insurance Company "A" Note Interest Savings	4	4	5	4	5	22
• Deferred Interest Notes Savings	80	90	101	141	123	535
Annual Total Which Affect Earnings	94-101	141-161	161-181	201-221	189-209	786-873
Cummulative Total Which Affect Earnings	94-101	235-262	396-443	597-664	786-873	786-873
Plus: •Conversion of Debt into Equity	572-650	572-650	572-650	572-650	572-650	572-650
•Additional Equity from Repurchase of Debt	265-306	353-408	353-408	353-408	353-408	353-408
Cummulative Total Net Worth Improvement	931-1057	1160-1320	1321-1501	1522-1722	1711-1931	1711-1931
Plus: Additional Deferred Interest Notes Accrued After 1985						169
Plus: Additional Interest Savings in 1986						90-130
Less: September 30, 1986 Conversion of Debt into Equity in Existing Debt Agreements						(750)
Net Improvement in Net Worth Due to January 10 Proposed Debt Restructuring Plan through September 30, 1986						1220-1480

Table 3

**Base Case III Forecast
Profit and Loss Statements**

	<u>1979-1985</u> (\$ Million)						
	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Net Sales	\$12,002	\$ 9,063	\$12,482	\$14,929	\$18,353	\$21,008	\$23,252
Equity in Net Earnings Unconsolidated Subsidiaries	<u>2</u>	<u>(62)</u>	<u>(6)</u>	<u>2</u>	<u>7</u>	<u>11</u>	<u>13</u>
Total Revenues	<u>12,004</u>	<u>9,001</u>	<u>12,476</u>	<u>14,931</u>	<u>18,360</u>	<u>21,019</u>	<u>23,265</u>
Costs, Other Than Items Below	12,224	9,609	11,506	13,257	16,288	18,302	20,336
Depreciation & Authorization	401	512	501	541	616	732	761
Pension Plans	261	310	343	401	475	526	568
Interest Expenses - Net	<u>215</u>	<u>304</u>	<u>350</u>	<u>383</u>	<u>360</u>	<u>318</u>	<u>165</u>
Earnings Before Taxes & Minority Interest	\$(1,097)	\$(1,734)	\$ (224)	\$ 349	\$ 621	\$ 1,141	\$1,435
Taxes on Income (Credit) and Minority Interest	<u>--</u>	<u>40</u>	<u>29</u>	<u>30</u>	<u>34</u>	<u>52</u>	<u>162</u>
Net Earnings/(Loss)	<u>\$(1,097)</u>	<u>\$(1,774)</u>	<u>\$ (253)</u>	<u>\$ 319</u>	<u>\$ 587</u>	<u>\$ 1,089</u>	<u>\$1,273</u>

January 16, 1981

Base Case III Forecast Balance Sheets
December 31, 1979-1985
(\$ Millions)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Cash	\$ 474	\$ 150	\$ 162	\$ 180	\$ 150	\$ 156	\$ 165
Accounts Receivable	610	487	653	698	750	850	950
Receivable from CFC Sale	--	--	250	--	--	--	--
Inventories	1,874	1,950	1,871	2,158	2,254	2,480	2,737
Other	162	171	178	180	180	180	180
Total Current Assets	\$ 3,120	\$ 2,758	\$ 3,114	\$ 3,216	\$ 3,334	\$ 3,666	\$ 4,032
Investments & Other Noncurrent Assets	1,184	1,178	871	872	893	925	965
Property, plant, equipment	2,349	2,522	2,146	2,431	2,758	2,869	3,162
TOTAL ASSETS	\$ 6,653	\$ 6,458	\$ 6,131	\$ 6,519	\$ 6,985	\$ 7,460	\$ 8,159
Accounts Payable	\$ 2,338	\$ 2,613	\$ 2,536	\$ 2,608	\$ 2,789	\$ 3,135	\$ 3,462
Short-Term Debt	601	35	35	37	40	25	20
Long-Term Debt Due Within One Year	276	24	20	34	135	186	128
Other	17	9	9	13	13	13	13
Total Current Liabilities	\$ 3,232	\$ 2,681	\$ 2,600	\$ 2,692	\$ 2,977	\$ 3,359	\$ 3,623
Other Non-Current Liab.	605	630	682	727	825	874	940
Long-Term Debt	992	1,970	1,204	1,044	1,100	927	800
U.S. Guaranteed Loans	--	800	1,200	1,200	800	450	--
Net Worth	1,824	377	795	1,256	1,883	3,050	4,396
Financing Contingency*	--	--	(350)	(400)	(600)	(1,200)	(1,600)
TOTAL LIABILITIES & NET WORTH	\$ 6,653	\$ 6,458	\$ 6,131	\$ 6,519	\$ 6,985	\$ 7,460	\$ 8,159
Memo: Working Capital	\$ (112)	\$ 77	\$ 514	\$ 524	\$ 357	\$ 307	\$ 409
Current Ratio	.97	1.03	1.20	1.19	1.12	1.09	1.11

* If the Base Case III forecasts are fully attained in all years, the amounts shown as financing contingencies would be available as extra cash balances.

January 16, 1980

AGENDA OF THE
CHRYSLER CORPORATION LOAN GUARANTEE BOARD
January 19, 1981, Meeting

- I. "Sunshine Act" Introduction
- II. Routine Actions Requested by Chrysler (Volume I)
 - A. Miscellaneous Items (first staff memorandum)
 - 1. Canadian Sale/Leasebacks
 - 2. Loans from Chrysler Venezuela to Chrysler Corporation
 - 3. Modifications to Defense Contracts
 - 4. §11(c) Approval of New Defense Contract
 - 5. Sale of Penn Central Securities
 - 6. Sale/Leaseback of Boston Parts Depot
 - B. Sale of Northfield Financial Building (CFC's Headquarters) (second staff memorandum)
 - C. Vote on Routine Actions
- III. Chrysler's Request for Issuance of \$400 Million in Federal Loan Guarantees (Volume II--Resolutions at Tab II)
 - A. Items for Consideration
 - 1. Approval of New Operating and Financing Plans and Budgets
 - 2. Waivers of Agreement to Guarantee and Procedures Memorandum
 - 3. Determinations Required for Issuance of New Guarantees (staff memoranda at Tab III)
 - 4. Approval of Issuance of Guarantees and Documents
 - 5. Amendment of Agreement to Guarantee
 - 6. Chrysler's Capital Infusion Program
 - 7. Chrysler's Profit Sharing Plan
 - 8. Report to Congress
 - 9. Future Wage Levels
 - B. Vote on Chrysler's Request

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ROUTING AND TRANSMITTAL SLIP

Date

1/15/81

TO: (Name, office symbol, room number, building, Agency/Post)

Initials

Date

1. Secretary Miller

2.

3.

4.

5.

Action	File	Note and Return
Approval	For Clearance	Per Conversation
As Requested	For Correction	Prepare Reply
Circulate	For Your Information	See Me
Comment	Investigate	Signature
Coordination	Justify	

REMARKS

This is the subject of your return call to Michael Driggs regarding an important Chrysler problem which has just emerged.

DO NOT use this form as a RECORD of approvals, concurrences, disposals, clearances, and similar actions

FROM: (Name, org. symbol, Agency/Post)

Room No.—Bldg.

Michael Mates

Phone No.

5041-102

OPTIONAL FORM 41 (Rev. 7-76)
Prescribed by GSA
FPMR (41 CFR) 101-11.206

U.S. G.P.O. 1980-311-156/10

1981-1984 PROJECTIONS

The Company developed its new 1981-1984 plan on the basis of industry volumes similar to the projections of independent forecasters and on market share objectives based on conservative expectations. In responding to higher interest rates and depressed economic conditions, the new plan includes major capital spending reductions and other cash savings which the Company believes can be implemented with little effect on its future market position.

This plan also includes concessions from suppliers, lenders, and employees to assure viability.

The table below summarizes the changes to the July 10, 1980 projections for 1981-1984.

TOTAL CORPORATION
1981-1984 PLAN TO PLAN PROFIT COMPARISON
\$(Millions)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Prior Plan (July 10, 1980)	\$ 273	\$ 628	\$ 350	\$ 875
Present Plan	82	451	621	1,141
Present B/(W) Than Prior	<u>\$ (191)</u>	<u>\$ (177)</u>	<u>\$ 271</u>	<u>\$ 266</u>
<u>Explanation of Change</u>				
Volume	\$(1,199)	\$(1,191)	\$(762)	\$(803)
Variable Margin & Price Recovery (Including Wage & Supplier Concessions)	(130)	(240)	(215)	17
Fixed Costs	227	393	520	521
Interest	125	59	113	166
Debt Restructuring	306	102	-	-
Contingency	480	700	615	365
Total Change	<u>\$ (191)</u>	<u>\$ (177)</u>	<u>\$ 271</u>	<u>\$ 266</u>

The changes are explained by the following factors:

- Total industry volume assumptions have been lowered by 3.2 million units in 1981 and 1982 and, while the forecast is no longer based on a cyclical demand curve, the resulting industry volume trend line is considerably more conservative than prior plans.
- Chrysler market share projections have been lowered significantly for both car and truck product lines in recognition of product program retiming and to provide an additional measure of conservatism for financial planning purposes. Sales objectives for 1981-1985 will be established at higher levels based on the Company's belief that, once consumer confidence returns, those levels would be achievable.

SECTION B

SUMMARY FINANCIAL PROJECTIONS

Profit projections for the period are shown by year in the following table. These operating results reflect the volume assumptions, planned capital expenditures, carryover effects of the variable margin improvements and fixed cost reductions already described in the Operating Plan. Taxes for 1981 through 1985 reflect the impact of operating losses and other carry-forward tax credits.

PROFIT AND LOSS STATEMENTS

1979-1985

(\$ Millions)

306 1981
1982
102

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Net Sales	\$12,002	\$ 9,063	\$12,482	\$14,929	\$18,353	\$21,008	\$23,252
Equity in Net Earnings of Unconsolidated Subsidiaries	<u>2</u>	<u>(62)</u>	<u>(6)</u>	<u>2</u>	<u>7</u>	<u>11</u>	<u>13</u>
Sub Total	\$12,004	\$ 9,001	\$12,476	\$14,931	\$18,360	\$21,019	\$23,265
Costs, Other Than Items Below	12,224	9,609	<i>11200</i> 11,175	<i>13155</i> 13,110	16,288	18,302	20,336
Depreciation & Amortization	401	512	501	541	616	732	761
Pension Plans	251	310	343	401	475	526	568
Interest Expense - Net	<u>215</u>	<u>304</u>	<u>350</u>	<u>383</u>	<u>360</u>	<u>318</u>	<u>165</u>
Earnings Before Taxes & Minority Interest	\$ (1,097)	\$ (1,734)	\$ <i>82</i> 287	\$ <i>451</i> 498	\$ 621	\$ 1,141	\$ 1,435
Taxes on Income (Credit) and Minority Interest	<u>-</u>	<u>40</u>	<u>29</u>	<u>30</u>	<u>34</u>	<u>52</u>	<u>162</u>
Net Earnings/(Loss)	<u>\$ (1,097)</u>	<u>\$ (1,774)</u>	<u>\$ <i>53</i></u> 258	<u>\$ <i>421</i></u> 468	<u>\$ 587</u>	<u>\$ 1,089</u>	<u>\$ 1,273</u>

156 Japanese
1009 US
21165
5825 1/2
175 cash cost
408 Pfx

includes 306 gain from conversion

+



- The deterioration in variable margins and price recovery results primarily from more conservative assumptions regarding price recovery and improving VMI.
- Improvements in fixed costs reflect the roll-through of achieved and/or committed fixed cost reductions and the savings from the revised product and capacity program.
- Reductions in contingencies now are possible given achievement of the fixed cost reduction program and as a result of more conservative assumptions in industry volume, Chrysler market share and price recovery.
- The gain on debt restructuring results from the repurchase of debt from certain lenders at a discount.

CHANGE IN PROFITS
YEAR OVER YEAR

Year over year changes to the profitability of the Corporation during 1981 to 1984 are summarized in the following table:

	<u>PROFIT BEFORE TAXES</u> <u>YEAR OVER YEAR CHANGES</u>			
	<u>1981/ 1980</u>	<u>1982/ 1981</u>	<u>1983/ 1982</u>	<u>1984/ 1983</u>
<u>Profits Before Taxes</u>				
Base Year	\$(1,734)	\$ 82	\$ 451	\$ 621
Comparison Year	<u>82</u>	<u>451</u>	<u>621</u>	<u>1,141</u>
Comparison Year Better/(Worse)	<u>\$1,816</u>	<u>\$ 369</u>	<u>\$ 170</u>	<u>\$ 520</u>
<u>Explanation of Change</u>				
Vehicle Volume	\$ 183	\$ 470	\$ 380	\$ 216
Vehicle Variable Margin & Price Recovery (Incl. Wage & Supp. Conces.)	792	216	184	174
Vehicle Fixed Cost	495	(75)	(191)	254
Interest	(46)	(33)	23	42
Other Operations	296	(5)	41	109
Debt Restructuring	306	(204)	(102)	-
Contingency	<u>(210)</u>	<u>-</u>	<u>(165)</u>	<u>(275)</u>
Total	<u>\$1,816</u>	<u>\$ 369</u>	<u>\$ 170</u>	<u>\$ 520</u>

BALANCE SHEET

Balance sheets for actual 1979 and the projected 1980 through 1985 period are shown below. Details of individual line categories are included on the following pages.

1981-1983

Additional funds are shown on the line labeled FINANCING CONTINGENCY. FOR THE YEARS 1983-1985, THESE FUNDS CONSTITUTE A RESERVE FOR SEASONAL CASH NEEDS AND UNEXPECTED PROFIT DETERMINATION. THE SUBSTANTIAL AMOUNTS SHOWN FOR THE YEARS 1983-1985 ARE FOR SEASONAL CASH NEEDS AND TO PROVIDE A RESERVE TO ALLOW THE COMPANY TO RESPOND TO CHANGING MARKET DEMANDS IF NECESSARY. HOWEVER, IF ALL OTHER ELEMENTS OF THE PLAN ARE MAINTAINED, THIS CONTINGENCY AMOUNT WOULD BE AVAILABLE AS LOAN AND COULD BE USED TO PAY DOWN DEBT.

FINANCING PLAN BALANCE SHEET

December 31
1979-1985
(\$ Millions)

	1979	1980	1981	1982	1983	1984	1985
Cash	\$ 474	\$ 150	\$ 162	\$ 180	\$ 150	\$ 156	\$ 165
Accounts Receivable	610	487	583	698	750	850	950
Receivable from CTC Sale	-	-	320	-	-	-	-
Inventories	1,874	1,950	1,871	2,158	2,254	2,480	2,757
Other	162	171	178	180	180	180	180
Total Current Assets	\$3,120	\$2,758	\$3,114	\$3,216	3334	3666	4032
Investments & Other Noncurrent Assets	1,184	1,178	871	872	893	925	965
Property, Plant & Equipment	2,349	2,522	2,146	2,431	2,758	2,869	3,162
Total Assets	\$6,653	\$6,458	\$6,131	6519	6985	7460	8159
Accounts Payable	\$2,338	\$2,617	\$2,536	2608	2789	3135	3497
Short-Term Debt	601	35	35	37	40	25	20
Long-Term Debt Due Within One Year	276	24	20	34	135	186	128
Other	17	9	9	13	13	13	13
Total Current Liabilities	\$3,232	\$2,685	\$2,600	2692	2977	3359	3658
Other Non-Current Liabilities	605	630	682	727	825	874	940
Long-Term Debt	992	1,641	1,204	1,044	1,100	927	800
U.S. Guaranteed Loans	-	800	1,200	1,200	800	450	-
Net Worth	1,824	702	795	1256	1883	3050	4361
Financing Contingency	-	-	(350)	(400)	(600)	(1200)	(1600)
Total Liabilities & Net Worth	\$6,653	\$6,458	6131	6519	6985	7460	8159
Memo:							
Working Capital	\$ (112)	\$ 73	\$ 514	524	357	307	374
Current Ratio	.97	1.03	1.20	1.19	1.12	1.09	1.10

SOURCE AND APPLICATIONS OF FUNDS
\$(Millions)

	Years Ended December 31,					
	1980	1981	1982	1983	1984	1985
Beginning Cash Balance (Including Contingency)	\$ 474	\$ 150	\$ 512 368	\$ 550 388	\$ 750 450	\$ 1356 856
Sources:						
Net Earnings (After Tax)	(1,774)	53 48	421 488	587	1,089	1,273
Depreciation & Amort.	514	501	541	616	732	761
Asset Disposals (PP&E)	112	265	-	-	-	-
Sale of C.F.C.	-	320	-	-	-	-
Contribution to E.S.O.P.	-	40	40	40	43	-
Deferred Pension & Other	27	52	45	98	49 39	66 28
Change to Long Term Debt	649	(437)	(150)	56	(173)	(127)
Restructure Debt to						
Preferred Stock	650	-	-	-	-	-
Thrift Stock Sales	-	-	-	-	47	50
Draw-down Guar. Loans	800	400	-	-	-	-
Total Sources	\$ 978	\$ 1,219 1194	\$ 832 887	\$ 1,397	\$ 1,777 1787	\$ 2,033 2023
Applications						
Invest. & Advances (Net)	(6)	13	1	21	32	40
Property Plant & Equip.	362	124	400	555	503	601
Special Tools	382	228	353	304	289	386
Capital Interest	55	38	73	84	51	67
Pay-down Guar. Loans	-	-	-	400	350	450
Dividends - Preferred	-	-	-	-	4	5
Preferred Stock Redemptions	-	-	-	-	8	7
Total Applications	\$ 793	\$ 403	\$ 827	\$ 1,364	\$ 1,237	\$ 1,556
Less: Changes In Working Capital						
Accounts Receivable	(123)	416	(205)	52 (15)	100 31	201 100
Inventories	76	(79)	297 237	146 78	226	37 257
Accounts Payable	(279)	256 81	23(72)	64(181)	53(346)	48(362)
Long-Term Debt -						
Current Portion	252	4	(14)	(101)	(51)	58
Short Term Debt - Other	583	7	(4)	(3)	15	5
Total Working Capital		427	(8)	(132)	(52)	58
Change (Excl. Cash) -/(+)	\$ 509	\$ 804	\$ 87	\$ (137)	\$ 334	\$ 208
Ending Cash Balance (Including Contingency)	\$ 150	\$ 512 582	\$ 550 388	\$ 750 450	\$ 1356 856	\$ 1765 865
Less Contingency	-	(350)	(100)	(600)	(1200)	(1600)
Ending Cash Balance (Excluding Contingency)	\$ 150	\$ 162	\$ 180	\$ 150	\$ 156	\$ 165

PROJECTED CAPITALIZATION & KEY FINANCIAL STATISTICS

1980 - 1985
\$(Millions)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Capitalization</u>						
<u>Debt</u>						
.U.S. & Canada Short Term	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5
.International (Mexico) Short Term	30	30	32	35	20	15
.Current Portion Long-Term	24	30	34	135	186	128
.Long-Term Debt Other Than U.S. Guaranteed	1,641	1,204	1,044	1,100	927	800
.U.S. Guaranteed Financing	800	1,200	1,200	800	450	-
Total Debt	\$2,500	\$2,459	\$2,315	\$2,075	\$1,588	\$ 948
<u>Net Worth</u>	702	745	1,256	1,883	3,050	4,361
Total Capitalization	\$3,202	\$3,204	\$3,571	\$3,958	\$4,638	\$5,309

Key Financial Statistics - As defined in Agreement to Guarantee

Debt/Equity	4.7	10.8	3.8	1.9	1.0	.4
Working Capital	\$ 73	\$ 514	\$ 524	\$ 357	\$ 307	\$ 374
Current Ratio	1.0	1.2	1.2	1.1	1.1	1.1
Fixed Charge Coverage	(2.7)	1.3	1.9	2.2	3.0	3.8

53

BALANCE SHEET
1981 CALENDAR YEAR

\$(Millions)

	12/31/80 Forecast	1981 Calendar Year					
		Jan.	Feb.	3/31	6/30	9/30	12/31
Cash	\$ 150	\$ 150	\$ 151	\$ 153	\$ 152	\$ 151	\$ 152
Accounts Receivable	487	493	479	513	578 ⁵⁶⁶	598 ^{out}	583
Receivable from CPC Sales	-	-	-	-	-	320	320
Inventories	1,950	1,988	1,968	1,852	1,790 ^{1,800}	1,876 ^{1,826}	1,871
Other Current Assets	171	171	172	173	174	176	173
Total Current Assets	\$2,758	\$2,802	\$2,770	\$2,691	\$2,702	\$2,771	\$2,814
Investments & Other - Non-Current Assets	1,178	1,183	1,183	1,169	1,173	860	871
Property, Plant & Equip.	2,522	2,515	2,494	2,451	2,436	2,364	2,146
Total Asset	\$6,458	\$6,500	\$6,447	\$6,311	\$6,311	\$6,345	\$6,131
Accounts Payable	\$2,617	2,253	2,267	2,243	2,295	2,295	2,536
Short Term Debt	35	43	47	52	44	43	35
Current Portion - Long Term Debt	24	24	31	30	36	30	20
Other Current Liabilities	9	9	9	9	9	9	9
Total Current Liabilities	\$2,685	\$2,329	\$2,354	\$2,284	\$2,254	\$2,561^{aw}	\$2,603
Other Non-Current Liab.	630	676	704	734	802	751 ^{aw}	682
Long Term Debt	1,641	1,665	1,654	1,656	1,496	1,351	1,204
U.S. Guaranteed Loans	800	1,200	1,200	1,200	1,200	1,200	1,200
Net Worth	702	630	535	437	551 ^{aw}	567 ^{aw}	589
Financing Contingency	-	-	-	(50)	(100)	(125)	(200)
Total Liabilities	\$6,458	\$6,500	\$6,447	\$6,311	\$6,311	\$6,345	\$6,131
Assets							
Working Capital	\$ 73	\$ 473	\$ 416	\$ 357	\$ 318	\$ 570	\$ 574
Current Ratio	1.03	1.20	1.18	1.15	1.13	1.22	1.20

BALSHTCY1

SOURCE AND APPLICATIONS OF FUNDS

1981 CALENDAR YEAR

\$(Millions)

	Month Ended			Quarter Ended				Total Year
	Jan.	Feb.	Mar.	3/31	6/30	9/30	12/31	
Beginning Cash Balance (Including Contingency)	\$150	\$150	\$151	\$ 150	\$ 203	\$ 262	\$ 276	\$ 150
Sources								
Net Earnings After Tax	\$(75)	\$(95)	\$(102)	\$(273)	\$ 157	-	\$ 245	\$ 285
Depreciation & Amort.	31	32	33	96	119	139	147	501
Asset Disposals	-	7	15	23	15	13	188	239
Machinery & Equip. Disp.	-	-	11	11	3	4	8	26
Sale of C.F.C. a/	-	-	-	-	-	320	-	320
Contribution to E.S.O.P.	3	3	4	10	10	10	10	40
Deferred Pension & Other	65	28	30	104	63	(123)	237	52
Change in Long Term Debt	24	(11)	2	15	(150)	(145)	(147)	(437)
Draw-down of Guaranteed Loans	400	-	-	400	-	-	-	400
Total Sources	\$429	\$(39)	\$(5)	\$ 394	\$ 162	\$ 228	\$ 465	\$1,219
Applications								
Invest. & Advances (Net)	\$ 5	\$ -	\$(14)	\$(9)	\$ 4	\$ 7	\$ 11	\$ 13
Property, Plant & Equip.	9	6	5	20	63	21	12	116
Special Tools	13	10	10	33	46	53	56	228
Capitalized Interest	2	2	2	6	13	10	17	46
Total Applications	\$ 29	\$ 18	\$ 3	\$ 50	\$ 126	\$ 91	\$ 136	\$ 403
Changes in Working Capital								
Accounts Receivable	\$ 6	\$(14)	\$ 24	\$ 26	\$ 285	\$ 352	\$(15)	\$ 415
Inventories	38	(20)	(115)	(98)	(52)	282	(10)	(79)
Accounts Payable	364	(14)	242	223	2(52)	(389)	(125)	288
Long Term Debt -								
Current Portion	-	(7)	1	(6)	(6)	6	10	4
All Other	(3)	(3)	(4)	(15)	9	3	10	7
Total Working Capital Change (Excluding Cash)	\$400	\$(58)	\$(24)	\$ 231	\$(27)	\$ 203	\$(15)	\$ 604
Ending Cash Balance (Including Contingency)	\$150	\$151	\$153	\$ 153	\$ 162	\$ 151	\$ 362	\$ 362
Minus: Minimum Cash Requirement	\$150	\$150	\$150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
Surplus/(Shortfall) Over Minimum	\$ -	\$ 1	\$ 3	\$ 3	\$ 12	\$ 1	\$ 212	\$ 212

a/ Reflects sale of 51% of C.F.C. for \$320 million. Proceeds are deferred until 1982.

ROUTING AND TRANSMITTAL SLIP

Date

1/16/81

TO: (Name, office symbol, room number, building, Agency/Post)	Initials	Date
1. Secretary Miller ✓		
2. Deputy Secretary Carswell		
3.		
4.		
5.		

Action	File	Note and Return
Approval	For Clearance	Per Conversation
As Requested	For Correction	Prepare Reply
Circulate	For Your Information	See Me
Comment	Investigate	Signature
Coordination	Justify	

REMARKS

Attached for your review is the latest version of the viability finding -- the first to incorporate comments from all of the Board agencies. We will procede to refine this, of course, for the 2:30 meeting.

DO NOT use this form as a RECORD of approvals, concurrences, disposals, clearances, and similar actions

FROM: (Name, org. symbol, Agency/Post) Michael A. Driggs <i>mad</i>	Room No.—Bldg.
	Phone No.

5041-102

☆ U.S. G.P.O. 1980-311-156/10

OPTIONAL FORM 41 (Rev. 7-76)
 Prescribed by GSA
 FPMR (41 CFR) 101-11.206

1/15/81

MASTER
DRIGGS

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD

FROM: Office of Chrysler Finance

SUBJECT: Section 5(a)(4): Determination that the Operating Plan and Financing Plan Continue to Meet the Requirements of Section 4 of the Act

The Act provides that the Board may only issue a loan guarantee if in connection with the issuance thereof, the Board determines that:

". . .the operating plan and the financing plan of the Corporation continue to meet the requirements of Section 4 and appropriate revisions to such plans (including extensions of such plans to cover the then current four-year period) have been submitted to the Board to meet such requirements."

The relevant requirements of the Act are those concerning the Operating Plan and the Financing Plan found in Sections 4(a)(3)(A), 4(a)(4), 4(a)(5), and 4(c) of the Act, and the additional requirements of Sections 4(a)(1), 4(a)(2), 4(a)(6), 4(a)(7) and 4(a)(8). Sections 4(a)(3)(B) and 4(a)(6) require adequate assurances as to certain matters covering the Operating and Financing Plans that are addressed by the staff analysis in support of the Board determination under Section 5(a)(6).

The reasons set forth below support a determination by the Board that the requirements of Section 5(a)(4) are met in connection with the loans requested to be guaranteed pursuant to Chrysler's January Request for a Third Takedown.

I. Operating and Financing Plans

Chrysler has submitted a revised Operating Plan and a revised Financing Plan both dated January 14, 1981 (the "January Operating Plan" and the "January Financing Plan," together the "January Plans"). These are the applicable plans for the present analysis, and have been submitted as modifications to the September Plans 1/ pursuant to the Memorandum of Operating and Financing Plan Procedures.

1/ On September 4, Chrysler submitted new plans to cover the 1981-1984 period. The Board was not required to approve these plans until after detailed 1981 budgets were submitted in December. Changing conditions in the market, however, rapidly overtook the assumptions underlying those plans. Accordingly, Chrysler was forced to update them.

A. The Operating Plan - Section 4(a)(3)(A)

The Act requires that:

"...the Corporation has submitted to the Board a satisfactory Operating Plan ... for the 1980 fiscal year and three next fiscal years demonstrating the ability of the Corporation to continue as a going concern in the automobile business, and after December 31, 1983, to continue without additional guarantees or other Federal assistance"

Other sections of the Act and its legislative history further define the Operating Plan and its contents.

Section 4(a)(3)(A) calls for a reasonable prospect of viability, not that it be assured or guaranteed. Congress clearly viewed Chrysler as a turnaround situation, involving a higher degree of risk, for which normal credit standards applicable to the private sector were not to be used exclusively.

On May 10, the Guarantee Board determined that Chrysler's April 28 Operating Plan, as adjusted to the Base Case dated May 10, 1980, ("Base Case I"), satisfied the requirement of the Act. This determination reflected a staff analysis that emphasized that the judgment was a very close one. Chrysler was expected to be only marginally profitable over the 1981-1983 period.

On June 24, the Board affirmed this determination in connection with the Closing for the first takedown, although it recognized that, as a consequence of reduced domestic vehicle sales and other developments in the weeks since May 10, the risk that Chrysler would not attain the Base Case I projections had increased. While Chrysler had initiated a series of measures designed to accommodate lower sales levels and other adverse developments, there was an increased risk that Chrysler would need to use some part of the contingent financial reserves (excess cash plus unused guaranteed loan authority) provided for in Base Case I. However, these reserves still appeared adequate to compensate for the increased risk and still provide some margin for unfavorable future contingencies. The increased risk was viewed as being of a magnitude that did not require reversal of the May 10 determination.

On July 15, in the determination to issue an additional \$300 million in loan guarantees to the corporation, and in the July 31 affirmation, the Board still held to that view. It was noted then, however, that the judgment was a much closer and more marginal one.

From May 10 to July 15, certain of the risks previously identified had materialized, additional risks were identified, and projected earnings and financial reserves decreased. These were reflected in a revised Base Case ("Base Case II"), prepared by the Board's staff and consultants.

The domestic automobile market has been a little stronger than forecast by Chrysler at the time of the Board's July determinations, but the company's share of that market has been below that projected. This has resulted in much lower sales and higher demand for cash for Chrysler than originally forecast. As discussed below, the forecasted continuation of this reduced market share has created a situation where only the most drastic action on Chrysler's part could provide a reasonable assurance of the company's long term viability. The company has taken those actions. Since July, the company has decided to:

- o Decrease planned expenditures during 1981 to 1985 by \$1,888 million; \$670 million has been cut from planned projections for 1981.
- o Obtain major employee concessions amounting to a total of \$783 million in 1981 and the first nine months of 1982.
- o Restructure its capital and debt positions by getting its lenders to agree to convert at least \$504 million of debt (and possibly as much as \$583 million if all lenders agree) and \$68 million of deferred interest notes into preferred stock in 1981. This conversion will save cash interest expense through 1985 of at least \$255 million (and possibly as much as \$357 million).
- o Obtain additional concessions from suppliers amounting to \$72 million in 1981.
- o Reduce fixed manpower by approximately 3,000.

In addition, the United Auto Workers has been apprised of the contents of the Operating and Financing Plans of Chrysler. The UAW has agreed that it will conduct its future collective bargaining negotiations with Chrysler taking due consideration of the mutual interest of Chrysler and its constituents in Chrysler's long-term viability and Chrysler's then existing financial condition and prospects in comparison to those contemplated in such plans. In its January plans, Chrysler has assumed a labor cost structure through 1985 consistent with its need to maintain long-term viability. Those assumptions are for labor costs that are lower than assumed in previous plans, but whose rate of increase generally tracks cost-of-living and wage increases assumed for industry in general.

These actions have been reviewed by the Board's staff and its consultants, and incorporated in an adjustment to the earlier base cases (Base Case III). Although they result in a company which looks much different than the corporation which first approached the U.S. Treasury in July 1979, these actions are necessary if Chrysler is to survive and if it is to qualify for federal assistance under the terms of the Act. Based upon the Base Case III analysis, the staff believes that the Board may determine that the plans meet the requirements of the Act.

The analysis in support of that conclusion is presented in three parts below: a presentation of Chrysler's actual operating results for 1980 to date; a discussion of Chrysler's proposed Operating and Financing Plans and their response to those results; and, finally, the staff Base Case III analysis of those plans. The consultant's report in support of the analysis is at Attachment I.

After review of the Operating and Financing Plans, this paper addresses the other requirements of Section 4 of the Act; concluding that the Board may determine that the requirements of Section 5(a)(4) will be met at the Closing with respect to the Third Takedown.

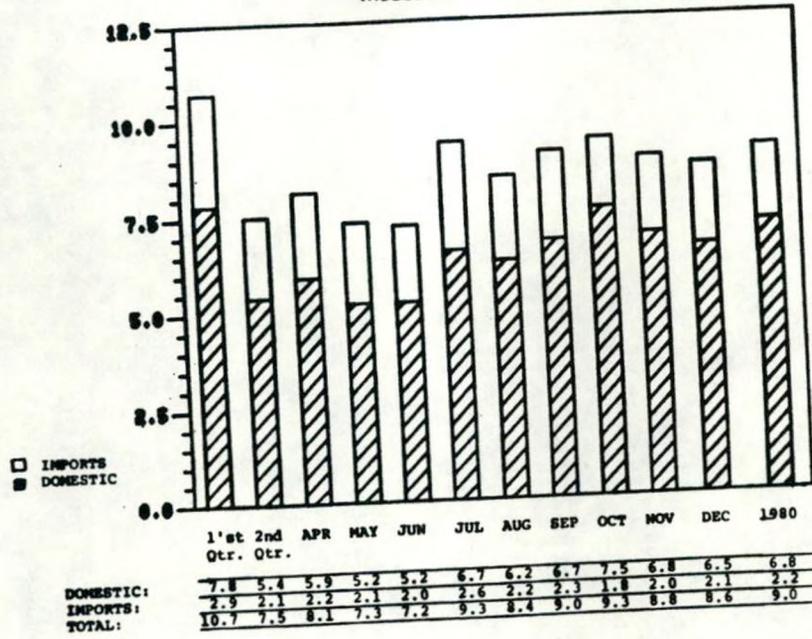
I. Actual Operating Performance for 1980

(A.) Size of Industry

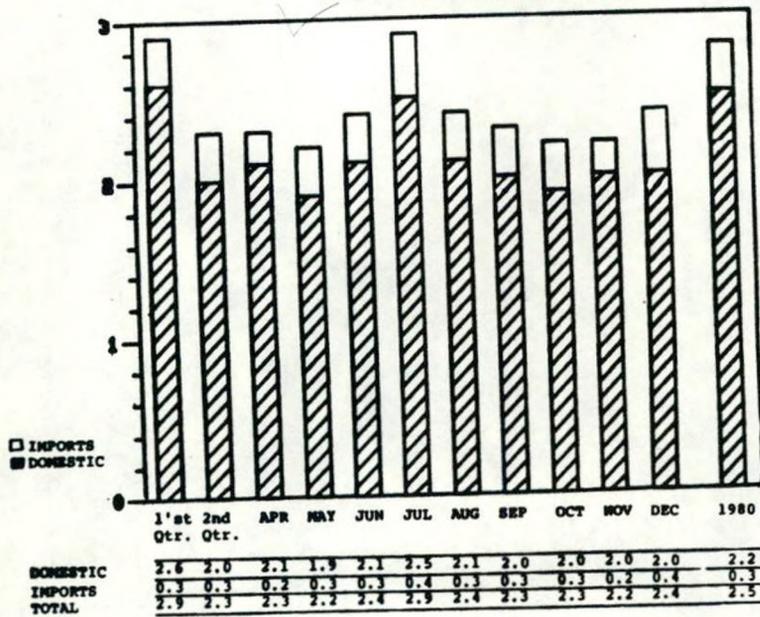
In July, when Chrysler prepared the Operating Plan which became the basis for the Board's July 15 commitment to guarantee loans, both Chrysler and the independent economic forecasters were assuming a 1980 auto market of about 8.8 million units. As shown in the graph below, the actual selling rates have been slightly above these levels and for one year 9.0 million cars were sold.

For trucks, market size has also been at about the level forecast in July of 2.5 million units. In 1980, 2.5 million trucks were sold, with the imports accounting for 269 thousand (an 11% share). Import sales during the year have been nearly constant at a seasonally adjusted annualized rate of about 300,000 units.

**U.S. AUTO INDUSTRY
ANNUALIZED AUTOMOBILE SALES
(MILLIONS OF VEHICLES)**

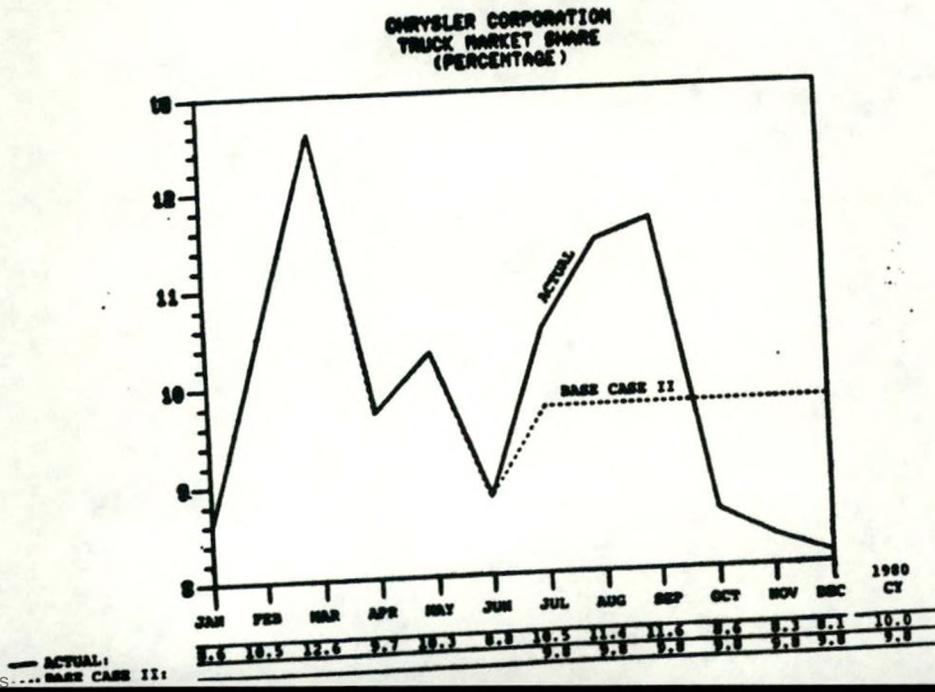
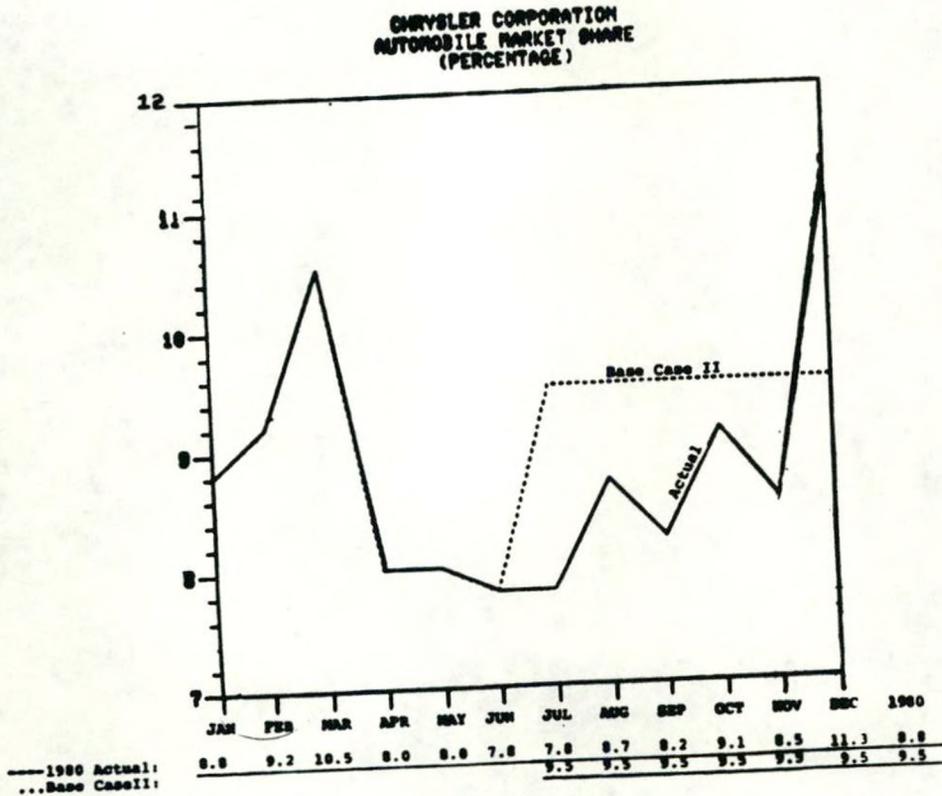


**U.S. AUTO INDUSTRY
ANNUALIZED TRUCK SALES
(MILLIONS OF VEHICLES)**



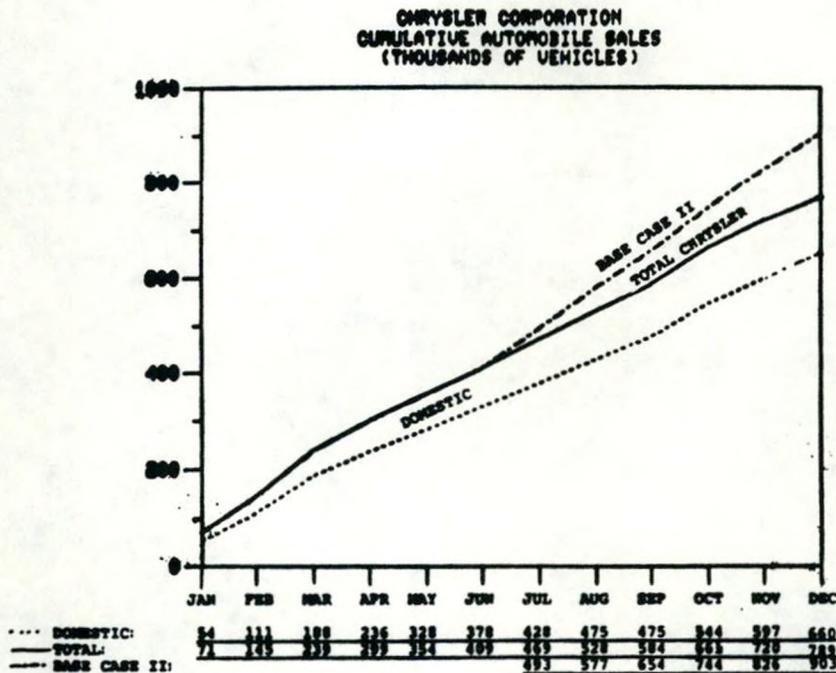
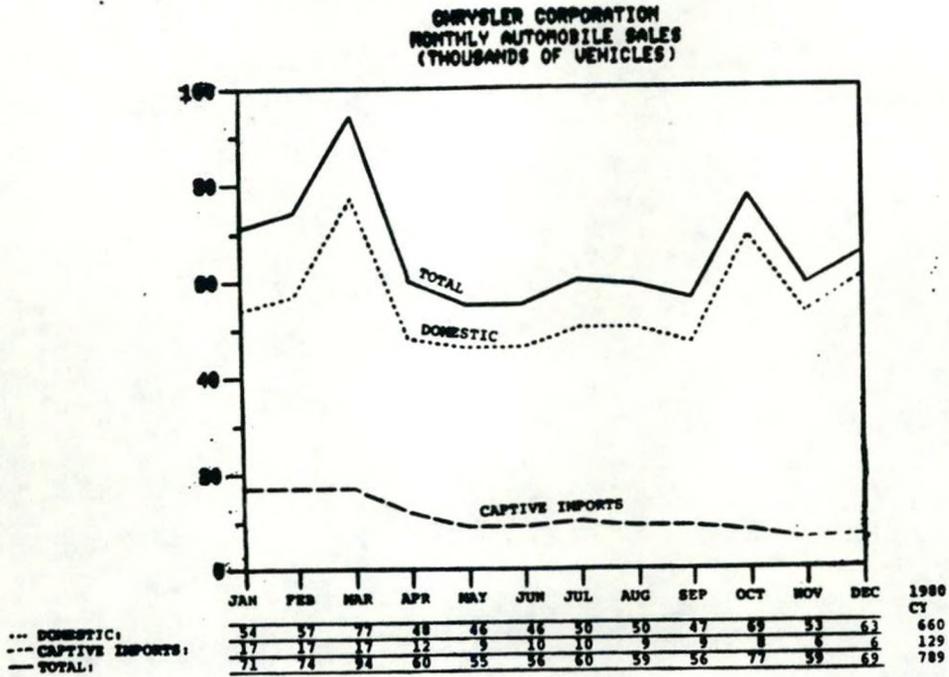
(B.) Chrysler's Share of the Industry

In July, Chrysler expected to achieve a 10.1 percent share of the 1980 automobile market and a 10.6 percent share of the U.S. truck market. As indicated on the graph below, Chrysler's actual 1980 market share was 8.8 percent for cars and 10.0 percent for trucks. Thus, for both automobiles and trucks, the company's actual share fell well below the forecasted levels. Although Chrysler's market share picked up in December, this occurred during a decline in the total size of the market and was significantly aided by an aggressive marketing program.



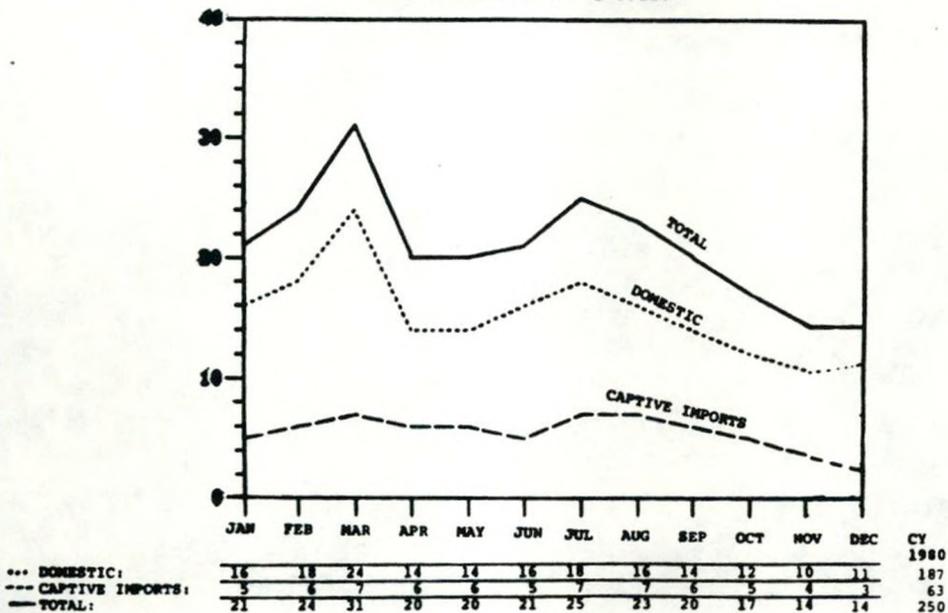
(C.) Chrysler's Sales

With a declining share of the market through November, Chrysler's actual automobile sales have also fallen well below projected levels, as shown below:

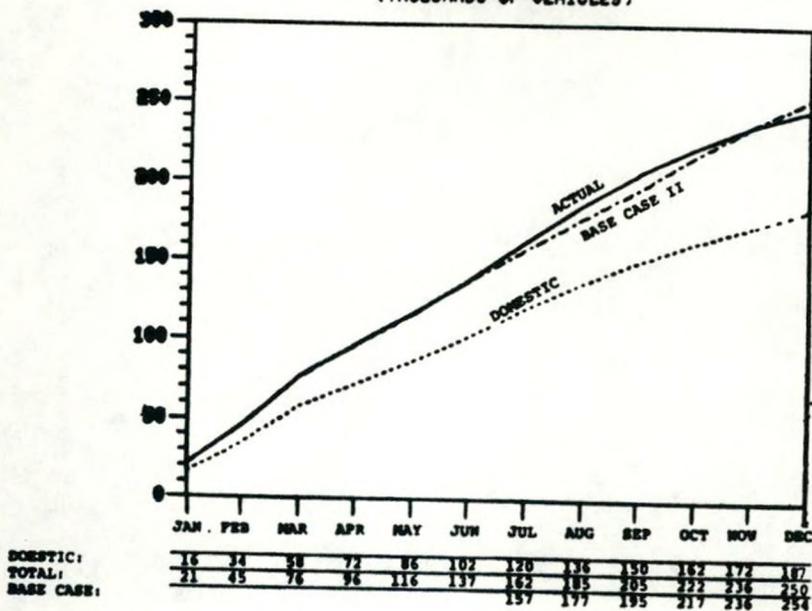


Chrysler's truck sales during 1980 were much closer to attaining the planned units of sales. Through September, Chrysler had maintained a 10.4 market share. However, Chrysler's share for October and November fell to 8.5 percent, and for December was 8.0%, reducing its annual penetration to 10.0%.

CHRYSLER CORPORATION
MONTHLY TRUCK SALES
(THOUSANDS OF VEHICLES)



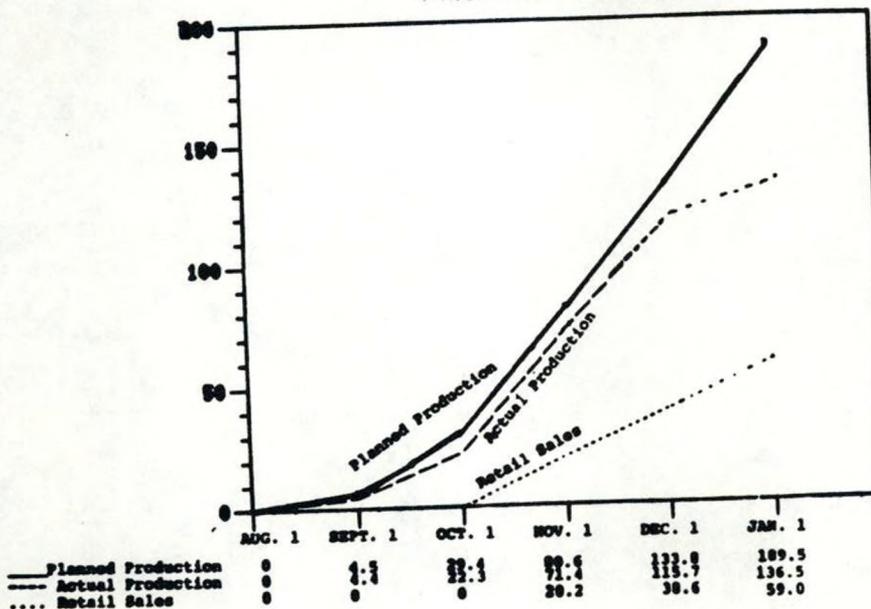
CHRYSLER CORPORATION
CUMULATIVE TRUCK SALES
(THOUSANDS OF VEHICLES)



(D.) K-Car Sales

An important ingredient in the failure of Chrysler's sales to achieve planned levels has been the disappointing reception of the company's new compact cars -- the Dodge Aries and Plymouth Reliant (K-cars). The company has been able to overcome earlier difficulties in the production start-up, and the shortfall illustrated in the chart below, now seems to be at the retail level. Through November, for example, K-cars had captured only about 11 percent of the compact car market rather than the 25 percent originally assumed. Segment penetration improved in December, averaging 19 percent for the month and achieving 27 percent in the last 10 day selling period. This trend has continued through the first 10 days of January. Sales incentive programs beginning in December may have contributed to this improvement.

CHRYSLER CORPORATION
K-CAR SALES AND PRODUCTION
(THOUSANDS OF VEHICLES)

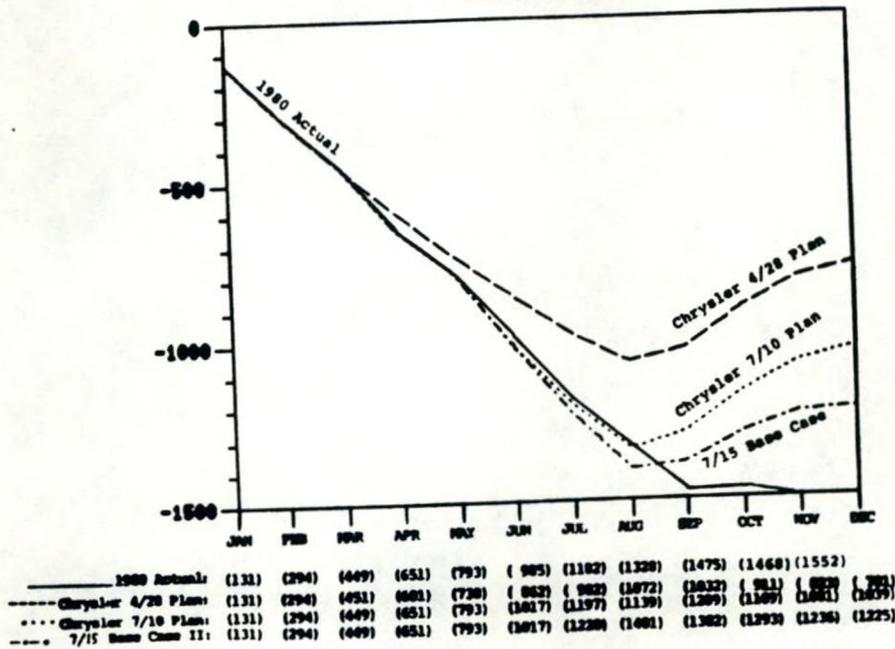


The low level of K-car sales has resulted in increasing dealer inventory levels through December, which has led to a slowdown in dealer orders and a reduction in the level of production. At the end of December, there was a total combined stock of 77.5 thousand units, was equivalent to 66 days supply. The September Operating Plan had assumed a production level of 55,720 K-cars in December. This level was later revised downward to 22,400 to help reduce excess dealer inventories. This action, combined with improving sales, reduced combined stocks to _____ thousand units by January 10.

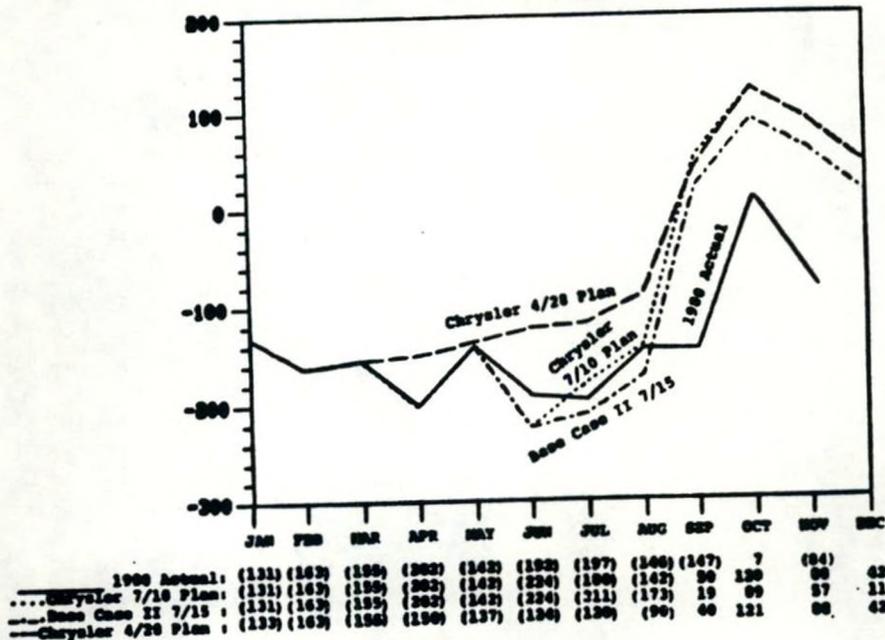
(E.) Chrysler's Earnings

All projections available through the Board's second set of determinations in July assumed a significant recovery of Chrysler's market share in the Fall with the introduction of the 1981 models. The failure of this to occur has had an unfavorable impact on Chrysler's earnings as shown below. October was the only month in 1980 that Chrysler did not lose money. Even the October profit (of \$7 million) was less than anticipated due to some initial production problems and weak sales of certain rear wheel drive vehicles.

CHRYSLER CORPORATION
CUMULATIVE NET EARNINGS
(\$ MILLIONS)



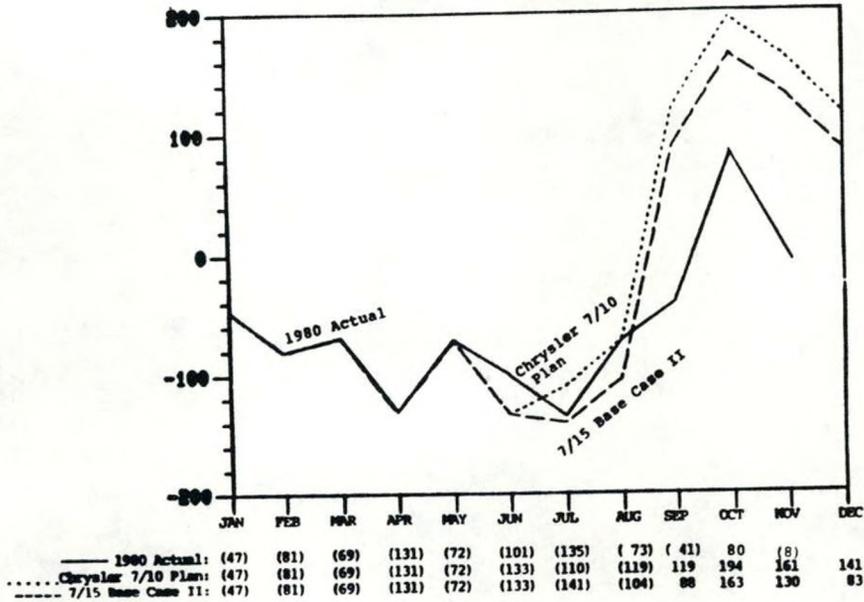
CHRYSLER CORPORATION
MONTHLY NET EARNINGS
(\$ MILLIONS)



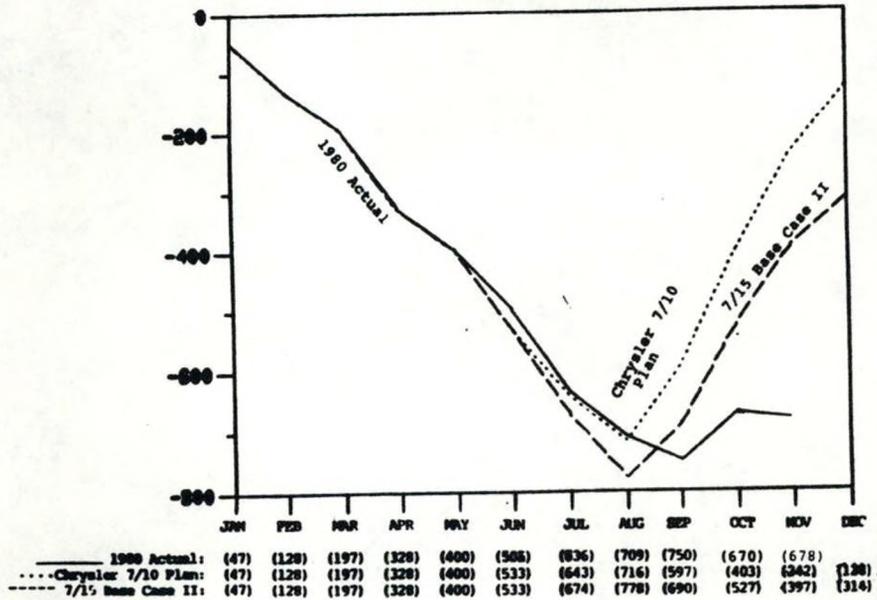
(F.) Chrysler's Cash Flow

The impact of the sales and profit developments on cash flow is shown below. While some improvement during the fourth quarter materialized, the actual cash flow was still below forecast levels.

CHRYSLER CORPORATION
CASH FLOW BY MONTH
(\$ MILLIONS)



CHRYSLER CORPORATION
CUMULATIVE CASH FLOW
(\$ MILLIONS)



II. January 14 Operating Plan

In response to the market developments outlined above, Chrysler has submitted a new Operating Plan, dated January 14, 1981. The major features of that plan and its relationship to earlier plans are discussed below.

(A.) Revised Earning Projections (After Taxes)

Chrysler's Plan shows an estimated loss of \$1,774 million for 1980 and a loss of \$253 million for 1981. These figures are in contrast to the 1980 expected loss of \$1,039 million and 1981 profit of \$247 million in the July 10 Plan. The revised 1980 and 1981 losses reveal the impact of declining sales volumes as well as realization of some risks stated in the previous Base Case II analysis and the write-off of more assets than was previously anticipated, including more than \$150 million in book losses in 1981.

(B.) Continued Lower Industry Volumes

Independent economic forecasters 1/ project approximately the same 1981 - 1984 automobile industry size in December 1980 as they estimated late last June. Since the July 10 plan, however, Chrysler has adjusted downward its industry volume estimates, and these are now only slightly above those of the independent forecasters.

	U.S. Auto Market (millions of units)			
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
July 10 Plan	11.0	12.1	10.8	11.7
Average Independent	9.2	10.4	11.5	11.5
January 14 Plan	9.6	10.6	11.4	11.6
Average Independent	9.4	10.2	10.9	11.3

There also has been little change in the independent economic forecasts of the truck industry. Again, Chrysler has revised downward its estimates to a level comparable with the independent forecasts.

	U.S. Truck Market (millions of units)			
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
July 10 Plan	3.7	4.5	3.7	4.0
Average Independent	2.7	3.1	4.2	4.4
January 14 Plan	2.5	3.0	3.2	3.6
Average Independent	2.6	3.0	3.1	3.6

1/ Chase, DRI Inc., and Wharton

(C.) Chrysler's Market Share

Since July, Chrysler has reduced its market share estimates for cars in each year. It has been this adjustment, much more than changing estimates of market size, which has had the greatest impact on the company's revenue forecasts. The changes are as indicated below.

Chrysler Market Share Projections
Auto Market Share
(percent)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
July 10 Plan	11.1	11.1	12.4	11.3
January 14 Plan	9.1	9.7	9.7	9.5

Since July, Chrysler has reduced its 1981 truck market share estimates from 9.9 percent to 9.0 percent. A slight recovery in 1982 to 9.8 percent holds at 9.7 percent for 1983. Chrysler's projected truck market share jumps to 12.4 in 1984 as Chrysler captures some of the market shift to smaller, more economical vehicles with its front wheel drive truck introductions, which had previously been slated for 1985.

Truck Market Share
(percent)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
July 10 Plan	9.9	8.2	10.2	9.3
January 14 Plan	9.0	9.8	9.7	12.4

(D.) Volume

The lower estimates of market share and industry size reduce the total Chrysler sales volume of cars and trucks through 1983 by nearly 1.3 million units, as shown below.

North America Projected Sales Volumes (cars and trucks)
(thousands of units)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1981-1983</u>	<u>1984</u>
July 10 Plan	1,776	1,939	1,914	5,629	1,998
January 14 Plan	<u>1,282</u>	<u>1,491</u>	<u>1,597</u>	<u>4,370</u>	<u>1,723</u>
Difference	(494)	(448)	(317)	(1,259)	(275)

(E.) Product Plans

The company's current situation has caused it to undertake a critical analysis of its forward year product programs. Chrysler can save a substantial amount of cash by revising its product

plans to cancel and defer specific products . The most dramatic changes are:

- 1) Cancel the 1985 A-body subcompact scheduled to replace the current L-body cars;
- 2) Defer the 1982 K-premium 2-door to model year 1982-1/2;
- 3) Defer the K-24 "sport model" introduction until 1983-1/2;
- 4) Defer the 4-speed Automatic Transaxle from 1984 to 1988; and
- 5) Defer all capacity expansion plans involved with an additional Front Wheel Drive plant.

These actions will result in decreased levels of expenditures, as shown below.

Planned Product and Capital Expenditures
(Dollars in Millions)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1981 - 1983</u>	<u>1984</u>	<u>1985</u>	<u>Total</u>
July 10 Plan	\$1,459	\$1,896	\$2,006	\$5,361	\$1,658	\$1,314	\$8,333
January 14 Plan	789	1,293	1,565	3,647	1,304	1,494	6,445
Variance	\$ (670)	\$ (603)	\$ (441)	\$ (1,714)	\$ (354)	\$ 180	\$ (1,888)

(F.) Profit Improvement Actions

In the six months since the July 10 Plan, Chrysler has taken additional actions to improve its profitability. These actions have ranged from an additional fixed manpower reduction of approximately 3,000 personnel to decreases in the planned levels of launch and project expense costs. Many of these reductions come as a result of the decreased capital programs (e.g., launch) while the rest represent decreases in costs within the existing organization (e.g., manpower cuts).

(G.) Restructuring Plan

In July, the company committed to the Board to undertake a comprehensive review of all of its manufacturing facilities. A restructuring committee was formed and the review began in August.

the company's policy that there will be no change in the status of a facility unless a positive financial benefit occurs. At this point, a firm estimate of the likely benefit cannot be made. To the extent it occurs, however, restructuring would provide additional financial reserves to the company.

B. Satisfactory Financing Plan - Section 4(a)(4)

Section 4(a)(4) of the Act states that the Board may act only if at the time of the action the Board determines, among other things, that:

"the Corporation has submitted to the Board a satisfactory financing plan which meets the financing needs of the Corporation as reflected in the operating plan for the period covered by the plan...."

Section 2(4) of the Act defines Financing Plan as:

"...a plan designed to meet the financing needs of the corporation as reflected in the operating plan and indicating in accordance with the requirements of Section 8 the amounts to be provided at dates specified (for each year of the plan) from internally generated sources (including earnings and cost reduction measures), from loans guaranteed under this Act, and from nonfederally guaranteed assistance as required pursuant to Section 4(a)(4)...."

The Board's June 24 and July 31 determinations that Chrysler's Financing Plans met the requirements of the Act were based upon staff analyses which concluded that:

- Chrysler's financial forecasts, including additional risks identified by the Loan Board, reasonably projected the company's cash flow and financing needs.
- The Financing Plan met the needs of the Operating Plan provided that the non-federal financing was available as planned (as adjusted to the Base Case).
- When coupled with \$1.5 billion in federal guarantees and the additional concessions being provided by Chrysler's lenders, employees, and suppliers, the Financing Plan provided sufficient flexibility to meet reasonable downside risks.

Sales of Chrysler automobiles have been much lower than when the Board made its initial findings that Chrysler's Financing Plans satisfied statutory requirements. As a result, a significant portion of the financial margins identified previously have been used or are anticipated to be used in the upcoming months. The January 14 Financing Plan responds to the situation by outlining additional steps to improve the company's financial margins. This will serve to ensure that the company can continue its operations and have reasonable prospects to become financially viable over the long term.

Given the sensitivity of auto sales to business cycles developments and the inherent uncertainties of market penetration forecasts. Chrysler needs sufficient financial reserves to cover risks which may arise. Chrysler's current plan provides by obtaining additional concessions from its lenders, its suppliers, and its employees, while simultaneously implementing other cash conservation measures. The cash impact of these new benefits has been incorporated in the Base Case III analysis. They provide the following amounts of additional cash savings relative to levels assumed in the Board's earlier findings. The term sheets which disclose these concessions are attached.

Cash Impact of New Actions Incorporated in
the January 14 Plan Which Were Not Anticipated Previously
(\$ millions)

	<u>Reduced Capital and Product Expenditures</u>	<u>Lender Interest Conces- sions**</u>	<u>Sup- pliers Con- cessions</u>	<u>Employee Con- cessions</u>	<u>Fixed Manpower and Other Reductions</u>	<u>Total New Con- cessions</u>
1981	670	25-34	45*	293	97	1,130-1,139
1982	603	58-81	--	490	35	1,186-1,209
1983	441	61-84	--	--	41	543-566
1984	354	56-79	--	--	44	454-477
1985	<u>(180)</u>	<u>56-79</u>	<u>--</u>	<u>--</u>	<u>48</u>	<u>(76)-(53)</u>
Sub- Totals	1,888	256-357	45	783***	265	3,237-3,338
Less:	Cash Needed to Purchase Debt at 30 cents on Dollar (75% in 1981, 25% in 1982)					<u>(155)-(178)</u>
TOTAL CASH IMPACT OF NEW ACTIONS						<u>3,082-3,160</u>

* While only \$45 million in supplier concessions was included in the Base Case III projections, Chrysler has agreed to have a minimum of \$36 million in such commitments by the time the new guarantees are issued, and the company will use its best efforts to obtain a total of \$72 million during 1981.

** Lender interest concessions include only cash savings and are based on the assumption that Chrysler fully exercises its option to purchase its debt at a substantial discount. In addition to the cash interest savings, Chrysler will avoid additional interest charges paid in notes instead of cash in the following amounts: \$80 million in 1981, \$90 million in 1982; \$101 million in 1983; \$141 million in 1984; and \$123 million in 1985.

*** The January 14 Plan and Base Case III projections assume that wage rates will increase after the current union contract expires (September, 1982) at a rate consistent with general industrial wage increases. Under the proposed new labor agreement, wage levels will remain below those of other auto companies over the entire remaining period of the agreement this is in contrast to the previous agreement that assumed that the gap between wages paid by and other major auto manufacturers would be closed at the end of the contract period. Base Case III assumes that

the increases in wages after September 1982 will now occur from the lower base. The savings in labor costs that result from this assumption have been encompared into Base Case III net income Projections.

The following table summaries the impact on cash and net worth that stem from the proposed debt restructuring. As shown, Chrysler's cash requirements are increased by \$106 million to \$116 million in 1981 as the result of purchasing half of its debt held by institutions at 30 cents on the dollar. Neveththeless, through 1985, the company's need for cash will be reduced by \$270 million to \$365 million. If the principal amount of debt which previously would have matured after 1985 is included as well. This is a conservative assumption since Chrysler would also have to pay interest on the debt until it was repaid), Chrysler's cash savings rom the current debt proposal would total \$1,105 billion to \$1,325 billion.

The improvement in net worth from the debt restructuring exceeds the cash savngs, particularly in the period through 1985. Net worth will be improved \$931 million to \$1,057 billion in 1981 and by \$1,711 billion to \$1,931 billion by 1985. A large portion of this improvement results from the earlier conversion of debt into equity. After September 30, 1986 (when the June 24 debt restructuring plan contemplated the conversion of \$750 million of debt into equity), Chryslr's net worth will be \$1.22 billion to \$1.48 billion greater than it would have been.

When the above additional concessions and savings are added to the projected levels of cash reserves, the remaining, unused Federal guarantees and the other actions that Chrysler can still take if needed (i.e., the sale and leaseback or outright sale of assets, the deferral of certain additional capital expenditures, and the better management of its projected working capital balances over time), the staff believes that the company still has adequate financial reserves.

Financial Reserves Projected in Base Case III
(\$ millions)

<u>December 31</u>	<u>Excess Cash*</u>	<u>Unguaran- teed Debt</u>	<u>Total Financial Reserves</u>	<u>Additional Financial Reserves Which May be Provided by Carefully Managing Working Capital</u>
1980	83	700	783	(270)***
1981	362	300	662	0 - 100
1982	430	300	730	0 - 200
1983	600	700	1,300	0 - 250
1984	1,206	1,050**	2,256	0 - 300
1985	1,615	1,500**	3,115	0 - 350

* Excess cash is all cash in excess of the \$150 million normal transaction level maintained by Chrysler including the projected Financing Contingencies which would be available as cash if the Base Case III forecast is realized.

** Although section 16 of the Act prohibits the Board from issuing guarantees after December 31, 1983, the Board would have the option of issuing the remaining guarantees before that date if additional financial reserves were necessary.

*** The negative financial reserves in 1980 represent the dollar amount of accounts payable deferred at the end of the year pending approval of the current application.

The magnitude of financial reserves are comparable through the plan period to those available when the Board made its July 31 determination that the Financing Plan satisfied the needs of the company's Operating Plan as shown in the table below.

Comparison of Total Financial Reserves
Base Case II and Base Case III
(\$ millions)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Base Case III	783*	662	730	1,300	2,256	3,115
Base Case II	<u>754</u>	<u>665</u>	<u>828</u>	<u>1,093</u>	<u>1,386</u>	<u>2,788</u>
Difference	29	(3)	(98)	207	870	327

* Actual, without reduction for the \$270 million of payables deferred at the end of 1980.

Chrysler's peak financing need will occur in the first quarter of 1981 due to very low production levels in the fourth quarter of 1980 and the need to pay for the resultant build-up of excess inventory. This has forced Chrysler to defer supplier payables. The resumption of production in mid-January is anticipated to begin alleviating the current cash drain while the constituent concessions will substantially improve Chrysler's cash position during the plan period. As a result, the Base Case III the analysis indicates that the company should not need more than \$400 million in additional guaranteed debt for which it has now applied.

IV. Determination of Long Term Viability

In responding to previous loan guarantee requests, the Board made the following determinations, which the staff believes can still be made if Chrysler obtains the additional concessions incorporated in its January Plans.

- The company has sufficient financial resources to remain in business despite severely depressed auto sales in the immediate future as well as sufficient reserves to withstand future economic declines.
- The company has a reasonable prospect of becoming profitable and, thus, attracting private financing.
- The company has adequate capital and product expenditures in its plans to remain a viable competitor in the auto market.

To support these conclusions, the Board staff aided by the Board's consultants conducted extensive analyses of Chrysler's plans. These analyses began in September and followed each development in Chrysler's plans. The result is Base Case III. Its conclusions for net earnings, guaranteed loans, financial reserves, and net worth are shown below.

Base Case III Relative to Base Case II
Estimates as of December 31 of Each Year
(\$ in millions)

	1980	1981	1982	1983	1984	1985
<u>Base Case III</u>						
Earnings	(1774)	(253)	319	587	1089	1273
Guaranteed Loans	800	1200	1200	800	450	--
Total Financial Reserves	783	662	730	1300	2256	3115
Excess Cash**	83	362	430	600	1200	1615
Unused Guarantees*	700	300	300	700	1050	1500
Net Worth	377	795	1256	1883	3050	4396

Base Case II

Earnings	(1225)	78	508	21	482	1025
Guaranteed Loans	1000	1200	1100	950	650	-
Total Financial Reserves	754	665	828	1093	1386	2788
Excess Cash	254	365	428	543	536	1288
Unused Guarantees*	500	300	400	550	850	1500
Net Worth	599	746	1324	1433	2016	3101

Variance: Favorable (Unfavorable) Relative to Base Case II

Earnings after tax	(549)	(332)	(190)	566	607	248
Guaranteed Loans	200	-	(100)	150	200	--
Total Reserves	29	(3)	(98)	207	870	327
Net Worth	(222)	49	(68)	450	1034	1295

*Although the Board's authority to issue loan guarantees expires on December 31, 1983, the Board does have the option of issuing unused guarantees before that date if additional reserves were necessary.

**Excess cash includes financing contingencies which will become available as cash if the Base Case III forecast is attained.

Appendices I-IV contain, respectively, the following detailed information on Base Case III: profit and loss forecast, projected balance sheet, and summaries of cash sources and requirements.

In the July 15 determination of viability, confirmed on July 31, the Board noted that:

"... the margins available are narrow... risks beyond those assumed in the Base Case exist and could render Chrysler not viable.... Accordingly, although Chrysler's situation has worsened since May 10, there is a rational basis on which the Board may conclude that the company still has a reasonable prospect of continuing as a going concern in the automobile business. That conclusion assumes that conditions in the industry will improve as generally forecast and that the company will take additional drastic actions to cut costs as required."

Chrysler has taken these actions and obtained additional concessions as discussed above. The results of those actions, as indicated in the Base Case III analysis, when compared to Chrysler's condition at the Board's last determination indicate:

1. Earnings are marginal from 1980 through 1984, although no more so than in Base Case II. Profits are still expected, but they start in 1982 rather than in 1981.

Reconciliation of Base Case II to Base Case III
(dollars in millions)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1980-</u> <u>1984</u>	<u>1985</u>
<u>Base Case II Net Income</u>	(1225)	78	508	21	482	(136)	1025
<u>Adjustments now Incorporated:</u>							
	[Need E & W analysis]						
° Impact of sales and manufacturing Cost changes	(430)	(234)	(391)	109	(172)	(1118)	(348)
° Write off of assets	(79)	--	--	--	--	(79)	--
° Lower interest costs	--	(15)	(57)	(82)	(96)	(250)	(142)
° Other incentive programs and costs	(40)	--	--	--	--	(40)	--
° Financing Plan Adjustment	--	(70)	--	--	--	(70)	--
	-----	-----	-----	-----	-----	-----	-----
° Othe Adjustments							
<u>Base Case III Net Income</u>	(1774)	(253)	319	587	1089	(32)	1273

- The total level of federal guarantees required is comparable, with repayment anticipated to occur at a slightly faster rate as shown below.

Reconciliation of Base Case II to Base Case III --
Cumulative Guarantee Need

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Base Case II	1000	1200	1100	950	650	--
Base Case III	<u>800</u>	<u>1200</u>	<u>1200</u>	<u>800</u>	<u>450</u>	<u>--</u>
Variance	200	--	(100)	150	200	--

- The 1981 break-even level has been reduced from the Base Case II assumption of 1.5 million units to 1.3 million in Base Case III.
- Cash flow is positive by year end 1981 and continues to be so thereafter.
- Net Worth is generally higher than the Base Case II levels in spite of substantially greater losses in 1980 and 1981. The higher net worth projections stem from the conversion of debt to equity and the bargain repurchase of debt as a part of the company's new financial restructuring.
- The reduction is likely enhances the likelihood that the company can receive an infusion of new equal capital, and improves its ability to issue additional nonguaranteed debt after 1983.

In the short term, the viability finding may be based upon adequate cash flows from operations and available financial reserves, but over the long term, the company must become profitable if it is to repay existing financial obligations and be able to obtain additional debt and equity financing which may be needed for future capital and program expenditures.

In 1980, the company will realize a loss of approximately \$1.8 billion, but that loss includes non-cash charges of almost \$800 million. In 1981, non-cash charges are anticipated to total at least \$650 million with after tax losses totaling \$253 million, so the company will have a positive cash flow from operations.

Of course, a positive cash flow is needed to fund capital expenditures.

Planned capital and product expenditures are about \$2 billion less than those contemplated previously between 1980 and 1985, which clearly increases the risk to Chrysler's long-term competitive positions. However, as shown below, the company will still expend almost \$8 billion during the period and will still have products covering 70 percent of the market. As previously described, the expenditure reductions are either new product deferrals or deferrals of capacity expansion based on lower volume anticipations. Additionally, the removal of certain expenditures for the development of cars in the 1985 model year reflects savings possible with potential joint ventures.

Comparison of Capital and Product Expenditures
(\$ millions)

	<u>Base Case II</u>	<u>Base Case III</u>
1980	1,538	1,369
1981	1,459	789
1982	1,896	1,293
1983	2,006	1,565
1984	1,658	1,304
1985	1,314	1,494
<hr/>		
TOTALS	9,871 ✓	7,814

As long as industry sales remain at the levels now projected by the independent economic forecasting services and Chrysler is unable to obtain a new source of capital, the company's future will be uncertain. Marginally profitable in earlier years, the company's later year profit projections reflect other labor costs than previously projected and savings from a thinning the product. These would leave relatively modest reserves to counter unforeseen developments. Nevertheless, the projected return to profitability taken together with the improvement in the company's basic balance sheet position as a result of the debt reduction and the Company's commitment to pursue a capital infusion since a measurable prospect for viability both in the nearterm when additional government guarantees are available and after 1983.

It is the intent of the Act to give Chrysler a reasonable prospect of achieving economic viability consistent with the protection of the government's financial risk. The staff believes that sufficient alternatives are available to give the company a reasonable prospect of improving its long term prospects and that Chrysler has provided an adequate commitment to pursue those alternatives. Accordingly, the staff believes that the Board may determine that the requirements of Act have been met.

II. Other Section 4 Requirements

Other portions of Section 4 are also relevant to the 5(a)(4) determination. This section reviews these briefly.

A. The Energy Savings Plan - Section 4(a)(1)

The Act provides that the Board shall prior to action determine that:

"(1) There exists an energy savings plan which --

- (A) is satisfactory to the Board;
- (B) is developed in consultation with other appropriate Federal agencies;
- (C) focuses on the national need to lessen United States dependence on petroleum; and
- (D) can be carried out by the borrowers."

The Board's June 24 and July 31 determinations that this requirement is met by Chrysler's March 6 plan, as amended on April 17, was based on staff analyses and the fact that those plans, as well as earlier versions, had been favorably reviewed by the appropriate federal agencies. Chrysler was responsive to the comments of those agencies. Furthermore, pursuant to Section 4.01 (g) of the Agreement to Guarantee, Chrysler's Board and officers certified at the Closing for the first takedown that:

"The Energy Savings Plan, dated March 6 and April 17, 1980, of the Company is being and can be carried out by the Company and its subsidiaries in accordance with the terms thereof."

This same Energy Efficiency plan was approved in conjunction with the Second Takedown. Since the Second Takedown, Chrysler's situation has changed and they have submitted a September 4 Energy Efficiency Plan as part of their annual submission requirement. The September 4 Plan has been updated to contain the impacts of Chrysler's adjustments to its plan. This revised plan, dated January 14, 1981, is consistent with the plans that Chrysler has submitted as part of its January 15 application. Any product plan changes that have been made are incorporated in this plan as well as volume reductions. Pursuant to the Agreement to Guarantee, this plan will require a certificate, similar to the one above, as a condition of the third takedown.

Recommendation: That the Board determine that the requirements of Section 4(a)(1) will be met at the Closing with respect to the Third Takedown.

B. Impact of Failure - Section 4(a)(2)

The Act requires the board to determine that:

"The commitment is needed to enable the Corporation to continue to furnish goods and services, and failure to meet such needs would adversely and seriously affect the economy of, or employment in, the United States or any region thereof . . ."

The Board's June 24 and July 31 determinations were based upon a staff analysis that:

- The guarantee commitment for the full \$1.5 billion and the loans to be guaranteed pursuant thereto are necessary elements of, and preconditions to, achieving the Operating and Financing Plans. The net financing from operation and financing from other sources available to Chrysler, absent the loan guarantees, will not be sufficient to meet the financing needs of the Operating Plan. Without such financing the company could not continue to operate at all or at the levels included in the Operating Plan. This role of the guaranteed loans is reviewed in the staff's analysis in support of the determinations required under Sections 4(a)(3)(A) and 4(a)(4) of the Act.
- There is no alternative source of financing available to Chrysler to meet the full financing needs indicated by its Operating Plan, or any substantial part thereof, beyond that already ascribed to private financing as indicated by the staff's analysis in support of the determination under Section 5(a)(1) of the Act.
- Without the commitment and the loans thereunder as contemplated by the Financing Plan, it is doubtful that Chrysler would be able to continue to operate without seeking protection under Title 11 of the Bankruptcy Code, without substantially reducing its planned levels of production of goods and services. Even with such a reduction, the company's continued solvency would be questionable.
- There is substantial doubt that Chrysler would be able to reorganize successfully in a bankruptcy proceeding. The risks of failure appear sufficient to justify issuing the commitments provided in the Guarantee Act.
- A failure of Chrysler would result in a substantial deterioration of its production, and would adversely affect the level of GNP and employment in the United States, and in specific regions, especially Detroit.

These same considerations continue to be applicable. The staff has no reason to believe that its analysis should be changed as a result of the January Plans.

Recommendation: That the Board determine that the requirements of Section 4(a)(2) will be met at the Closing with respect to the Third Takedown.

C. Certification of Waiver of Defaults by Existing Creditors - Section 4(a)(6)

The Act requires the Board to determine that:

". . . the Corporation's existing creditors have certified to the Board that they will waive their rights to recover under any prior credit commitment which may be in default unless the Board determines that the exercise of the rights would not adversely affect the operating plan . . . or the financing plan . . ."

The Board's June 24 and July 31 determinations were based upon the new credit agreements entered at the closing for the first takedown by existing creditors providing that only very serious defaults (bankruptcy, large and continuing payment defaults or large cumulative losses) would trigger rights to accelerate. These provisions effectively provide the waivers required under Section 4(a)(6) and in fact go beyond the Section 4(a)(6) requirements in limiting the creditors rights to trigger default and acceleration. Pursuant to the Agreement to Guarantee, Chrysler at the Closing for the first takedown represented to the Board that it and its separate Subsidiaries were not in default under any agreements governing outstanding debt, except as specifically stated in a Schedule to such Agreement.

Chrysler made the same certification at the closing for the Second Takedown pursuant to Section 4.01 of the Agreement to Guarantee.

The staff is unaware of any changes which have taken place since the Second Takedown which will affect this finding. Chrysler will make the required certification at the closing for the Third Takedown pursuant to Section 4.01 of the Agreement to Guarantee.

Recommendation: That the Board determine that the requirements of Section 4(a)(6) will be met at the Closing with respect to the Third Takedown.

D. No Conversion of Unguaranteed Loans - Section 4(a)(7)

The Act requires the Board to determine with respect to any commitment to guarantee that:

". . . no credit extended or committed on a non-guaranteed basis prior to October 17, 1979, is being converted to a guaranteed basis pursuant to the Act . . ."

The Board's June 24 and July 31 determinations were based on the staff's analyses that Chrysler's Financing Plan provided that all federal guarantees would be issued only in connection with new financing and Chrysler's representation in the Application that no credit extended or committed prior to October 17, 1979, is being converted to a guaranteed basis. Pursuant to Section 3.36 of the Agreement to Guarantee Chrysler represented and warranted at the Closing that "no Commitment Outstanding as of October 17, 1979, has been or is being converted to Guaranteed Indebtedness." Chrysler and its directors and officers confirmed the Section 3.36 representation prior to the July 31 takedown.

Pursuant to Section 4.01(h) of the Agreement to Guarantee, Chrysler and its directors and officers will again confirm the Section 3.36 representation as a condition to the Third Takedown. The staff is unaware of any changes which would have taken place since the Second Takedown which will affect this determination.

Recommendation: That the Board determine that the requirements of Section 4(a)(7) will be met on the Closing with respect to the Third Takedown.

E. Domestic Economic Viability - Section 4(a)(8)

The Board must determine that:

". . . the financing plan . . . provides that expenditures under such financing plan will contribute to the domestic economic viability of the Corporation."

The Board's June 24 and July 31 determinations that this requirement was met was based upon the staff analysis which concluded that:

- The expenditures in the Operating and Financing Plans are necessary for the company's continued operations.
- Chrysler's operations are concentrated in the United States, with approximately 85 percent of capital expenditures during the planning period made domestically.
- Chrysler's foreign operations contribute to the company's domestic viability by permitting increased economies of scale as well as profit contributions.

At the closing for the First Takedown, Chrysler covenanted pursuant to the Agreement to Guarantee that:

". . . the proceeds of guaranteed indebtedness shall be used only for investments and capital expenditures which contribute to the domestic viability of the company in the automotive business." [Section 6.27]

The Board received a certification, as part of the Second Takedown, that this requirement was still being satisfied.

The same considerations continue to apply. Chrysler's January Plans include no change that is material to these analyses. Furthermore, as a condition to the Third Takedown and all other guaranteed loans, Chrysler will be required to certify its continued compliance with all provisions of the Agreement. [Section 4.01]

Recommendation: That the Board determine that the requirements of Section 4(a)(8) will be met at the Closing with respect to the Third Takedown.

Base Case III Forecast
FINANCING PLAN BALANCE SHEET

December 31
1979-1985

(\$ Millions)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Cash	\$ 474	\$ 150	\$ 162	\$ 180	\$ 150	\$ 156	\$ 165
Accounts Receivable	610	487	583	698	750	850	950
Receivables from CFC Sale	—	—	320	—	—	—	—
Inventories	1,874	1,950	1,871	2,158	2,254	2,480	2,737
Other	<u>162</u>	<u>171</u>	<u>178</u>	<u>180</u>	<u>180</u>	<u>180</u>	<u>180</u>
Total Current Assets	\$ 3,120	\$ 2,758	\$ 3,114	\$ 3,216	\$ 3,334	\$ 3,666	\$ 4,032
Investments & Other Noncurrent Assets	1,184	1,178	871	872	893	925	965
Property, Plant & Equipment	<u>2,349</u>	<u>2,522</u>	<u>2,146</u>	<u>2,431</u>	<u>2,758</u>	<u>2,869</u>	<u>3,162</u>
Total Assets	\$ 6,653	\$ 6,458	\$ 6,131	\$ 6,519	\$ 6,985	\$ 7,460	\$ 8,159
Accounts Payable	\$ 2,338	\$ 2,613	\$ 2,536	\$ 2,608	\$ 2,789	\$ 3,135	\$ 3,462
Short-Term Debt	601	35	35	37	40	25	20
Long-Term Debt Due Within One Year	276	24	20	34	135	186	128
Other	<u>17</u>	<u>9</u>	<u>9</u>	<u>13</u>	<u>13</u>	<u>13</u>	<u>13</u>
Total Current Liabilities	\$ 3,232	\$ 2,681	\$ 2,600	\$ 2,692	\$ 2,977	\$ 3,359	\$ 3,623
Other Non-Current Liabilities	605	630	682	727	825	874	940
Long-Term Debt	992	1,970	1,204	1,044	1,100	927	800
U.S. Guaranteed Loans	—	800	1,200	1,200	800	450	—
Net Worth	1,824	377	795	1,256	1,883	3,050	4,396
Financing Contingency	—	—	(350)	(400)	(600)	(1,200)	(1,600)
Total Liabilities & Net Worth	\$ 6,653	\$ 6,458	\$ 6,131	\$ 6,519	\$ 6,985	\$ 7,460	\$ 8,159
Memo:							
Working Capital	\$ (112)	\$ 77	\$ 514	\$ 524	\$ 357	\$ 307	\$ 307
Current Ratio	.97	1.03	1.20	1.19	1.12	1.09	1.10

IMPACT OF UAW AGREEMENT - PLANT CLOSING/OUTSOURCING
SUPPLEMENTAL LETTER

In addition to the economic terms specified in the term sheet for the company's agreement with the UAW, Chrysler has agreed to continue operations at five facilities through the end of the existing contract (September 1982). These plants had been considered for closing with outsourcing of the remaining required components. The plants are McGraw Glass, Windsor Spring, Eldon Ave. Axle, Detroit Forge, and the assembly portion of Mack Ave. There is no impact on Chrysler's profit projections arising from this agreement since the company's Operating and Financing Plans assumed that the facilities would remain in operation during the contract period.

The agreement acknowledges that the company will undertake to provide maximum employment opportunities to the existing employees. However, the fact that these are unusual times is clearly expressed and the Union understands that the nature of the agreement does not constitute a precedent for future demands.

The overall effect of this part of the agreement on Chrysler's viability is negligible since none of the aforementioned items have an effect on the company's Operating and Financing Plans, dated January 14, 1981. The company does, however, forfeit the opportunity for further decreases in costs that could have resulted from closing these plants.

ROUTING AND TRANSMITTAL SLIP

Date

1/16/81

TO: (Name, office symbol, room number, building, Agency/Post)	Initials	Date
1. Secretary Miller ✓		
2. Deputy Secretary Carswell		
3.		
4.		
5.		

Action	File	Note and Return
Approval	For Clearance	Per Conversation
As Requested	For Correction	Prepare Reply
Circulate	For Your Information	See Me
Comment	Investigate	Signature
Coordination	Justify	

REMARKS

Re: Chrysler

Attached are copies of the findings that were sent to the agencies for comment.

The Viability finding (5(a)(4)) is at the clip.

Attachment

DO NOT use this form as a RECORD of approvals, concurrences, disposals, clearances, and similar actions

FROM: (Name, org. symbol, Agency/Post) Michael A. Driggs <i>masd</i>	Room No.—Bldg. <hr/> Phone No.
--	---------------------------------------

5041-102

OPTIONAL FORM 41 (Rev. 7-76)
 Prescribed by GSA
 FPMR (41 CFR) 101-11.206

Chrysler Corporation Loan Guarantee Board

c/o Department of the Treasury
Washington, D.C. 20220

Established by PL 96-185

Members

Secretary of the Treasury
Comptroller General of the United States
Chairman of the Board of Governors
of the Federal Reserve System

January 16, 1981

Ex Officio Members

Secretary of Labor
Secretary of Transportation

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD STAFF
FROM: MICHAEL A. DRIGGS *mad*
Executive Director
SUBJECT: New Set of Issuance Findings for the
Third Takedown

Attached is a complete set of findings for your review and comment. In the interest of time, please keep your changes to ones of fact and policy.

I hope to "lock-up" the findings on Saturday. To that end please deliver or call your suggestions to us at 1331 G Street, N.W. (376-0260) not later than 1:00 p.m.

Attachment

BOARD RESOLUTIONS ADOPTED JANUARY 16, 1981

Preliminary Statement

On June 24, 1980, the Chrysler Corporation Loan Guarantee Board (the "Board"), acting pursuant to the provisions of the Chrysler Corporation Loan Guarantee Act of 1979 (the "Act"), issued a commitment to guarantee up to \$1.5 billion aggregate principal amount of indebtedness of Chrysler Corporation ("Chrysler"). The terms and conditions of the Board's commitment to guarantee are contained in an Agreement to Guarantee, dated as of May 15, 1980 (the "Agreement to Guarantee"), between the Board and Chrysler.

Pursuant to the Act and the Agreement to Guarantee, the Board has thus far issued guarantees of \$800 million principal amount of indebtedness of Chrysler (\$500 million on June 24, 1980 and \$300 million on July 31, 1980).

Chrysler has submitted to the Board a Guarantee Request, dated December 23, 1980 (the "Original Request"), for the issuance of additional guarantees of up to \$400 million principal amount of indebtedness pursuant to the Agreement to Guarantee. On January 16, 1981, Chrysler submitted an Amended and Restated Guarantee Request, dated as of January 15, 1981 (the "Amended Request"). (The Original Request, as modified by the Amended Request, is hereafter referred to as the "Request".) Chrysler proposes issuing the indebtedness described in the Request on or about February 2, 1981. The Request, as required by Section 2.01 of the Agreement to Guarantee, contains detailed information regarding the indebtedness to be guaranteed, the manner of offering of such indebtedness and the use of the proceeds thereof, and also includes as Exhibits the forms of the instruments evidencing the indebtedness to be guaranteed and other documents relating thereto.

Pursuant to the Memorandum of Operating Plan and Financing Plan Procedures and Requirements, dated June 24, 1980 (the "Procedures Memorandum"), Chrysler has, by letter dated November 19, 1980, requested approval of a Modification, as defined in the Procedures Memorandum (the "1980 Modification"), to the projections for the fourth quarter of 1980 contained in Chrysler's Operating Plan and Financing Plan, both dated July 10, 1980, as previously approved by the Board (the "Present Operating Plan" and "Present Financing Plan," respectively). The projections constituting the 1980 Modification are incorporated in Chrysler's 1981-1984 Operating Plan and 1981-1985 Financing Plan, both of which are dated January 14, 1981 (the "New Four-Year Operating Plan" and "New Four-Year Plan," respectively), and are included as Exhibits to the Request.

Also included as Exhibits to the Request are the following documents, all dated January 14, 1981: a 1981 Calendar Year Operating Budget (the "Operating Budget"), a new 1981-1985 Energy Efficiency Plan (the "Revised Energy Plan"), a new 1980-1984 Productivity Improvement Plan (the "Revised Productivity Plan"), a 1981 Calendar Year Financing Budget (the "Financing Budget"), a Chrysler Financial Corporation 1980-1984 Financing and Operating Plan (the "CFC Financing and Operating Plan"), and a Chrysler Financial Corporation 1981 Profit and Financing Budget (the "CFC Budget"). In addition, Chrysler has separately filed with the Board for its review and approval the following supplemental documents, all dated January 14, 1981: a Chrysler Canada Ltd. 1980-1985 Operating and Financing Plan (the "Canadian Operating and Financing Plan"), a Chrysler Canada Ltd. 1981 Operating and Financing Budget (the "Canadian Budget"), a Chrysler de Mexico, S.A. 1980-1984 Operating and Financing Plan (the "Mexican Operating and Financing Plan"); and a Chrysler de Mexico, S.A. 1981 Profit and Financing Budget (the "Mexican Budget").

Chrysler has, in the Request and other filings, requested that the Board approve each of the above documents pursuant to the Procedures Memorandum, the Agreement to Guarantee and the Act. Approval by the Board of the 1980 Modification, the New Four-Year Operating Plan (which includes as integral parts the Operating Budget, the Revised Energy Plan and the Revised Productivity Plan) and the New Four-Year Financing Plan (which includes as an integral part the Financing Budget) would cause these documents to become the "Operating Plan" and "Financing Plan" of Chrysler for purposes of the requirements of the Act, the Agreement to Guarantee and the Procedures Memorandum.

Also included as an Exhibit to the Request is a schedule showing the amount of nonfederally guaranteed assistance which will have accrued by the date the indebtedness to be guaranteed is expected to be issued.

The Request states that the indebtedness for which guarantees are requested is \$400 million aggregate principal amount of ten-year notes of Chrysler (the "Notes"), with terms and conditions substantially similar to the terms and conditions of the notes of Chrysler for which guarantees were issued by the Board on June 24 and July 31, 1980. The guarantee of the United States of America (the "United States"), acting through the Board (the "Guarantee"), will be endorsed on each Note.

By letters dated December 19, 1980, and January 15, 1981 Chrysler has also requested that the Board grant certain waivers of the requirements of the Agreement to Guarantee and the Procedures Memorandum. These requested waivers (the "Waivers") are set forth in Annex A to these resolutions.

Under the Act, the Board may issue guarantees only if it makes the determinations required under section 5 and certain other sections of the Act. In response to the Request and various letters from Chrysler requesting that the Board take certain actions described therein, the staff of the Board has presented to the Board a written report in support of its recommendation that the Board (a) approve the 1980 Modification, New Four-Year Operating Plan (including the Operating Budget, Revised Energy Plan and Revised Productivity Plan), the New Four-Year Financing Plan (including the Financing Budget), the CFC Financing and Operating Plan and CFC Budget, the Canadian Operating and Financing Plan and Canadian Budget, and the Mexican Operating and Financing Plan and Mexican Budget, (b) grant the Waivers, (c) make the required determinations under the Act subject to certain conditions which are set forth on Annex B to these resolutions (the "Conditions"), and (d) authorize the issuance of the Guarantees of the Notes in the aggregate principal amount of \$400 million or a lesser amount if the requirements of subsection 8(b) of the Act would not permit the issuance of such amount, subject, however, to the Conditions.

Together with its report to the Board, the staff has also presented to the Board copies of the CFC Financing and Operating Plan and CFC Budget, the Canadian and Mexican Operating and Financing Plans and Budgets, and the Request and the Exhibits thereto, including the 1980 Modification and the various Plans and Budgets described above, the various letters from Chrysler requesting that the Board take certain actions described therein, and the following documents pertaining to the proposed issuance of the Guarantees:

1. Form of Guarantee Agreement, dated as of January ____, 1981 (the "Guarantee Agreement"), between the United States, acting through the Board, and Chrysler (proof of December 23, 1980).
2. Form of Fiscal Agency Agreement (the "Fiscal Agency Agreement"), dated as of January ____, 1981 (included as Exhibit I to the form of Guarantee Agreement), between the United States, acting through the Board, and United States Trust Company of New York (the "Fiscal Agent") (proof of December 23, 1980).
3. Form of Offering Circular relating to the Notes (the "Offering Circular") (proof of January 13, 1981).
4. Form of Agreement Among Underwriters, Underwriting Agreement, and Selling Agreement (proof of January 13, 1981).

5. Form of Note, including the form of Guarantee to be endorsed thereon (included as Exhibit II to the form of Guarantee Agreement).

Approval of New Plans and Budgets

RESOLVED, that on the basis of the recommendations of its staff and the record otherwise before it, the Board hereby adopts the recommendations of its staff with respect to the 1980 Modification, the New Four-Year Operating Plan (including the Operating Budget, Revised Energy Plan and Revised Productivity Plan), the New Four-Year Financing Plan (including the Financing Budget), the CFC Plan and CFC Budget, the Canadian Plan and Canadian Budget, and the Mexican Plan and Mexican Budget and approves, pursuant to the Agreement to Guarantee and the Procedures Memorandum, the 1980 Modification and each of the above-described Plans and Budgets; and the 1980 Modification, New Four-Year Operating Plan and New Four-Year Financing Plan (including all related Plans and Budgets) shall hereafter, for purposes of the Act, the Agreement to Guarantee, and the Procedures Memorandum, be the Operating Plan and Financing Plan of Chrysler (and are hereafter in these Resolutions referred to as such), until approval of any Modification thereto or substitute therefor pursuant to the Act, the Agreement to Guarantee and the Procedures Memorandum.

Waiver of Certain Requirements of the Agreement to Guarantee and the Procedures Memorandum

FURTHER RESOLVED, that the Board hereby approves the Waivers as set forth in Annex A to these resolutions.

FURTHER RESOLVED, that any two of the Executive Director, the General Counsel, and the Secretary of the Board are hereby authorized and directed to execute and deliver any necessary documentation to evidence the Waivers.

Determinations Required for Issuance of Guarantees

FURTHER RESOLVED, that on the basis of the Request, the written report of the staff presented to the Board and the record otherwise before it, but subject to the Conditions as set forth in Annex B hereto (which the Board believes reasonably can be expected to be satisfied), the Board finds, as required by the Act, that:

1. Credit is not otherwise available to Chrysler, its subsidiaries and affiliates (collectively, the "Corporation") under reasonable terms and conditions sufficient to meet the Corporation's financing needs as reflected in the Financing Plan.

2. The prospective earning power of the Corporation, together with the character and value of the security pledged, furnish reasonable assurance of repayment of the Notes in accordance with their terms.

3. The Notes bear interest at a reasonable rate taking into account the current average yield on outstanding obligations of the United States with remaining periods to maturity (giving appropriate effect to the call provisions of the Notes) comparable to those of the Notes.

4. The Operating Plan and the Financing Plan meet the requirements of section 4 of the Act.

5. The Corporation is in compliance with the Operating Plan and the Financing Plan.

6. The Board has received satisfactory assurances that the Operating Plan and Financing Plan are realistic and feasible.

7. In Section 6.06 and 6.07 of the Agreement to Guarantee Chrysler has agreed to prepare, deliver and submit to the Board those documents with respect to the Operating Plan and the Financing Plan which are required by the provisions of subsections 5(a)(7)(A) and 5(a)(7)(B) of the Act so long as any guarantee issued under the Act is outstanding.

8. There is no substantial likelihood that Chrysler will be absorbed by or merged into any foreign entity.

9. Chrysler is in compliance with the terms and conditions of the Agreement to Guarantee except to the extent that such terms and conditions have been modified, amended or waived by the Board (including certain waivers approved in these resolutions) in such respects as in the judgment of the Board are consistent with the Act and will not materially and adversely affect the position of the United States.

10. The guarantee fee to be paid by Chrysler to the United States pursuant to Section 2.02 of the Agreement to Guarantee will be sufficient to compensate the United States for all of its administrative expenses related to its guarantee of the Notes.

11. To the maximum extent feasible, the amounts payable and the warrants to purchase shares of common stock of Chrysler delivered and to be delivered to the United States by Chrysler pursuant to the Agreement to Guarantee will adequately compensate the United States for the risk assumed in making guarantees under the Act.

12. Collective bargaining agreements entered into by the Corporation after September 14, 1979, with labor organizations representing employees of the Corporation which govern the payment of wages and benefits (as such term is defined in subsection 2(10) of the Act) to such employees from September 14, 1979, to September 14, 1982, have been modified so that the cost to the Corporation of such wages and benefits is reduced by a total amount of at least \$462.5 million for the three-year period ending on September 14, 1982, below the cost of such wages and benefits which the Corporation would otherwise have been obligated to incur during such period, except that such dollar amount includes \$203 million in wage and benefits (as such term is defined in subsection 2(10) of the Act) to be foregone pursuant to the master collective bargaining agreement entered into on October 25, 1979, between the Corporation and the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (the "UAW").

13. The Corporation has put into effect a plan for achieving at least \$125 million in concessions (as such term is defined in subsection 4(b)(1)(B) of the Act) from employees not represented by a labor organization.

14. In Section 6.31 of the Agreement to Guarantee, Chrysler has agreed to (i) establish a trust which forms part of an employee stock ownership plan meeting the requirements of subsection 7(c) of the Act, (ii) make employer contributions to such trust in accordance with such plan, and (iii) issue additional shares of qualified common stock at such times as such shares are required to be contributed to such trust; and, as required under subsection 7(b) of the Act, Chrysler has established a trust which forms part of an employee stock ownership plan meeting the requirements of subsection 7(c) of the Act.

15. After giving effect to the issuance of the Guarantees, the total principal amount of outstanding loans to Chrysler which are guaranteed by the United States under the Act does not exceed the aggregate amount of non-federally guaranteed assistance under subsection 4(a) of the Act which has accrued to the Corporation plus the aggregate amount of concessions and contributions under section 6 of the Act which have accrued to the Corporation.

16. The Corporation has agreed in writing to allow the General Accounting Office (the "GAO") to make such audits as may be deemed appropriate by the Comptroller General of the United States of all accounts, books, records, memoranda, correspondence, and other documents and transactions of the Corporation.

17. The income from the Notes is not excluded from gross income for purposes of Chapter 1 of the Internal Revenue Code of 1954, as amended, nor does the guarantee of such Notes provide significant collateral or security to other obligations, the income of which is so excluded.

18. In examining and evaluating the Operating Plan and the Financing Plan, the Board, as required by Subsection 12(c) of the Act, took into account the report of the Department of Transportation entitled "The U.S. Automobile Industry, 1980" issued on January 13, 1981.

Approval of Issuance of Guarantees; Approval of Documents

FURTHER RESOLVED, that the issuance of Guarantees, in the aggregate principal amount of \$400 million, or an amount less than \$400 million if the requirements of subsection 8(b) of the Act would not permit the issuance of such amount, is hereby authorized, subject to the Conditions as set forth in Annex B hereto, and the draft forms of Guarantee Agreement, Fiscal Agency Agreement, and Notes (including the form of Guarantee to be endorsed thereon) presented to the Board are satisfactory to the Board, subject to final approval by the Board of such documents (and any other documents contemplated therein) at a future meeting.

Amendment of the Agreement to Guarantee

FURTHER RESOLVED, that the Chairperson or any two of the Executive Director, the General Counsel, and the Secretary of the Board are hereby authorized and directed to execute and deliver (subject to final approval by the Board of such document) an amendment to the Agreement to Guarantee to the effect set forth in Condition 13 in Annex B hereto.

Chrysler's Capital Infusion Program

FURTHER RESOLVED, that the Board hereby adopts the preambles and resolutions set forth in Annex C hereto.

Chrysler's Profit Sharing Plan

FURTHER RESOLVED, that the Board is concerned that the profit sharing plan agreed to by the UAW and Chrysler be contingent on adequate levels of future performance by Chrysler. In this regard, the Board feels itself under no obligation to approve a plan formulated along the lines of the letter agreement between Chrysler and the UAW relating to the profit sharing plan included in Exhibit 5 to the Request.

Report to the Congress

FURTHER RESOLVED, that a written report be transmitted to the appropriate committees of the Congress pursuant to sub-sections 5(b) and 14(b) of the Act, which report shall include (i) the Request, (ii) the report of the staff with respect thereto, (iii) the text of the foregoing resolutions and (iv) the details of the guarantee of the Notes.

ANNEX A

Waivers of the Procedures Memorandum and Agreement to Guarantee
Granted by the Board

Procedures Memorandum

The following waivers are granted only on the condition that Chrysler submit to the Board at the time of the issuance of the Guarantee each of the certificates and opinions included in the Request as Exhibits in substantially the forms included in the Request and otherwise satisfactory to the Board:

Sections 1.03(e)(1) and 1.03(e)(2) -- The requirements of Sections 1.03(e)(1) and 1.03(e)(2) that the quarterly data submitted in connection with each Operating Budget be accompanied by certificates with respect to both the Operating Budget and the Four-Year Operating Plan from the Independent Public Accountants and the Consultant are waived with regard to the Operating Budget required to be submitted December 1, 1980.

Sections 1.06(e)(1) and 1.06(e)(2) -- The requirements of Sections 1.06(e)(1) and (e)(2) that the quarterly data required in connection with each Financing Budget be accompanied by certificates with respect to both the Four-Year Financing Plan and the Financing Budget from the Independent Public Accountants and Financial Adviser are waived with regard to the Financing Budget required to be submitted December 1, 1980.

Sections 1.03(f) and 1.06(f) -- The requirements of Sections 1.03(f) and 1.06(f) that each Operating Budget and Financing Budget be accompanied by the Company Certificate required by Section 1.21 are waived with regard to the Operating Budget and the Financing Budget, respectively, required to be submitted December 1, 1980.

The following waivers are granted unconditionally:

Section 1.08(e) -- The requirements of Section 1.08(e) that Chrysler provide the Board, in connection with the Operating and Financing Plans, with certificates from the Auditor, the Consultant (with respect to the Operating Plan), and the Financial Adviser (with respect to the Financing Plan), are waived with regard to the submissions required for November 15, 1980.

Sections 1.09(a)(3) and 1.10(e) -- The requirements of Section 1.09(a)(3), that Chrysler submit to the Board, in connection with each Alternative Plan, certificates from the Consultant and the Financial Adviser, and the requirements of Section 1.10(e) that each Alternative Plan be approved by the Board are waived with regard to the Alternative Plan required to be filed October 1, 1980.

Agreement to Guarantee

Section 6.01 -- The requirements of Section 6.01 that Chrysler submit, with the financial statements required by that Section, satisfactory computations showing that Chrysler is in compliance with certain provisions of the Agreement to Guarantee, and the related requirements of Section 4.10(a) of the Indenture that Chrysler submit to the Corporate Trustee all financial statements required by Section 6.01 of the Agreement to Guarantee, are waived in connection with submissions due to be filed between June 24, 1980, and the date of these Resolutions, on the condition that Chrysler submit the computations required by these Sections from this date forward.

Section 6.08 -- The requirements of Section 6.08 that Chrysler submit to the Board, in connection with the analysis required therein, opinions from the Consultant (as to the Operating Plan) and the Financial Adviser (as to the Financing Plan) are waived in connection with the analysis under Section 6.08 required to be submitted by November 15, 1980.

Section 6.18 -- The requirements of Section 6.18 that Chrysler pay the principal of and the interest on Indebtedness for Money Borrowed when it shall become due and payable is waived with regard to the Indebtedness for Money Borrowed created by the program of supplier deferrals put into effect in December 1980.

Section 6.41 -- The deadline imposed by Section 6.41 for Chrysler to obtain the consents of all parties necessary to the assignment to the Trustees under the Indenture of Chrysler's rights under the lease of the San Leandro, California, Parts Depot is extended to February 28, 1981.

Section 7.03 -- The requirement of Section 7.03 that Chrysler not amend or modify any Non-Federally Guaranteed Assistance Agreement is waived in connection with the amendment of the Agreement to Sell and the loan and pledge agreement made between Chrysler and Peugeot S.A., which amendments are dated January 11, 1981, and the Board hereby approves such amendments.

Section 7.06 -- The provisions of Section 7.06 preventing the creation of Indebtedness for Money Borrowed unless certain conditions set forth in that Section are met is waived with respect to the Indebtedness for Money Borrowed created by the supplier deferral program put into effect in December 1980.

Section 7.21 -- The requirements of Section 7.21 that the approval of the Board be obtained with respect to all amendments of Material Commercial Agreements are waived with respect to all routine amendments of Material Commercial Agreements relating to the production of tanks for the U.S. Department of Defense made prior to this date without approval of the Board.

Section 7.24 -- The provisions of Section 7.24 prohibiting

Chrysler from agreeing to material adverse changes in the terms of trade accounts payable by Chrysler are waived with regard to the payment of interest on overdue amounts payable under the supplier deferral program put into effect in December 1980.

Section 7.28 -- The provisions of Section 7.28 prohibiting the deposit of funds by Chrysler outside of the United States except under certain circumstances are waived with regard to the deposits placed in Canadian Banks for the purpose of paying Canadian suppliers.

Section 7.29 -- The requirements of Section 7.29 that the net income of Chrysler and its consolidated Subsidiaries be not less than certain specified levels are waived for calendar years 1981 and 1982, on the condition that the following levels be achieved:

Year ending December 31, 1981:	\$275 million net deficit
Two years ending December 31, 1982:	\$ 50 million net income

ANNEX B

Conditions to Issuance by the Board of the Requested Guarantees
With Respect to up to \$400 Million of Notes

1. Accrual to Chrysler of an amount of nonfederally guaranteed assistance under subsection 4(a) of the Act and an amount of concessions and contributions under section 6 of the Act which aggregate at least \$800 million plus the principal amount of the Notes and receipt by the Board of documentation and confirmation of such accruals that are satisfactory to the Board.

2. An interest rate on the Notes of not greater than 150 basis points above the current average yield on outstanding direct obligations of the United States Treasury with remaining maturities (giving appropriate effect to the call provisions of the Notes) comparable to those of the Notes.

3. Satisfaction of all the conditions contained in Article 4 of the Agreement to Guarantee.

4. Ratification by the members of the UAW eligible to vote thereon of an amendment to the present collective bargaining agreements between Chrysler and the UAW substantially in the form included in Exhibit 5 to the Request, with economic terms sufficient, in the judgement of the Board, to produce the labor cost savings shown in the Summary of Employee Concessions also included in Exhibit 5 to the Request.

5. Implementation by the Corporation of the program of labor cost savings for employees not represented by the UAW (including, in the case of employees represented by labor organizations other than the UAW, legally effective amendments of existing collective bargaining agreements) which is described in the Summary of Employee Concessions included in Exhibit 5 to the Request on terms which are sufficient, in the judgment of the Board, to produce the labor cost savings shown in such Summary of Employee Concessions.

6. Legally effective restructuring of the indebtedness ("Restructured Debt") referred to in the "1981 Debt Restructuring Plan" included in Exhibit 4 to the Request ("Creditor Term Sheet") substantially on the terms and conditions included in such term sheet (including the conversions to equity and granting of options to purchase debt referred therein).

7. Delivery to the Board of satisfactory update to the Omitted Collateral Report dated July 29, 1980, delivered to the Board on July 31, 1980.

8. Delivery to the Board of evidence of satisfactory progress by Chrysler toward the sale of its remaining Gulfstream II and Lear 035 jet aircraft and of its options to purchase two Canadair Challenger jet aircraft.

9. Assignment to the Trustees under the Indenture of Mortgage and Deed of Trust, dated as of June 2, 1980 (the "Indenture"), of Chrysler's rights under the agreement between Impala Platinum Ltd. and Chrysler listed in Part I.B.2 of Schedule 6 to the Agreement to Guarantee.

10. Amendment of the Agreement to Provide Loan Insurance dated as of June 13, 1980, among the Government of Canada, Chrysler and Chrysler Canada Ltd. ("Chrysler Canada") to conform to the Canadian Operating and Financing Plan; provided, however, that any reduction of the amount of the commitment thereunder of the Government of Canada shall be satisfactory to the Board.

11. Amendment of the the loan documents of Chrysler Canada and Chrysler Leasing Ltd. to conform the definition of the T-115 Programme and related default provisions to the Canadian Operating and Financing Plan and to change the Canadian net worth maintenance covenants to accomodate the restructuring set forth in the Creditor Term Sheet in a manner satisfactory to the Board.

12. Presentation by Chrysler of a program for exercise by Chrysler of any unexercised balance of the option to purchase Restructured Debt referred to above, together with projections of the availability of cash therefor, all in form and substance satisfactory to the Board.

13. Amendment of the Agreement to Guarantee (and approval thereof by the Chrysler Board of Directors) in form and substance satisfactory to the Board:

- (a) to make it an event of default under the Agreement to Guarantee if Chrysler fails to pursue diligently with all deliberate speed a capital infusion program satisfactory to the Board; to require Chrysler to report to the Board on the progress of the program; and to preclude amendments of the Chrysler Board of Directors Resolutions relating to the program, unless the Board consents to or requests such amendments;
- (b) to add covenants by Chrysler to pursue other methods of improving its net worth and to exercise Chrysler's options to purchase Restructured Debt as referred to above as soon as practicable, but in no event to allow any portion of such options to lapse unexercised, unless the Board consents;
- (c) to add other covenants by Chrysler satisfactory to the Board with respect to the use of cash, if practicable, for the purchase of guaranteed indebtedness at a discount; and
- (d) to require the sale by Chrysler of all aircraft owned by it or any of its subsidiaries and to prohibit purchase

or operation of any aircraft by such companies in the future or the acquisition of any other interest therein, except for short-term commercial leases required by Chrysler's business needs and entered into pursuant to procedures.

14. Amendment of the Indenture and execution and filing of supplemental instruments and furnishing of opinions as may be deemed desirable and practicable by the Board with respect to the lien of the Indenture on cash and cash-equivalents and control by the Board over the release thereof by the Trustee and its agents.

15. Receipt of executed opinions from Salomon Brothers, Booz Allen & Hamilton, Inc. and Touche, Ross & Co., substantially in the form of the draft opinions included in the Request and including such other matters as may be required by the Board.

16. Receipt of an opinion from Debevoise, Plimpton, Lyons & Gates updating and confirming their opinion included in the Request and with respect to such other matters pertaining to the issuance of the Notes and the restructuring of indebtedness referred to above as may be required by the Board.

17. Receipt of adequate assurance as to the continuation of the \$100 million loan from Peugeot S.A. to Chrysler on terms and conditions satisfactory to the Board.

18. Adequate documentation that Chrysler has obtained at least \$36 million in supplier concessions for 1981 in addition to those included in its Operating Plan included in the Original Request and assurances that Chrysler will exercise best efforts to obtain total additional concessions in 1981 of \$72 million.

19. Receipt of evidence that the second priority security interest and lien to be granted to certain creditors of Chrysler referred to in the Creditor Term Sheet:

- (a) is implemented by separate second mortgages and security agreements (rather than supplements to the Indenture) unless it is demonstrated to the satisfaction of the Board, including appropriate opinions and certifications, that such supplements to the Indenture would not place the Trustee under the Indenture in a conflict in the event of Chrysler's bankruptcy or otherwise; and
- (b) does not place such creditors prior to or on a parity with the Board, or to any creditor prior to the Board, as to any collateral.

20. Receipt of adequate assurance as to the continuation of Chrysler's distribution and other arrangements with Mitsubishi Motors Corporation on terms and conditions satisfactory to the Board.

21. Receipt of all other documentation, including resolutions, certificates and opinions, which the Board may require.

Each of the foregoing conditions is subject to waiver by the Board to the extent that the Board determines that such waiver is consistent with the Act and not material to the Board's findings with respect to the matters affected thereby and will not materially and adversely affect the position of the United States.

ANNEX C

Resolutions of the
Chrysler Corporation Loan Guarantee Board

Chrysler's Capital Infusion Program

WHEREAS, pursuant to the resolution of the Executive Committee of the Board of Directors of Chrysler Corporation ("Chrysler") on December 3, 1980, ratified by the full Board of Directors of Chrysler of December 23, 1980 (collectively the "Resolutions"), Chrysler has confirmed its intentions to seek to strengthen its financial position with all deliberate speed by infusing new capital into it or through mergers, other business combinations or otherwise; and

WHEREAS, the Board supports the goals of Chrysler expressed above; and

WHEREAS, Chrysler has engaged Salomon Brothers, under the direction of its Executive Partner, Mr. James D. Wolfensohn, to assist it and the Special Committee on Long Term Business Strategy of Chrysler's Board of Directors in connection with the efforts of Chrysler to seek to strengthen its financial position as described above;

NOW, THEREFORE, RESOLVED, that the Board hereby approves the engagement of Salomon Brothers by Chrysler for the purposes described above; and

FURTHER RESOLVED, that this Board strongly supports Salomon Brothers in its aforesaid efforts on behalf of Chrysler; provided, however, that the foregoing resolutions shall not constitute a determination by the Board under subsection 11(b) or 11(c) of the Chrysler Corporation Loan Guarantee Act of 1979.

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD

FROM: Office of Chrysler Finance

SUBJECT: New Issuance Determinations

Chrysler's January 15, 1981, Request contains information for the Third Takedown and updates the information contained in Chrysler's prior request, dated as of December 23, 1980.

The following memoranda provide the staff analyses in support of the determinations required by the Chrysler Corporation Loan Guarantee Act of 1979 (the "Act") for the Board to issue additional guarantees for the Third Takedown pursuant to the Agreement to Guarantee. These memoranda recommend that the Board determine that each requirement of the Act is met with respect to the Third Takedown. The staff recommends that the Board make these determinations for up to \$400 million in loans, to the extent that adequate non-guaranteed financing has accrued pursuant to Section 8(b) of the Act as of the Closing.

Chrysler has submitted a modified Operating Plan and Financing Plan (the January Operating Plan and the January Financing Plan) and related documents. It proposes the Board approve the applicable plans and related documents pursuant to the Act, the Agreement to Guarantee, and the Memorandum of Operating Plan and Financing Plan Procedures dated June 24. The staff recommends that the Board do this.

In addition, Chrysler has filed Operating and Financing Plans and 1981 Budgets for CFC, Chrysler Canada and Chrysler Mexico, and has included revised projections for 1980 in accordance with the requirements of the Procedures Memorandum. The Board's staff has reviewed all these documents, and for the reasons set forth in the memoranda which follow, recommends approval of all of these documents.

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD

FROM: Office of Chrysler Finance

SUBJECT: Request for Issuance of Guarantees for
Third Takedown

Chrysler has submitted a Guarantee Request dated January 15, 1981, (the "January Request") in which it seeks Board approval for an additional takedown of up to \$400 million in guaranteed loans (the "Third Takedown") pursuant to the Agreement of Guarantee dated as of May 15, 1980, and entered on June 24, 1980 (the "Agreement to Guarantee"). A copy of the January request is attached.

The Third Takedown would be on substantially the same basis as the previous two on June 24 and July 31. The loans would be obtained from the sale of 10-year notes of \$5,000 minimum denomination and integral multiples thereof (the "Notes") in an underwritten public offering by a syndicate led by Salomon Brothers, Merrill Lynch, White Weld Capital Markets Group, The First Boston Corp., E.F. Hutton & Co., and Warburg Paribas Becker & Co.

The notes are protected against call for 2-1/2 years; thereafter, they are subject to early redemption at par (1) out of mandatory sinking fund payments (which may be waived by the Board) from specifically defined cash flow and (2) otherwise at the option of Chrysler. The sinking fund provision of the draft Guarantee Agreement for the notes is identical to that of the notes involved in the earlier takedowns. It would require, subject to waiver by the Board, Chrysler to redeem annually, beginning June 30, 1983, guaranteed notes in an amount equal to 75 percent of the "Available Prepayment Funds" (as defined in Section 1.01 of the Agreement to Guarantee). The Board also has the authority to designate how the fund will be applied to each series of notes. The notes may be purchased (in whole) by the Board at any time upon a default by Chrysler under the terms of the Agreement to Guarantee.

The notes will bear interest payable semiannually. The interest rate will be determined shortly before the notes are offered, but as proposed below would not exceed 150 basis points over U.S. Treasury securities of comparable maturity. The computation of this level and its comparison to earlier levels are discussed in the analysis supporting the determinations required by Section 5(a)(3).

Chrysler would appear capable of repaying these notes, as well as the prior two issues, pursuant to their terms based on the current staff analysis reflected in the Base Case as updated ("Base Case III" as discussed in the supporting analysis for determinations required by Sections 5(a)(2) and 5(a)(4). The Table below indicates that available prepayment funds result in repayment by 1986 of substantially all of the guaranteed borrowings projected under Base Case III. This result is consistent with the Base Case III analysis of the Financing Plan for the Section 5(a)(4) determination. Since the Base Case III projections of cash flow are conservative, achievement of improved performance could result in more rapid repayment of guaranteed loans.

Projected Repayment of Federally Guaranteed Loans
(\$ in millions, at year end)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Base Case III Analysis:							
Fed. guar. Loans outstanding	800	1200	1200	800	450	--	--
Repayments:							
Annual	--	--	--	400	350	450	
Cumulative	--	--	--	400	750	1200	1200
Sinking Fund Requirements:							
Annual					150	650	630
Cumulative						800	1430

The following memoranda provide the staff analyses in support of the determinations required by the Act for the Board to issue additional guarantees in the Third Takedown pursuant to the Agreement to Guarantee. These memoranda recommend that the Board determine that each requirement of the Act is met with respect to the Third Takedown. The staff recommends that the Board make these determinations for up to \$400 million in loans.

INTRODUCTION

On December 23, 1980, Chrysler Corporation applied to the Chrysler Corporation Loan Guarantee Board for up to \$400 million principal amount of Guarantees pursuant to section 2.01 of the Agreement to Guarantee, dated as of May 15, 1980, between the United States of America, acting by and through the Chrysler Corporation Loan Guarantee Board, and Chrysler Corporation. That application is hereby amended and restated in its entirety to read as follows:

I. REQUEST

Chrysler Corporation (the "Company") hereby applies to the Chrysler Corporation Loan Guarantee Board (the "Board") for \$400 million principal amount of Guarantees (the "Guarantees") pursuant to section 2.01 of the Agreement to Guarantee, dated as of May 15, 1980 (the "Agreement"), between the United States of America, acting by and through the Board, and the Company.

Capitalized terms except those separately defined have the meanings assigned to them in the Agreement.

II. SUPPORT FOR REQUEST

A. Description of Indebtedness to be Guaranteed.

The Company proposes to market on or about February 2, 1981 or as soon thereafter as possible (the "Closing

Date") \$400 million aggregate principal amount of its registered negotiable guaranteed notes due October 15, 1990 (the "Notes"). The terms of the Notes are more fully set forth in the form of Offering Circular attached hereto as part of Exhibit 1.

B. Manner of Offering, Sale or Other Issuance.

The Notes will be publicly offered by an underwriting group, the representatives of which will be Salomon Brothers, Merrill Lynch White Weld Capital Markets Group, The First Boston Corporation, E.F. Hutton & Company Inc. and Warburg Paribas Becker. Further information concerning the manner of offering is contained in the forms of Agreement Among Underwriters and Underwriting Agreement, copies of which are attached hereto as part of Exhibit 1.

C. Use of Proceeds.

The net proceeds from the sale of the Notes will be used to (a) pay, over the next several days following the Closing Date, amounts due to suppliers, (b) make capital expenditures contemplated by the Company's Operating Plan of January 14, 1981 referred to below, including continuing investment in tooling and facilities for the manufacture of front-wheel-drive vehicles, and (c) make other expenditures required in the ordinary course of

the Company's business and contemplated by the Operating Plan of January 14, 1981, including payrolls, taxes, amounts due to dealers for marketing programs and other normal payments.

D. Definitive Copies of Instruments and Agreements.

Substantially final forms of each instrument evidencing Guaranteed Indebtedness and each related instrument or agreement pertaining thereto, including (a) the Guarantee Agreement between the United States, acting by and through the Board, and the Company and (b) the Fiscal Agency Agreement among the Company, United States Trust Company of New York and the United States, acting by and through the Board, are attached hereto as part of Exhibit 1. Definitive copies of such instruments will be delivered on or before the Closing Date.

E. Specimen of the Notes.

A specimen of the Notes is attached as part of Exhibit 1.

F. Revised Operating and Financing Plans.

The Company has revised, and herewith submits for approval pursuant to section 6.06 of the Agreement, (i) its Operating Plan (including the Operating Budget), together with its Energy Savings Plan and Productivity

Improvement Plan, dated January 14, 1981 (collectively, the "Operating Plan of January 14, 1981"), copies of which are attached hereto as Exhibit 2 and (i) its Financing Plan (including the Financing Budget), dated January 14, 1981, a copy of which is attached as Exhibit 3. The Operating Plan of January 14, 1981 and the Financing Plan of January 14, 1981 have each been prepared in accordance with and meet the requirements of the Guarantee Act and the Agreement.

Attached hereto as Exhibit 4 are (i) an outline of terms, dated January 15, 1981, summarizing the restructuring plan for certain of the Company's lender groups and (ii) an outline of terms, dated January 14, 1981, summarizing certain matters relating to loan agreements of Chrysler Canada, Ltd.

Attached hereto as Exhibit 5 are (i) an outline of terms, dated January 14, 1981, summarizing the concessions to be obtained from union and non-union employees and (ii) Additional Provisions Pertaining to U.S. and Canadian Employees (including the Supplemental Letters thereto), dated January 16, 1981. The labor concessions are reflected in the Operating Plan of January 14, 1981 and the Financing Plan of January 14, 1981. The matters described in the Supplemental Letters will not in the aggregate have a

material adverse effect upon the projections contained in the Financing Plan of January 14, 1981.

Attached hereto as Exhibit 6 is CFC's Financing and Operating Plan (including Financing and Operating Budgets), dated January 14, 1981.

G. Accrual of Non-Federally Guaranteed Assistance.

Attached hereto as part of Exhibit 7 is a schedule showing the gross and, on a best-estimate basis, net amount of each item of Non-Federally Guaranteed Assistance which is expected to have Accrued by the Closing Date. Also attached hereto as part of Exhibit 7 is a draft letter of the Independent Public Accountants regarding such schedule, to be provided to the Board on the Closing Date, which includes a discussion of the appropriateness of the treatment therein given to each item of expense attributable to any Non-Federally Guaranteed Assistance.

H. Determinations Required for Issuance of Guarantees.

Attached hereto as Exhibit 8 is the form of Certificate as to Certain Matters Pursuant to Sections 3.17 and 4.01 of the Agreement presented to the Chrysler Board at a meeting duly called and held on January 15, 1981, at which a quorum was present and acting throughout. At such meeting the Chrysler Board unanimously adopted the follow-

ing resolution with respect to the opinions set forth in such Certificate:

RESOLVED, that each of the opinions set forth in the form of Certificate as to Certain Matters Pursuant to Sections 3.17 and 4.01 of the Agreement to Guarantee attached hereto, except the opinions set forth in paragraphs 6, 10, 11, 12 and 13 thereof, be and the same hereby are in all respects approved and adopted as the opinions of this Board.

FURTHER RESOLVED, that this Board believes it will be able to approve and adopt the opinions set forth in paragraphs 6, 10, 11, 12 and 13 of the form of Certificate as to Certain Matters Pursuant to Sections 3.17 and 4.01 of the Agreement to Guarantee attached hereto on the effective date of such Certificate.

On the Closing Date each member of the Chrysler Board will execute and deliver to the Board a Certificate substantially in the form attached hereto as Exhibit 8, with such changes therefrom as may be necessary or appropriate (i) to refer to this Guarantee Request in the form finally submitted to the Board and the Operating Plan and the Financing Plan then approved by the Board and (ii) to include, with reference to any condition to the determinations made by the Board with respect to this Guarantee Request, the opinion that such condition has either been satisfied or, to the extent not satisfied, there exists an adequate basis for the Board to grant a waiver with respect thereto, and the Board should grant such waiver, on the

grounds that such waiver is consistent with the Guarantee Act, not material to the Board's determinations with respect to the matters affected by such waiver and will not materially and adversely affect the position of the United States.

I. Satisfaction of Conditions.

On or before the Closing Date the Company will satisfy each of the conditions to issuance of the Guarantees hereby requested, as set forth in Article 4 of the Agreement.

J. Letters from Consultants and Accountants.

(i) Attached hereto as Exhibit 9 is a letter from the Consultant as to the opinion it proposes to deliver to the Board on the Closing Date with respect to the Operating Plan of January 14, 1981.

(ii) Attached hereto as Exhibit 10 are (a) an opinion of the Financial Adviser as to the likely range for interest on the Guaranteed Indebtedness contemplated for issuance and (b) a letter of the Financial Adviser as to the form of opinion it proposes to deliver to the Board on the Closing Date with respect to various financial matters.

(iii) Attached hereto as Exhibit 11 is an opinion of Debevoise, Plimpton, Lyons & Gates as to this Guarantee

Request providing an adequate basis for the Board, acting within the scope of discretion conferred upon it under the Guarantee Act, to issue the Guarantees requested hereby.

K. Transactions Subject to Sections 11(b) and 11(c) of the Guarantee Act.

On the Closing Date the Company will deliver to the Board lists which briefly describe each sale, undertaking to sell or agreement entered into by the Company or any of its Subsidiaries since January 6, 1980 which meets the criteria set forth in Section 11(b) or 11(c) of the Guarantee Act except such sales, undertakings to sell or agreements included in the certificates delivered at the first and second Closing Dates under the Agreement. The Company will also deliver on the Closing Date a certificate of a responsible officer to the effect that each such transaction will not reduce or impair the ability of the Company to repay Guaranteed Indebtedness as scheduled, will not conflict with the Operating Plan of January 14, 1981 or the Financing Plan of January 14, 1981 and will not impair the ability of the Company to continue as a going concern (as such term is defined in Section 2(6) of the Guarantee Act) or to meet the other tests of viability prescribed by the Board.

L. Miscellaneous.

(i) Mitsubishi Motors Corporation. Mitsubishi Motors Corporation ("MMC") and the Company have recently entered into agreements (approved by the Board) providing for the financing of shipments of MMC vehicles and spare parts through March 31, 1981, upon terms that in the aggregate are the economic equivalent of the average 60-day deferred payment terms enjoyed by the Company through November 1980. In entering into these financing arrangements, MMC has implicitly recognized the validity and continuance of the 1970 U.S. Distribution Agreement between the Company and MMC. Also recently, MMC has, at the Company's request in order to adjust inventories, rescheduled January shipments of MMC vehicles and reduced shipments of 2.6 litre engines for K-cars.

When reports in the Japanese and U.S. press incorrectly characterized the new consignment financing arrangements as constituting the establishment of MMC's own U.S. sales company and the reduction of shipments as unilateral acts on MMC's part in violation or rejection of the U.S. Distribution Agreement, MMC issued press releases correcting the reports.

The Company and MMC commenced negotiations in June 1980 looking toward an overall modification of their

relationships, including long-term financing arrangements, the possibility of creation of a separate network of dealers for certain MMC vehicles, and the possibility of assembly or manufacture of MMC products in the U.S. In October 1980 the financing issues were separated out, and negotiations on the other matters were suspended pending completion of the interim financing arrangements. These overall discussions have remained in suspension until the Board has taken action on the Company's present request for additional loan guarantees.

(ii) Amendments to PSA Agreements. Attached hereto as part of Exhibit 12 are (a) draft, dated January 9, 1981 (English translation), of an amendment (the "Loan Amendment") to the Loan and Pledge Agreement between Societe Financiere de Banque-SOFIB and the Company, dated February 5, 1980, as amended by an instrument dated June 24, 1980, and (b) draft, dated January 9, 1981 (English translation), of an amendment (the "Option Amendment") to the Promise to Sell between the Company and Peugeot S.A., dated February 5, 1980, as amended by an instrument dated June 24, 1980.

The Loan Amendment and the Option Amendment (collectively, the "Amendments") have been executed by the parties and are being held by counsel pending approval by

the Board, as required under Section 7.03 of the Agreement to Guarantee. The Company hereby requests that the Board approve the Amendments. In connection with this request, there is attached hereto as part of Exhibit 12 a letter to the Board from Messrs. Cleary, Gottlieb, Steen & Hamilton, United States counsel to Peugeot S.A., dated January 14, 1981, explaining the background to the Amendments and setting forth that firm's understanding that Societe Financiere de Banque-SOFIB has no present intention of demanding payment of its \$100 million loan to the Company, assuming that (a) the Company qualifies for the \$400 million of loan guarantees requested by this Amended and Restated Guarantee Request, and (b) the Board approves the Amendments.

The Company believes that the Amendments represent reasonable changes under the circumstances and are in the Company's best interests.

(iii) Workers' Disability Compensation. It has been the Company's practice, wherever advantageous, to be a self-insurer of workers' compensation liabilities. The Company must file annually in order to maintain self-insurer status in certain states.

In connection with the annual review by the states of Michigan and Illinois, the Company has recently

been required to establish trust funds in which there would accumulate a certain amount of cash reserves (as opposed to book reserves which the Company would otherwise have accrued) to secure the payment of workers' compensation claims. The Company's agreement with Michigan is described in the Memorandum of Understanding, dated January 14, 1981, between Director, Bureau of Workers' Disability Compensation, and State of Michigan, a copy of which is attached hereto as Exhibit 13. The agreement requires contributions to an interest-bearing trust fund over the next 12 months to secure estimated future liabilities for workers' compensation claims incurred and reported during the 12-month period commencing January 15, 1981. In no case will the balance of this trust fund exceed \$5 million without the prior consent of the Board.

The Company's agreement with Illinois is drawn on somewhat similar lines. The Company must during the next 12 months establish a trust fund to which it will contribute \$150,000 at the beginning of each month. This fund will be used to pay all workers' compensation claim expenses with respect to Chrysler's operations in Illinois, which expenses are projected to amount to \$136,000 per month. It is therefore estimated that cash reserves of \$14,000 per month will accumulate during the year and will

approximate \$168,000 by the end of the 12-month period. In addition, the Company will reduce from \$500,000 to \$250,000 the amount of the deductible applicable to any single occurrence resulting in workers' compensation claims.*

It is possible that other states may require, as a condition to the Company's continuing its self-insurer status, that trust funds similar to those for Michigan and Illinois be established. In this regard, the Company has received an inquiry from the State of Delaware and discussions are planned. However, no action has been taken by Delaware (or any other state) to revoke the Company's self-insurer status.

Approximately 80% of the Company's workers' compensation costs arise in Michigan where most of the Company's operations are concentrated and where the level of workers' compensation costs is higher than in other states. If any of the remaining principal states in which the Company is self-insured (Delaware, Indiana, Missouri, New York and Ohio) should request a trust fund similar to those established in Michigan and Illinois, the amount of

* The Company currently has a casualty policy with a deductible of \$500,000 for any single occurrence, which covers occurrences resulting in workers' compensation claims in those states where the Company is self-insured. The Company has never incurred a liability approaching \$250,000 for a single workers' compensation claim.

cash reserves to be accumulated over a 12-month period in any such fund would not be expected to exceed the amount estimated for the Illinois fund (\$168,000) and in some cases would be considerably lower.

(iv) Litigation. The Company knows of no litigation pending against it brought (a) by any lender in respect of Indebtedness for Money Borrowed or (b) by any party to any Material Commercial Agreement.

This Amended and Restated Guarantee Request is respectfully submitted by the Company this 16th day of January, 1981.

CHRYSLER CORPORATION

By RS Mill L
V.P. & TREASURER

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEED BOARD

FROM: Office of Chrysler Finance

SUBJECT: Section 5(a)(1): No Credit Elsewhere

Section 5(a)(1) of the Act requires that the Board determine, at the time of the issuance of any loan guarantee, that:

"... credit is not otherwise available to the Corporation under reasonable terms and conditions sufficient to meet its financing needs as reflected in the financing plan."

The reasons set forth below support a determination by the Board that this requirement will be met on the Closing for the Third Takedown for up to an aggregate \$400 million principal amount of loans pursuant to Chrysler's January Request.

Chrysler's January Request includes the form of certificate to be delivered at the closing by Chrysler's officers and directors that substantial amounts of additional credit are not available to Chrysler on reasonable terms and conditions, and that this includes the amounts now requested to be guaranteed. Pursuant to the requirements of the Agreement to Guarantee, as a condition to issuance of the guarantees for the Third Takedown, Chrysler's officers and directors will be required to certify to the effect that Section 5(a)(1) is met on the Closing Date.

The January Request also includes the form of opinion to be delivered at the Closing by Chrysler's financial advisor, Salomon Brothers, that Chrysler cannot now borrow more than an insignificant portion of the credit represented by the loans to be guaranteed on reasonable terms and conditions except through loan guarantees which may be issued by the Board.

These opinions and certifications are consistent with the analysis of the staff as discussed in the analyses that follow in support of the Section 5(a)(4) determination, as well as the Board's June 24 and July 31 determinations.

Chrysler's new Financing Plan, dated January 14, 1981 indicates that Chrysler will have funding needs of \$400 million in excess of available non-guaranteed financing during the first quarter of 1981.

The only potential source for financing this shortfall on reasonable terms and conditions at the time requested by Chrysler for the Third Takedown would appear to be federally-guaranteed loans:

- The unguaranteed funding provided for in the Financing Plan through 1981 substantially exhausted Chrysler's sources of credit. This will continue to be the case at the time of the Third Takedown.
- The staff's involvement with Chrysler during the last sixteen months indicates that it has been extremely difficult for Chrysler to procure even the amounts of nonfederally guaranteed financing required by the Financing Plan on reasonable terms and conditions, much less procure any additional credit.

Recommendation: That the Board determine that the requirements of Section 5(a)(1) will be met at the Closing with respect to the Third Takedown.

MEMORANDUM FOR: Chrysler Corporation Loan Guarantee Board

FROM: Office of Chrysler Finance

SUBJECT: Section 5(a)(2) Determination
(Reasonable Assurance of Repayment)

Section 5(a)(2) of the Act provides that the Board may issue loan guarantees under the Act only if at the time of issuance the Board determines that:

". . . the prospective earning power of the Corporation, together with the character and value of the security pledged, furnish reasonable assurance of repayment of the loan to be guaranteed in accordance with its terms..."

The reasons set forth below, as more fully described in the following pages and attachments hereto, support a determination that the requirements of Section 5(a)(2) will be met with respect to the issuance of loan guarantees pursuant to Chrysler's January Request for the Third Takedown. The staff recommends that the Board so determine.

Earning Power

The profit projections contained in the Base Case III analysis for the Section 5(a)(4) determination indicate that there should be available adequate cash flow during the 1981-1984 period to make the required debt service payments on the loans to be guaranteed and on all other indebtedness of the corporation. Review of the ultimate viability of the corporation includes analyses of the ability of the corporation to provide for self-financing after 1983. This analysis is included in the staff memorandum supporting a determination under Section 5(a)(4) of the Act. The analysis demonstrates a reasonable prospect that Chrysler will continue operations as a going concern in the automobile business and will continue such operations after December 31, 1983, without additional loan guarantees or other Federal financing. Implicit in the foregoing is the ability of the Corporation to repay its debts (including the loans to be guaranteed) as they become due in the years after 1983.

Additional analysis of the company's ability to repay pursuant to the sinking fund provision of the Notes is included in the introductory memorandum describing the Notes at Tab 1.

Assets Pledged

The liquidation value of the assets subject to the lien of the Indenture securing the United States is estimated to be \$2,510.7 million, as of October 31, 1980, based on the analysis conducted by the staff with the assistance of the Detroit Regional Office of the General Accounting Office (GAO). This is \$332.0 million more than the \$2,178.7 million estimated net liquidation value of the the pledged assets relied upon by the Board in its July 31 determinations for the second drawdown. The Board's staff believes that there is sufficient collateral to provide adequate security for the additional \$400 million of guarantees to be issued in the third takedown. The estimated liquidation value of the collateral is over twice the aggregate amount of guaranteed loans that would be outstanding.

Attachment I to this memorandum indicates the estimated liquidation value of the collateral by major asset category and shows the changes in the estimated value since the Board's July 31 determination. A brief explanation of the changes is also given.

Attachment II compares the estimates of Touche Ross & Co., Chrysler's independent accountants, and the GAO Detroit Regional Office as to the liquidation value of Chrysler's assets other than property, plant and equipment.

Attachment III is the detailed report prepared by GAO's Detroit Regional Office, which is the principal basis for the staff's estimate of the liquidation value of the collateral. A supplement to the report providing additional detail on certain asset categories is also at Attachment III.

The report of Touche Ross & Co. on the estimated liquidation value of assets other than property, plant and equipment is attached as Attachment IV. A supplementary report from Touche Ross & Co. regarding finished vehicle inventories is also at Attachment IV.

A letter from American Appraisal updating its earlier reports on the value of property, plant and equipment is attached as Attachment V. The estimates of American Appraisal were incorporated by the Detroit Regional Office of the GAO in its report. A certificate of the Company showing its estimates of value of collateral securing the United States is at Attachment VI. This estimate indicates a total value of \$2,979.5 million.

Chrysler has also delivered with the Request the form of certificate in which the company and its officers and directors will certify at the Closing that the requirements of Section

5(a)(2) have been met. Pursuant to Section 4.01(b) of the Agreement to Guarantee, Chrysler and its directors and officers will also make this Certification at the Closing for the Third Takedown. Pursuant to Section 4.01(i) Chrysler will also confirm its representation in the Agreement to Guarantee that the value of the collateral provided is at least \$2.4 billion as required by Section 4.11 of the Agreement to Guarantee. At the Closing, it will also provide updates to the supporting reports from American Appraisal and Touche Ross & Co. as to the value of the collateral which are attached to this memorandum.

Recommendation: That the Board determine that the requirements of Section 5(a)(2) will be met at the Closing with respect to the Third Takedown.

Estimated Value of Collateral Pool

<u>Asset Category</u>	<u>Staff Estimates</u> (\$ millions)			<u>Reason</u>
	<u>Current</u> (value as of October 31, 1980)	<u>July 31, 1980</u> <u>Determinations</u> (value as of June 30, 1980)	<u>Current</u> <u>Estimates over</u> (under) <u>July 31</u> <u>Estimate</u>	
Demand Deposits	\$ 30.0	\$ 30.0	—	—
Accounts Receivable	151.4	126.4	25.0	1
Inventories	700.6	540.3	160.3	2
Investments and Other Assets	299.3	198.8	100.5	3
Property, Plant and Equipment	1,135.0	1,114.4	20.6	4
Equity in Consolidated Domestic Subsidiaries	92.9	50.4	42.5	5
Equity in Consolidated Foreign Subsidiaries	<u>101.5</u>	<u>118.4</u>	<u>(16.9)</u>	6
Total	<u>\$2,510.7</u>	<u>\$2,178.7</u>	<u>\$332.0</u>	

Summary of Reasons for Changes in Estimated Value

1. This increase is due primarily to seasonal fluctuations.
2. This increase is primarily due to seasonal fluctuations. Also, the inclusion of "excess" zone inventory, which was not included in the July 31 estimate, accounted for \$15 million of the increase.
3. Reflects primarily increased value of investment in Chrysler Financial Corporation.
4. Reflects the addition of \$106 million of new assets, net of \$85 million of dispositions and adjustments to reflect the transfers of assets to subsidiaries.
5. The increase reflects primarily increased value of property, plant and equipment of New Process Gear.
6. Reflects primarily changes from prior valuation methodology and assumptions. These changes were made to provide a more accurate estimate.

Estimated Liquidation Value of Chrysler Corporations Assets
(Excluding Property, Plant and Equipment) Comparison of Touche
Ross and GAO Detroit Regional Office Estimates

	<u>Touche Ross & Co.</u>	<u>GAO Detroit Office</u>
Cash, Marketable Securities and Deposits ^{1/}	\$ 386.0	\$ 30.0
Accounts Receivable ^{2/}	201.5	151.4
Inventories ^{3/}	735.0	700.6
Equity in Subsidiaries ^{4/} and Affiliates:		
Consolidated Domestic Subsidiaries	84.5	92.9
Consolidated Foreign Subsidiaries	96.9	101.5
Sigma Motors	24.1	23.7
Chrysler Financial Corporation	286.5	263.2
Other Non-current Assets not Evaluated by Touche Ross	--	<u>12.4</u>
Total	\$1,814.5	\$1,375.7

1/ Touche Ross did not attempt to determine what portion of cash and marketable securities would be available at the time the United States sought to enforce its lien. GAO's Detroit Regional Office assumed that Chrysler would have disputed all of the assets except the \$30 million of cash which is in relatively dormant accounts prior to the time the U.S. sought to enforce its lien. Touche Ross also included in its total \$6.0 million of precious metals owned by Chrysler but in the possession of the supplier. While the process of perfecting the lien of the Indenture against this asset is close to completion, the Board's staff has not yet received verification that the lien has been perfected and instructed GAO not to include this asset.

2/ Touche Ross did not attempt to analyze the offset rights which parties liable to Chrysler on accounts receivable might exercise on account of amounts owed them by Chrysler. GAO did include an amount for offsets (\$123 million). The majority of the assumed offsets would be by Chrysler dealers, who it is assumed would offset amounts owed by them to Chrysler (primarily for parts) against amounts owed them by Chrysler (primarily for warranty claims and sales incentives). Touche Ross assumed that no

Chrysler claims against dealers would be collectible because of the likelihood that a Chrysler failure would cause dealers also to fail. This assumption removes a large portion of the accounts which would be subject to offset rights from the total value of receivables included in the Touche Ross. GAO applied its offset assumption first (removing from the total most of the same dealer receivables Touche Ross had eliminated as uncollectible) and then applied its estimated total recovery factors to the receivables remaining after exercise of offset rights.

- 3/ GAO has included in its total the estimated value of 20,348 1981 and 1980 new vehicles in Chrysler's inventory as of October 31, 1980. These vehicles are primarily vehicles repurchased from dealers, either upon termination of a dealer's franchise or for transfer to another dealer. Touche Ross felt that the number of finished new vehicles in Chrysler's inventory was abnormally high and only included in its value of inventory the estimated value of a "normal" inventory of 14,650 vehicles. Both GAO and Touche Ross excluded from their totals the value of vehicles at the Manhattan sales outlet (excluded from lien of the Indenture) and of Mitsubishi imports. Almost all of the Mitsubishi vehicles are subject to a lien in favor of MMC, but an indeterminate number of these vehicles located in the port processing centers have been paid for by Chrysler because of the expiration of the maximum financing period under the financing agreements between MMC and Chrysler and are not subject to MMC's lien but are subject to the lien of the Indenture. Also, the inventory of vehicles repurchased from dealers includes MMC vehicles not subject to any lien of MMC having a book value of \$2 million as of October 31, 1980. None of these vehicles were included in the GAO or Touche Ross total value because of their erroneous assumption that all MMC vehicles owned by Chrysler were subject to MMC's lien and excluded from the lien of the Indenture.
- 4/ Both GAO and Touche Ross assumed an orderly liquidation of the subsidiaries, except that Touche Ross assumes that Chrysler de Mexico would be restructured as a continuing operation free of its ties to Chrysler Corporation. Touche Ross assumed a slightly less rapid liquidation of Chrysler Financial Corporation than GAO did.

CHRYSLER CORPORATION

Certificate as to Value of Collateral
Available to the United States

The undersigned hereby certifies that he is a Responsible Officer of Chrysler Corporation, a Delaware corporation (the "Company"), within the meaning of such term in the Agreement to Guarantee (the "Agreement"), dated as of May 15, 1980, between the Company and the United States of America, and that, as such, he is authorized to execute this certificate on behalf of the Company, and hereby further certifies as follows:

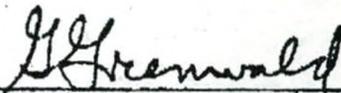
(a) Attached hereto as Exhibit A is a letter of Messrs. Touche Ross & Co., dated December 13, 1980 addressed to the Chrysler Corporation Loan Guarantee Board (the "Board"), updating their reports, dated April 17, 1980, May 30, 1980 and July 30, 1980 and delivered to the Board, with regard to the liquidation values of United States cash, marketable securities and deposits, inventory, accounts receivable and the capital stock of subsidiaries of the Company included in the Collateral (as such term is used in the Agreement);

(b) Attached hereto as Exhibit B is a letter of American Appraisal Company, dated December 8, 1980 and addressed to the Board, updating the reports of such firm, dated April 18, 1980 and July 31, 1980 and delivered to the Board, with regard to the liquidation value of the plant, property and equipment of the Company included in the Collateral;

(c) Attached hereto as Exhibit C is a schedule prepared by the Company with regard to the value of the Collateral, which (i) in the case of the assets reported on by American Appraisal Company and Touche Ross & Co., respectively, reflects the valuations contained in their respective reports and (ii) in the case of accounts receivable which are subject to setoffs by debtors, reflects such setoff amount as determined by the Company.

(d) The Value of Collateral Available to the United States (as such term is used in the Agreement), as at the date hereof, is at least \$2.4 billion.

WITNESS the signature of the undersigned this
January 16, 1981.



G. Greenwald
Executive Vice President -
Finance

CHRYSLER CORPORATION
VALUE OF COLLATERAL

(In millions of dollars)

I. Value of cash, inventories, receivables, and investments per the report of Touche Ross & Co. dated January 13, 1981 (which supplements their April 17, May 30, and July 30, 1980 reports):	
Cash, marketable securities, and deposits	\$ 386.0
Inventories	735.0
Receivables	201.5
Foreign subsidiaries	121.0
U.S. subsidiaries	371.0
	<u>\$ 1,814.5</u>
II. Value of property, plant and equipment per the December 8, 1980 report of American Appraisal Company (which supplements their April 18 and July 31, 1980 reports):	\$ 1,516.9
Less: Value of property, plant and equipment pledged to state and local governments	(213.8)
Value of property, plant and equipment owned by subsidiaries or otherwise excluded	(128.8)
Value of property transferred or sold subsequent to October 31, 1980	(39.3)
Net Property, Plant and Equipment	<u>\$ 1,135.0</u>
	\$ 2,949.5
III. Adjustment to reflect estimated offset by debtors to amounts included in Receivables.	(15.0)
IV. Additional Inventory Value - see supplemental report of Touche Ross & Co. dated January 13, 1981	<u>45.0</u>
Total	<u><u>\$ 2,979.5</u></u>

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD

FROM: Office of Chrysler Finance

SUBJECT: Section 5(a)(3): Reasonable Interest
Rate Finding

Section 5(a)(3) of the Act provides that the Loan Guarantee Board may issue a loan guarantee only if:

"the loan to be guaranteed bears interest at a rate determined by the Board to be reasonable taking into account the current average yield on outstanding obligations of the United States with remaining periods to maturity comparable to the maturity of such loans;"

The Debt Management staff of the Treasury Department has advised in the attached memorandum that the interest rate on the Third Takedown should be within 150 basis points of 2-1/2-year Treasury issues, which it feels are the most comparable securities. Chrysler has submitted in its January Request a draft of an opinion of its financial advisor, Salomon Brothers, to be delivered at the Closing, that a spread of up to 150 basis points would be reasonable.

This spread is higher than those approved by the Board for both the first and second takedowns. The increase in the spread can be attributed to an inverted yield curve for Treasury issues, the proposed 2.5-year call option, and market perception of Chrysler's difficulties, which creates investor uncertainty.

Previously-issued guaranteed notes were sold with a positively sloped yield curve in effect. The first (\$500 million) and second (\$300 million) issues were sold for 76 and 100 basis points respectively, over 10-year rates. Composites of available quotations on these issues show a current yield spread of 75 to 100 basis points over comparable 10-year yields.

Chrysler's January Request includes a draft of a certificate to be delivered at the Closing in which the company and its directors and officers express their opinion that the requirements of Section 5(a)(3) would be met in connection with this takedown. It also includes a form of opinion to this effect of Chrysler's financial advisor Salomon Brothers.

Section 4.01(d) of the Agreement to Guarantee requires Chrysler and its officers and directors to certify at the Closing to the effect that Section 5(a)(3) of the Act is met.

Recommendation: That the Board determine that the requirements of Section 5(a)(3) will be met at the Closing with respect to the Third Takedown for rates within the limit described above.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ACTING SECRETARY

January 14, 1981

MEMORANDUM FOR THE CHRYSLER LOAN GUARANTEE BOARD

I concur with Jill Ouseley's memorandum which indicates a yield spread over a comparable Treasury issue (2-1/2 year maturity area) of 100 - 150 basis points for a Chrysler Government-guaranteed security. I would consider this a "reasonable rate of interest" for these securities.

John E. Schmidt
Acting Assistant Secretary
(Domestic Finance)

Attachment



MEMORANDUM

Date: January 14, 1981

To: John E. Schmidt

From: Jill K. Ouseley *JKO*

Subject: Pricing Government-guaranteed Chrysler Bonds

You have asked for information on the yield spread over comparable Treasury securities that could be expected in current market conditions in a sale of Federally-guaranteed Chrysler Corp. bonds maturing in 10 years, and callable after 2-1/2 years with the proceeds of contingent sinking fund payments.

I estimate that the yield spread would be 100-150 basis points over Treasury yields in the 2-1/2 year maturity area. The use of the 2-1/2 year call date for the pricing reflects the inverse shape of the yield curve and the expectation on the part of many market participants that the bonds could be called in 2-1/2 years or earlier (where the yield curve inversion is sharper) in the event of default. Pricing at the 2-1/2 year point would result in a yield on the Chrysler bonds that is about 60 basis points higher than pricing at the 10-year maturity date.

The pricing estimate takes several factors into consideration. Yield spreads on recent Federally-sponsored agency issues in the intermediate term maturity area, including Farm Credit bonds priced January 13, have been about 40-45 basis points above Treasury securities of comparable maturity. Recent pricings of intermediate-term Maritime Administration guaranteed Title XIs have been at about 3/4 point above Treasury securities of comparable maturity, with allowance for call provisions on Title XIs. Currently-traded GNMA 13's have been trading about 120-125 basis points over 10-year Treasury securities in the immediate delivery market.

Investor and underwriters' perceptions of the successfulness of the second sale of guaranteed Chrysler securities, priced July 30, the day of the Treasury refunding announcement, may be a factor in a higher spread over Treasury securities than in the earlier sales. While some trading in the outstanding guaranteed Chrysler bonds is reported by members of the original lead underwriting group, the market appears to be largely inactive for these low coupon securities.



MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD

FROM: Office of Chrysler Finance

SUBJECT: Section 5(a)(4): Determination that the Operating Plan and Financing Plan Continue to Meet the Requirements of Section 4 of the Act

The Act provides that the Board may only issue a loan guarantee if in connection with the issuance thereof, the Board determines that:

". . .the operating plan and the financing plan of the Corporation continue to meet the requirements of Section 4 and appropriate revisions to such plans (including extensions of such plans to cover the then current four-year period) have been submitted to the Board to meet such requirements."

The relevant requirements of the Act are those concerning the Operating Plan and the Financing Plan found in Sections 4(a)(3)(A), 4(a)(4), 4(a)(5), and 4(c) of the Act, and the additional requirements of Sections 4(a)(1), 4(a)(2), 4(a)(6), 4(a)(7) and 4(a)(8). Sections 4(a)(3)(B) and 4(a)(6) require adequate assurances as to certain matters covering the Operating and Financing Plans that are addressed by the staff analysis in support of the Board determination under Section 5(a)(6).

The reasons set forth below support a determination by the Board that the requirements of Section 5(a)(4) are met in connection with the loans requested to be guaranteed pursuant to Chrysler's January Request for a Third Takedown.

I. Operating and Financing Plans

Chrysler has submitted a revised Operating Plan and a revised Financing Plan both dated January 14, 1981 (the "January Operating Plan" and the "January Financing Plan," together the "January Plans"). These are the applicable plans for the present analysis, and have been submitted as modifications to the September Plans ^{1/} pursuant to the Memorandum of Operating and Financing Plan Procedures.

^{1/} On September 4, Chrysler submitted new plans to cover the 1981-1984 period. The Board was not required to approve these plans until after detailed 1981 budgets were submitted in December. Changing conditions in the market, however, rapidly overtook the assumptions underlying those plans. Accordingly, Chrysler was forced to update them.

A. The Operating Plan - Section 4(a)(3)(A)

The Act requires that:

"...the Corporation has submitted to the Board a satisfactory Operating Plan ... for the 1980 fiscal year and three next fiscal years demonstrating the ability of the Corporation to continue as a going concern in the automobile business, and after December 31, 1983, to continue without additional guarantees or other Federal assistance"

Other sections of the Act and its legislative history further define the Operating Plan and its contents.

Section 4(a)(3)(A) calls for a reasonable prospect of viability, not that it be assured or guaranteed. Congress clearly viewed Chrysler as a turnaround situation, involving a higher degree of risk, for which normal credit standards applicable to the private sector were not to be used exclusively.

On May 10, the Guarantee Board determined that Chrysler's April 28 Operating Plan, as adjusted to the Base Case dated May 10, 1980, ("Base Case I"), satisfied the requirement of the Act. This determination reflected a staff analysis that emphasized that the judgment was a very close one. Chrysler was expected to be only marginally profitable over the 1981-1983 period.

On June 24, the Board affirmed this determination in connection with the Closing for the first takedown, although it recognized that, as a consequence of reduced domestic vehicle sales and other developments in the weeks since May 10, the risk that Chrysler would not attain the Base Case I projections had increased. While Chrysler had initiated a series of measures designed to accommodate lower sales levels and other adverse developments, there was an increased risk that Chrysler would need to use some part of the contingent financial reserves (excess cash plus unused guaranteed loan authority) provided for in Base Case I. However, these reserves still appeared adequate to compensate for the increased risk and still provide some margin for unfavorable future contingencies. The increased risk was viewed as being of a magnitude that did not require reversal of the May 10 determination.

On July 15, in the determination to issue an additional \$300 million in loan guarantees to the corporation, and in the July 31 affirmation, the Board still held to that view. It was noted then, however, that the judgment was a much closer and more marginal one.

From May 10 to July 15, certain of the risks previously identified had materialized, additional risks were identified, and projected earnings and financial reserves decreased. These were reflected in a revised Base Case ("Base Case II"), prepared by the Board's staff and consultants.

The domestic automobile market has been a little stronger than forecast by Chrysler at the time of the Board's July determinations, but the company's share of that market has been below that projected. This has resulted in much lower sales and higher demand for cash for Chrysler than originally forecast. As discussed below, the forecasted continuation of this reduced market share has created a situation where only the most drastic action on Chrysler's part could provide a reasonable assurance of the company's long term viability. The company has taken those actions. Since July, the company has decided to:

- o Decrease planned expenditures during 1981 to 1985 by \$1,888 million; \$670 million has been cut from planned projections for 1981.
- o Obtain major employee concessions amounting to a total of \$783 million in 1981 and the first nine months of 1982.
- o Restructure its capital and debt positions by getting its lenders to agree to convert at least \$504 million of debt (and possibly as much as \$583 million if all lenders agree) and \$68 million of deferred interest notes into preferred stock in 1981. This conversion will save cash interest expense through 1985 of at least \$255 million (and possibly as much as \$357 million).
- o Obtain additional concessions from suppliers amounting to \$72 million in 1981.
- o Reduce fixed manpower by approximately 3,000.

In addition, the United Auto Workers has been apprised of the contents of the Operating and Financing Plans of Chrysler. The UAW has agreed that it will conduct its future collective bargaining negotiations with Chrysler taking due consideration of the mutual interest of Chrysler and its constituents in Chrysler's long-term viability and Chrysler's then existing financial condition and prospects in comparison to those contemplated in such plans. In its January plans, Chrysler has assumed a labor cost structure through 1985 consistent with its need to maintain long-term viability. Those assumptions are for labor costs that are lower than assumed in previous plans, but whose rate of increase generally tracks cost-of-living and wage increases assumed for industry in general.

These actions have been reviewed by the Board's staff and its consultants, and incorporated in an adjustment to the earlier base cases (Base Case III). Although they result in a company which looks much different than the corporation which first approached the U.S. Treasury in July 1979, these actions are necessary if Chrysler is to survive and if it is to qualify for federal assistance under the terms of the Act. Based upon the Base Case III analysis, the staff believes that the Board may determine that the plans meet the requirements of the Act.

The analysis in support of that conclusion is presented in three parts below: a presentation of Chrysler's actual operating results for 1980 to date; a discussion of Chrysler's proposed Operating and Financing Plans and their response to those results; and, finally, the staff Base Case III analysis of those plans. The consultant's report in support of the analysis is at Attachment I.

After review of the Operating and Financing Plans, this paper addresses the other requirements of Section 4 of the Act; concluding that the Board may determine that the requirements of Section 5(a)(4) will be met at the Closing with respect to the Third Takedown.

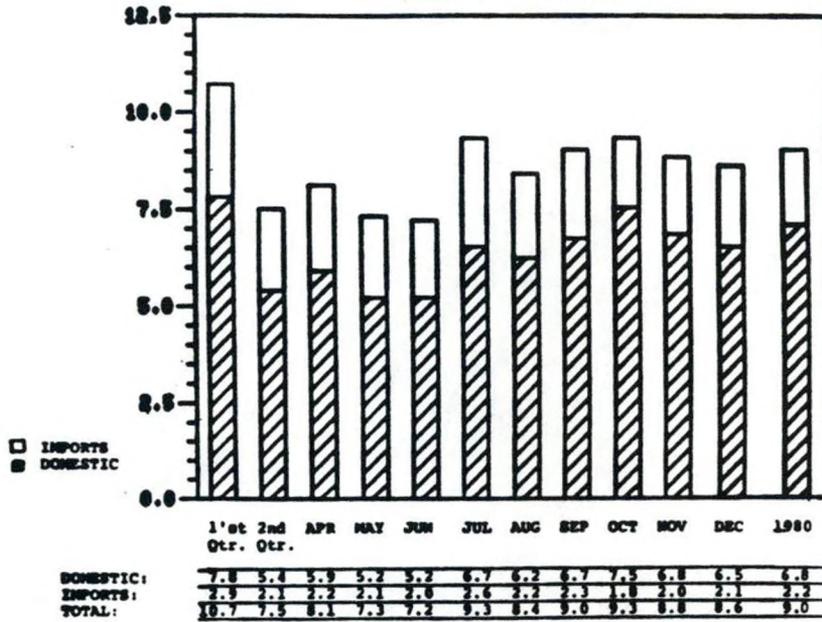
I. Actual Operating Performance for 1980

(A.) Size of Industry

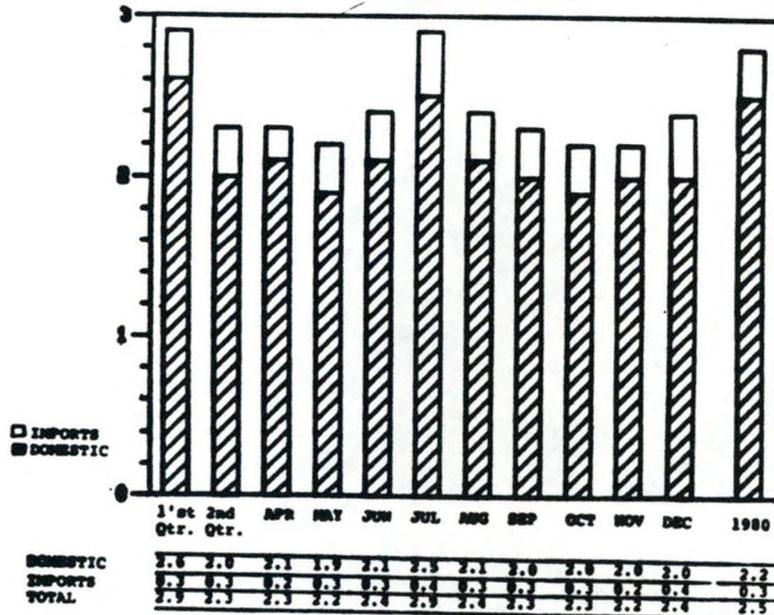
In July, when Chrysler prepared the Operating Plan which became the basis for the Board's July 15 commitment to guarantee loans, both Chrysler and the independent economic forecasters were assuming a 1980 auto market of about 8.8 million units. As shown in the graph below, the actual selling rates have been slightly above these levels and for one year 9.0 million cars were sold.

For trucks, market size has also been at about the level forecast in July of 2.5 million units. In 1980, 2.5 million trucks were sold, with the imports accounting for 269 thousand (an 11% share). Import sales during the year have been nearly constant at a seasonally adjusted annualized rate of about 300,000 units.

**U.S. AUTO INDUSTRY
ANNUALIZED AUTOMOBILE SALES
(MILLIONS OF VEHICLES)**



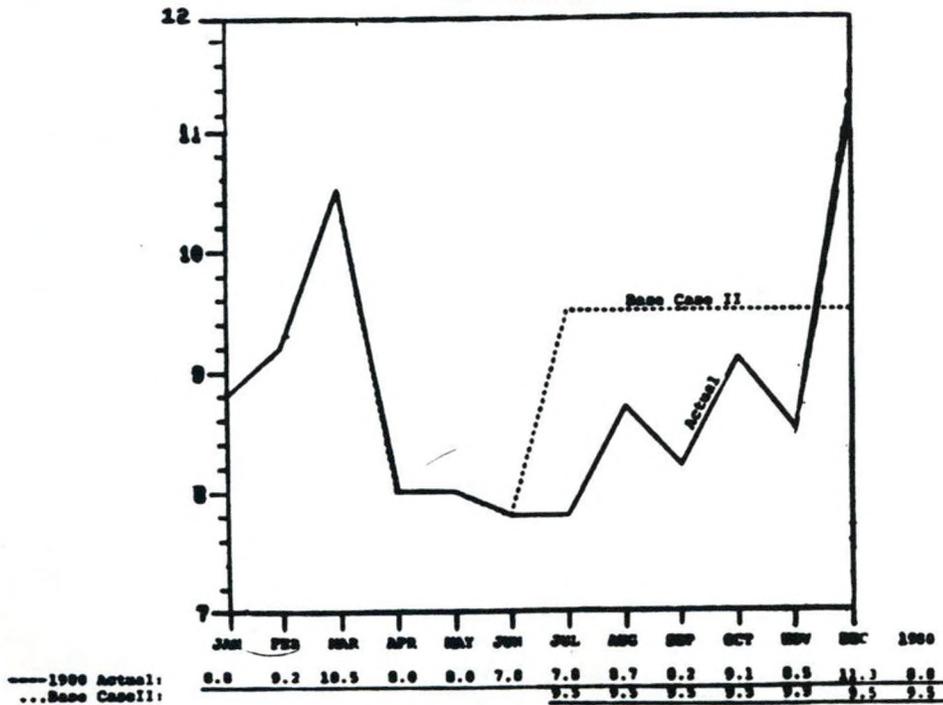
**U.S. AUTO INDUSTRY
ANNUALIZED TRUCK SALES
(MILLIONS OF VEHICLES)**



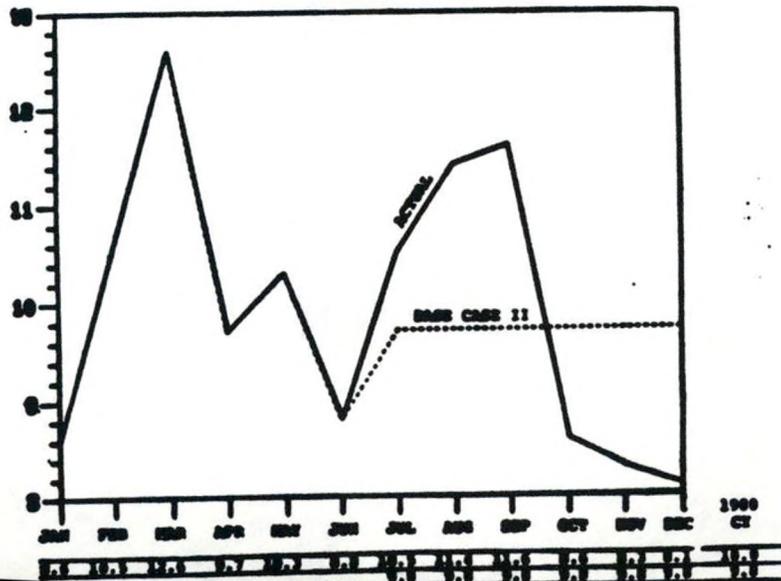
(B.) Chrysler's Share of the Industry

In July, Chrysler expected to achieve a 10.1 percent share of the 1980 automobile market and a 10.6 percent share of the U.S. truck market. As indicated on the graph below, Chrysler's actual 1980 market share was 8.8 percent for cars and 10.0 percent for trucks. Thus, for both automobiles and trucks, the company's actual share fell well below the forecasted levels. Although Chrysler's market share picked up in December, this occurred during a decline in the total size of the market and was significantly aided by an aggressive marketing program.

CHRYSLER CORPORATION
AUTOMOBILE MARKET SHARE
(PERCENTAGE)



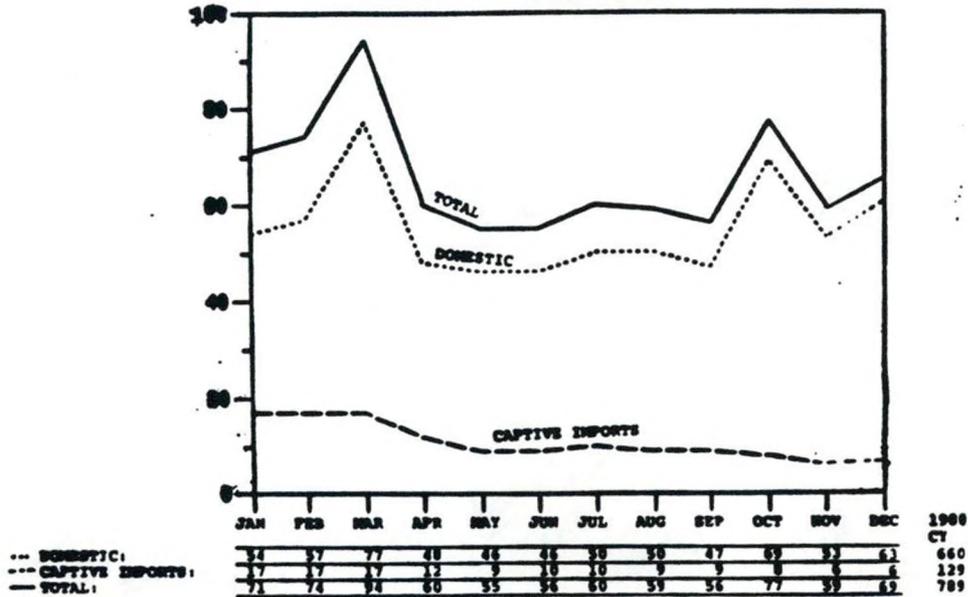
CHRYSLER CORPORATION
TRUCK MARKET SHARE
(PERCENTAGE)



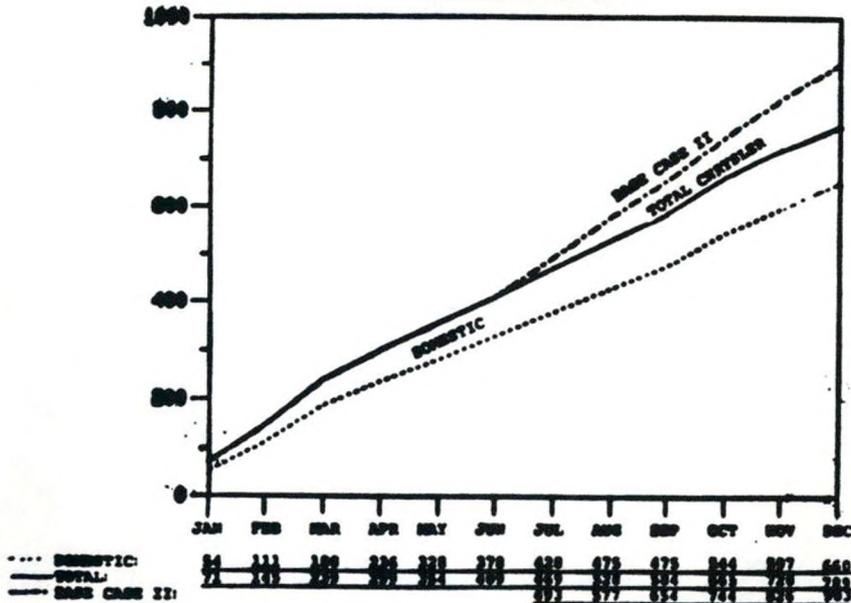
(C.) Chrysler's Sales

With a declining share of the market through November, Chrysler's actual automobile sales have also fallen well below projected levels, as shown below:

CHRYSLER CORPORATION
MONTHLY AUTOMOBILE SALES
(THOUSANDS OF VEHICLES)

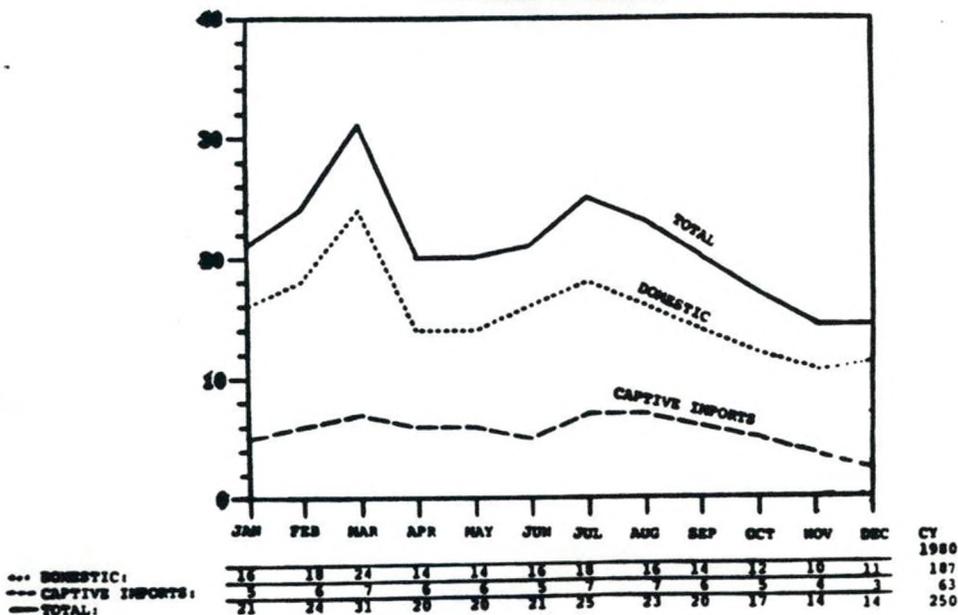


CHRYSLER CORPORATION
CUMULATIVE AUTOMOBILE SALES
(THOUSANDS OF VEHICLES)

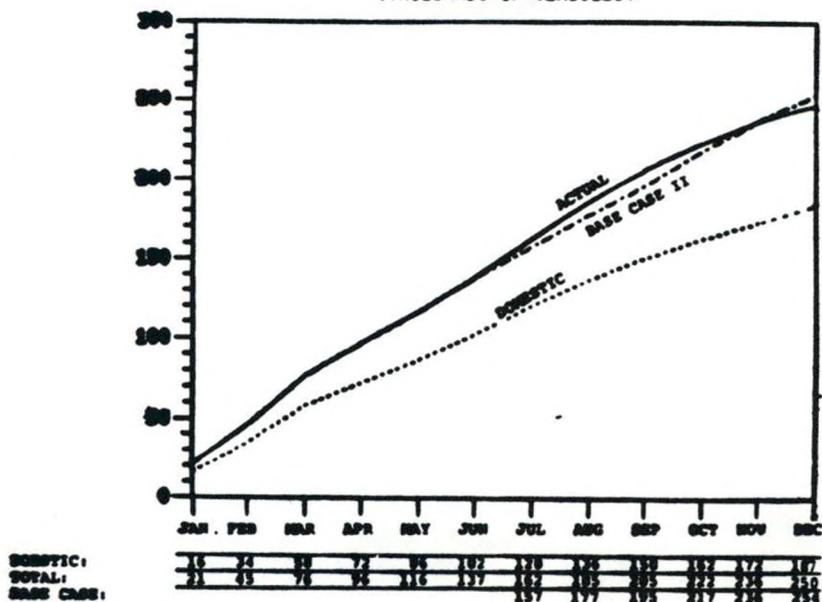


Chrysler's truck sales during 1980 were much closer to attaining the planned units of sales. Through September, Chrysler had maintained a 10.4 market share. However, Chrysler's share for October and November fell to 8.5 percent, and for December was 8.0%, reducing its annual penetration to 10.0%.

CHRYSLER CORPORATION
MONTHLY TRUCK SALES
(THOUSANDS OF VEHICLES)

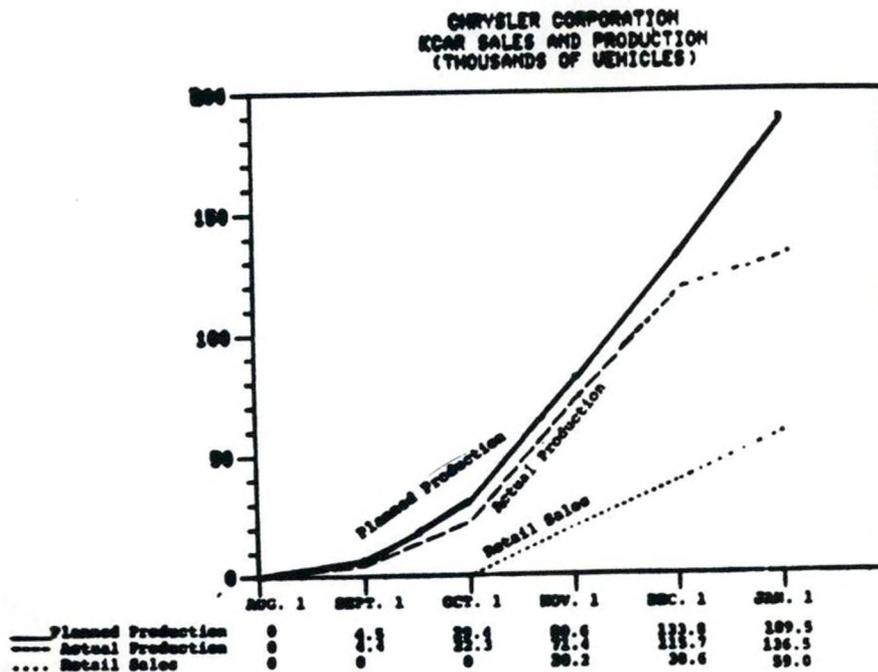


CHRYSLER CORPORATION
CUMULATIVE TRUCK SALES
(THOUSANDS OF VEHICLES)



(D.) K-Car Sales

An important ingredient in the failure of Chrysler's sales to achieve planned levels has been the disappointing reception of the company's new compact cars -- the Dodge Aries and Plymouth Reliant (K-cars). The company has been able to overcome earlier difficulties in the production start-up, and the shortfall illustrated in the chart below, now seems to be at the retail level. Through November, for example, K-cars had captured only about 11 percent of the compact car market rather than the 25 percent originally assumed. Segment penetration improved in December, averaging 19 percent for the month and achieving 27 percent in the last 10 day selling period. This trend has continued through the first 10 days of January. Sales incentive programs beginning in December may have contributed to this improvement.

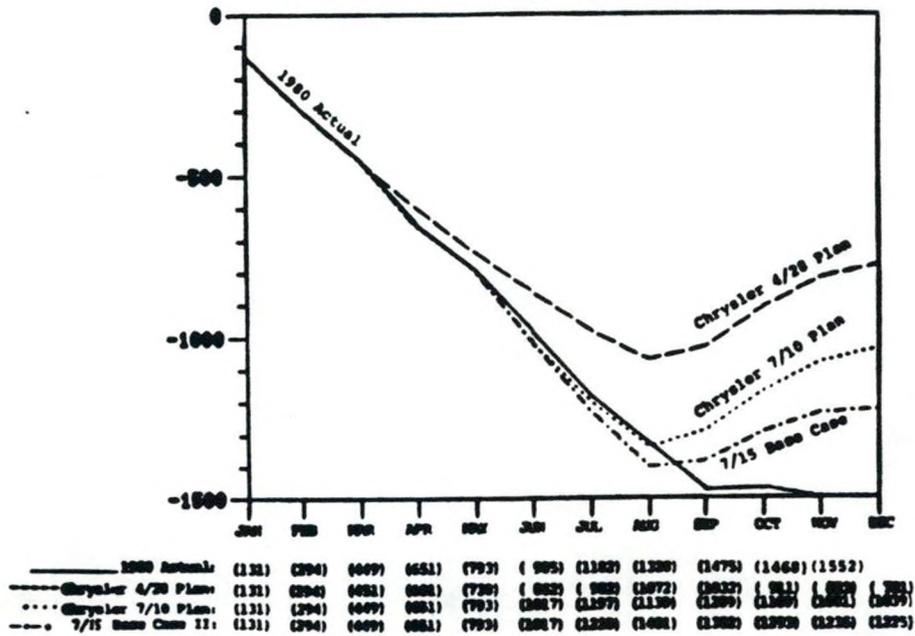


The low level of K-car sales has resulted in increasing dealer inventory levels through December, which has led to a slowdown in dealer orders and a reduction in the level of production. At the end of December, there was a total combined stock of 77.5 thousand units, the U.S. Stock was equivalent to 66 days supply of sales. The September Operating Plan had assumed a production level of 55,720 K-cars in December. This level was later revised downward to 22,400 to help reduce excess dealer inventories.

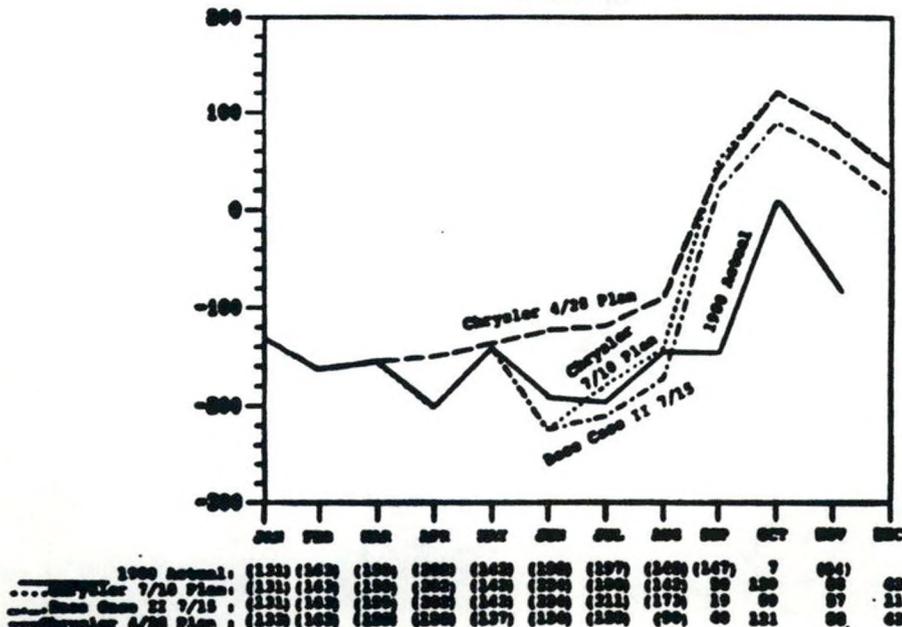
(E.) Chrysler's Earnings

All projections available through the Board's second set of determinations in July assumed a significant recovery of Chrysler's market share in the Fall with the introduction of the 1981 models. The failure of this to occur has had an unfavorable impact on Chrysler's earnings as shown below. October was the only month in 1980 that Chrysler did not lose money. Even the October profit (of \$7 million) was less than anticipated due to some initial production problems and weak sales of certain rear wheel drive vehicles.

CHRYSLER CORPORATION
CUMULATIVE NET EARNINGS
(\$ MILLIONS)



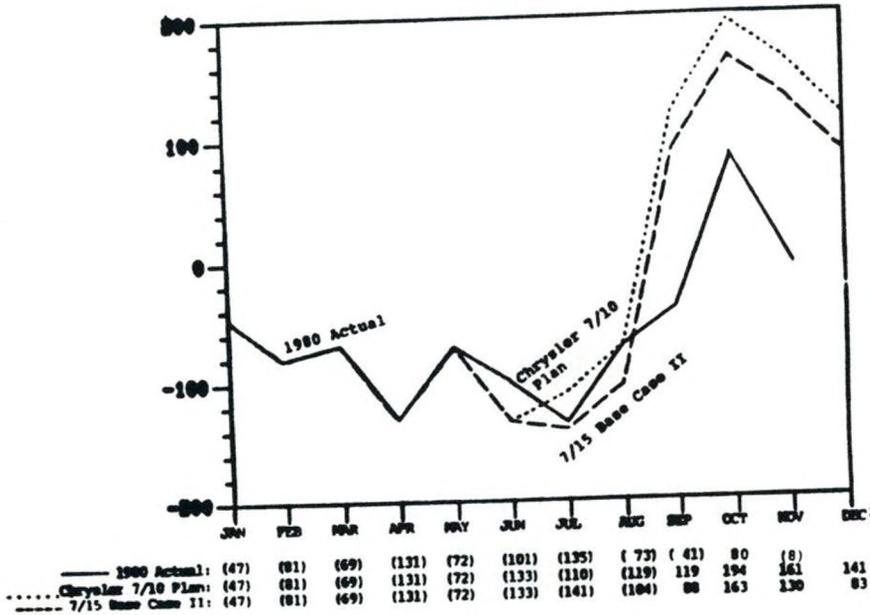
CHRYSLER CORPORATION
MONTHLY NET EARNINGS
(\$ MILLIONS)



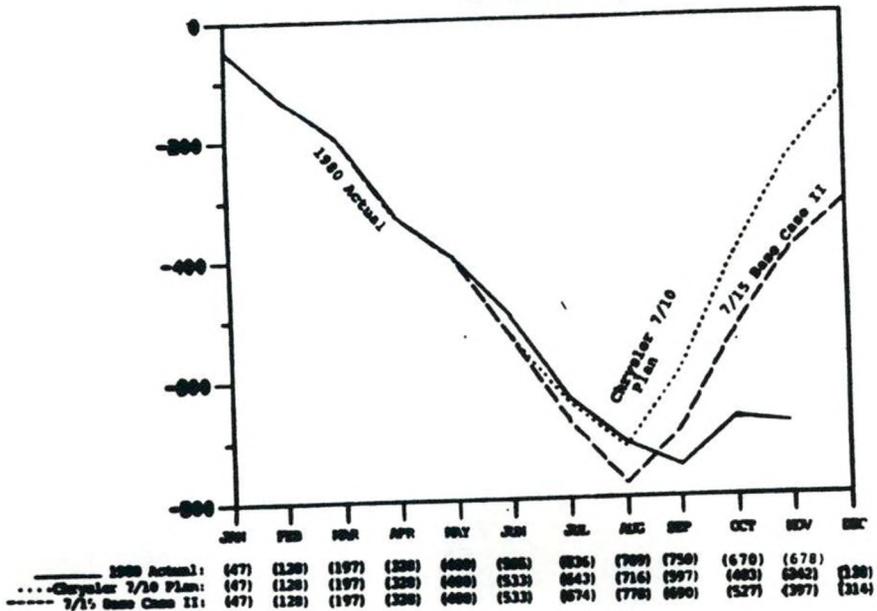
(F.) Chrysler's Cash Flow

The impact of the sales and profit developments on cash flow is shown below. While some improvement during the fourth quarter materialized, the actual cash flow was still below forecast levels.

CHRYSLER CORPORATION
CASH FLOW BY MONTH
(\$ MILLIONS)



CHRYSLER CORPORATION
CUMULATIVE CASH FLOW
(\$ MILLIONS)



II. January 14 Operating Plan

In response to the market developments outlined above, Chrysler has submitted a new Operating Plan, dated January 14, 1981. The major features of that plan and its relationship to earlier plans are discussed below.

(A.) Revised Earning Projections (After Taxes)

Chrysler's Plan shows an estimated loss of \$1,774 million for 1980 and a loss of \$253 million for 1981. These figures are in contrast to the 1980 expected loss of \$1,039 million and 1981 profit of \$247 million in the July 10 Plan. The revised 1980 and 1981 losses reveal the impact of declining sales volumes as well as realization of some risks stated in the previous Base Case II analysis and the write-off of more assets than was previously anticipated, including more than \$150 million in book losses in 1981.

(B.) Continued Lower Industry Volumes

Independent economic forecasters ^{1/} project approximately the same 1981 - 1984 automobile industry size in December 1980 as they estimated late last June. Since the July 10 plan, however, Chrysler has adjusted downward its industry volume estimates, and these are now only slightly above those of the independent forecasters.

U.S. Auto Market
(millions of units)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
July 10 Plan	11.0	12.1	10.8	11.7
Average Independent	9.2	10.4	11.5	11.5
January 14 Plan	9.6	10.6	11.4	11.6
Average Independent	9.4	10.2	10.9	11.3

There also has been little change in the independent economic forecasts of the truck industry. Again, Chrysler has revised downward its estimates to a level comparable with the independent forecasts.

U.S. Truck Market
(millions of units)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
July 10 Plan	3.7	4.5	3.7	4.0
Average Independent	2.7	3.1	4.2	4.4
January 14 Plan	2.5	3.0	3.2	3.6
Average Independent	2.6	3.0	3.1	3.6

^{1/} Chase, DRI Inc., and Wharton

(C.) Chrysler's Market Share

Since July, Chrysler has reduced its market share estimates for cars in each year. It has been this adjustment, much more than changing estimates of market size, which has had the greatest impact on the company's revenue forecasts. The changes are as indicated below.

Chrysler Market Share Projections
Auto Market Share
(percent)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
July 10 Plan	11.1	11.1	12.4	11.3
January 14 Plan	9.1	9.7	9.7	9.5

Since July, Chrysler has reduced its 1981 truck market share estimates from 9.9 percent to 9.0 percent. A slight recovery in 1982 to 9.8 percent holds at 9.7 percent for 1983. Chrysler's projected truck market share jumps to 12.4 in 1984 as Chrysler captures some of the market shift to smaller, more economical vehicles with its front wheel drive truck introductions, which had previously been slated for 1985.

Truck Market Share
(percent)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
July 10 Plan	9.9	8.2	10.2	9.3
January 14 Plan	9.0	9.8	9.7	12.4

(D.) Volume

The lower estimates of market share and industry size reduce the total Chrysler sales volume of cars and trucks through 1983 by nearly 1.3 million units, as shown below.

North America Projected Sales Volumes (cars and trucks)
(thousands of units)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1981-1983</u>	<u>1984</u>
July 10 Plan	1,776	1,939	1,914	5,629	1,998
January 14 Plan	<u>1,282</u>	<u>1,491</u>	<u>1,597</u>	<u>4,370</u>	<u>1,723</u>
Difference	(494)	(448)	(317)	(1,259)	(275)

(E.) Product Plans

The company's current situation has caused it to undertake a critical analysis of its forward year product programs. Chrysler can save a substantial amount of cash by revising its product

plans to cancel and defer specific products . The most dramatic changes are:

- 1) Cancel the 1985 A-body subcompact scheduled to replace the current L-body cars;
- 2) Defer the 1982 K-premium 2-door to model year 1982-1/2;
- 3) Defer the K-24 "sport model" introduction until 1983-1/2;
- 4) Defer the 4-speed Automatic Transaxle from 1984 to 1988; and
- 5) Defer all capacity expansion plans involved with an additional Front Wheel Drive plant.

These actions will result in decreased levels of expenditures, as shown below.

Planned Product and Capital Expenditures
(Dollars in Millions)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1981 - 1983</u>	<u>1984</u>	<u>1985</u>	<u>Total</u>
July 10 Plan	\$1,459	\$1,896	\$2,006	\$5,361	\$1,658	\$1,314	\$8,333
January 14 Plan	<u>789</u>	<u>1,293</u>	<u>1,565</u>	<u>3,647</u>	<u>1,304</u>	<u>1,494</u>	<u>6,445</u>
Expenditure Reductions	\$ (670)	\$ (603)	\$ (441)	\$ (1,714)	\$ (354)	\$ 180	\$ (1,888)

(F.) Profit Improvement Actions

In the six months since the July 10 Plan, Chrysler has taken additional actions to improve its profitability. These actions have ranged from an additional fixed manpower reduction of approximately 3,000 personnel to decreases in the planned levels of launch and project expense costs. Many of these reductions come as a result of the decreased capital programs (e.g., launch) while the rest represent decreases in costs within the existing organization (e.g., manpower cuts).

(G.) Restructuring Plan

In July, the company committed to the Board to undertake a comprehensive review of all of its manufacturing facilities. A restructuring committee was formed and the review began in August. Since then, 30 facilities have been chosen for review. It is the company's policy that there will be no change in the status of a facility unless a positive financial benefit occurs. At this point, a firm estimate of the likely benefit cannot be

made. To the extent it occurs, however, restructuring would provide additional financial reserves to the company.

B. Satisfactory Financing Plan - Section 4(a)(4)

Section 4(a)(4) of the Act states that the Board may act only if at the time of the action the Board determines, among other things, that:

"the Corporation has submitted to the Board a satisfactory financing plan which meets the financing needs of the Corporation as reflected in the operating plan for the period covered by the plan...."

Section 2(4) of the Act defines Financing Plan as:

"...a plan designed to meet the financing needs of the corporation as reflected in the operating plan and indicating in accordance with the requirements of Section 8 the amounts to be provided at dates specified (for each year of the plan) from internally generated sources (including earnings and cost reduction measures), from loans guaranteed under this Act, and from nonfederally guaranteed assistance as required pursuant to Section 4(a)(4)...."

The Board's June 24 and July 31 determinations that Chrysler's Financing Plans met the requirements of the Act were based upon staff analyses which concluded that:

- Chrysler's financial forecasts, including additional risks identified by the Loan Board, reasonably projected the company's cash flow and financing needs.
- The Financing Plan met the needs of the Operating Plan provided that the non-federal financing was available as planned (as adjusted to the Base Case).
- When coupled with \$1.5 billion in federal guarantees and the additional concessions being provided by Chrysler's lenders, employees, and suppliers, the Financing Plan provided sufficient flexibility to meet reasonable downside risks.

Sales of Chrysler automobiles have been much lower than when the Board made its initial findings that Chrysler's Financing Plans satisfied statutory requirements. As a result, a significant portion of the financial margins identified previously have been used or are anticipated to be used in the upcoming months. The January 14 Financing Plan responds to the situation by outlining additional steps to improve the company's financial margins. This will serve to ensure that the company can continue its operations and have reasonable prospects to become financially viable over the long term.

Given the sensitivity of auto sales to business cycles and other developments and the inherent uncertainties of market penetration forecasts, Chrysler needs sufficient financial reserves to cover risks which may arise. Chrysler's current plan provides the necessary reserves by obtaining additional concessions from its lenders, its suppliers, and its employees, while simultaneously implementing other cash conservation measures. The cash impact of these new benefits has been incorporated in the Base Case III analysis. They provide the following amounts of additional cash savings relative to levels assumed in the Board's earlier findings. The term sheets which disclose these concessions are attached.

Cash Impact of New Actions Incorporated in
the January 14 Plan Which Were Not Anticipated Previously
(\$ millions)

	<u>Reduced Capital and Product Expenditures</u>	<u>Lender Interest Conces- sions**</u>	<u>Sup- Pliers Con- cessions</u>	<u>Employee Con- cessions</u>	<u>Fixed Manpower and Other Reductions</u>	<u>Total New Con- cessions</u>
1981	670	25-34	45*	293	97	1,130-1,139
1982	603	58-81	--	490	35	1,186-1,209
1983	441	61-84	--	--	41	543-566
1984	354	56-79	--	--	44	454-477
1985	<u>(180)</u>	<u>56-79</u>	<u>--</u>	<u>--</u>	<u>48</u>	<u>(76)-(53)</u>
Sub- Totals	1,888	256-357	45	783***	265	3,237-3,338
Less:	Cash Needed to Purchase Debt at 30 cents on Dollar (75% in 1981, 25% in 1982)					<u>(155)-(178)</u>
TOTAL CASH IMPACT OF NEW ACTIONS						<u>3,082-3,160</u>

* While only \$45 million in supplier concessions was included in the Base Case III projections, Chrysler has agreed to have a minimum of \$36 million in such commitments by the time the new guarantees are issued, and the company will use its best efforts to obtain a total of \$72 million during 1981.

** Lender interest concessions include only cash savings and are based on the assumption that Chrysler fully exercises its option to purchase its debt at a substantial discount. In addition to the cash interest savings, Chrysler will avoid additional interest charges paid in notes instead of cash in the following amounts: \$80 million in 1981, \$90 million in 1982; \$101 million in 1983; \$141 million in 1984; and \$123 million in 1985.

*** The January 14 Plan and Base Case III projections assume that wage rates will increase after the current union contract expires (September, 1982) at a rate consistent with general industrial wage increases. Under the proposed new labor agreement, wage

The following two tables summarize the impacts on cash and net worth that stem from the proposed debt restructuring. As shown, Chrysler's cash requirements are increased by \$106 million to \$116 million in 1981 as the result of purchasing half of its debt held by institutions at 30 cents on the dollar. Nevertheless, through 1985, the company's need for cash will be reduced by \$270 million to \$365 million. If the principal amount of debt which previously would have matured after 1985 is included as well, (this is a conservative assumption since Chrysler would also have to pay interest on the debt until it was repaid), Chrysler's cash savings from the current debt proposal would total \$1.105 billion to \$1.325 billion.

The improvement in net worth from the debt restructuring exceeds the cash savings, particularly in the period through 1985. Net worth will be improved \$931 million to \$1.057 billion in 1981 and by \$1.711 billion to \$1.931 billion by 1985. A large portion of this improvement results from the earlier conversion of debt into equity. After September 30, 1986 (when the June 24 debt restructuring plan contemplated the conversion of \$750 million of debt into equity), Chrysler's net worth will be \$1.22 billion to \$1.48 billion greater than it would have been.

The Corporation and the UAW have agreed to meet and negotiate a mutually acceptable Profit Sharing Plan. Any Plan that is negotiated may provide for payments contingent on adequate levels of future performance by the Corporation, to participants in the form of cash, preferred stock, Chrysler products, or any combination thereof. This Plan is subject to the approval of the Loan Guarantee Board. Since the projected financial performance of Chrysler in Base Case III is marginal for most of the plan period, no significant profit sharing expense has been included in the projections.

*** (cont. from page 16)

levels will remain below those of other auto companies over the entire remaining period of the agreement; this is in contrast to the previous agreement that assumed that the gap between wages paid by Chrysler and other major auto manufactures would be closed at the end of the contract period. Base Case III assumes that the increases in wages after September 1982 will now occur from the lower base. The savings in labor costs that result from this assumption have been incorporated into Base Case III net income projections.

Financial Impact of Chrysler's January 14 Financial Plan Debt
Restructuring Plan Versus Current Debt Arrangements
(\$ millions)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Total</u>
<u>Annual Cash Position Increased <Decreased></u>						
◦ Cash needed to purchase debt	(116)-(133)	(39)-(45)	—	—	196-227	41-49
◦ Cash Interest Savings	25-34	58 - 81	61-84	56-79	56-79	256-357
◦ Lost Interest Income on Funds Used to Purchase Debt	<u>(15)-(17)</u>	<u>(11)-(14)</u>	<u>(6)-(9)</u>	<u>0-(3)</u>	<u>5-2</u>	<u>(27)-(41)</u>
Annual Total	(106)-(116)	8-22	55-75	56-76	257-308	370-365
Cuumulative Total	(106)-(116)	(98)-(94)	(43)-(19)	13-57	270-365	270-365
◦ Plus: Debt Repayments Saved After 1985						<u>835-960*</u>
TOTAL CASH SAVINGS						1105-1325

* Additional interest savings totalling between \$100 million and \$200 million per year would be realized beyond 1985 until all \$835 to \$960 million remaining debt is repaid.

Financial Impact of Chrysler's January 14 Financial Plan
Debt Restructuring Plan Versus Current Debt Arrangement
(\$ millions)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Total</u>
<u>Annual Increase <Decrease> in Net Worth</u>						
° Cash Interest Savings	25-34	58-81	61-84	56-79	56-79	256-357
° Lost Interest Income on Funds Used to Purchase Debt	(15)-(17)	(11)-(14)	(6)-(9)	0-(3)	5-2	(27)-(41)
° Insurance Company "A" Note Interest Savings	4	4	5	4	5	22
° Deferred Interest Notes Savings	80	90	101	141	123	535
Annual Total Which Affect Earnings	94-101	141-161	161-181	201-221	189-209	786-873
Cummulative Total Which Affect Earnings	94-101	235-262	396-443	597-664	786-873	786-873
Plus: °Conversion of Debt into Equity	572-650	572-650	572-650	572-650	572-650	572-650
°Additional Equity from Repurchase of Debt	265-306	353-408	353-408	353-408	353-408	353-408
Cummulative Total Net Worth Improvement	931-1057	1160-1320	1321-1501	1522-1722	1711-1931	1711-1931
Plus: Additional Deferred Interest Notes Accrued After 1985						169
Plus: Additional Interest Savings in 1986						90-130
Less: September 30, 1986 Conversion of Debt into Equity in Existing Debt Agreements						(750)
Net Improvement in Net Worth Due to January 10 Proposed Debt Restructuring Plan through September 30, 1986						1220-1480

When the above additional concessions and savings are added to the projected levels of cash reserves, the remaining, unused Federal guarantees and the other actions that Chrysler can still take if needed (i.e., the sale and leaseback or outright sale of assets, the deferral of certain additional capital expenditures, and the better management of its projected working capital balances over time), the staff believes that the company still has adequate financial reserves.

Financial Reserves Projected in Base Case III
(\$ millions)

<u>December 31</u>	<u>Excess Cash*</u>	<u>Unused Guaranteed Debt</u>	<u>Total Financial Reserves</u>	<u>Additional Financial Reserves Which May be Provided by Carefully Managing Working Capital</u>
1980	83	700	783	(270)***
1981	362	300	662	0 - 100
1982	430	300	730	0 - 200
1983	600	700	1,300	0 - 250
1984	1,206	1,050**	2,256	0 - 300
1985	1,615	1,500**	3,115	0 - 350

* Excess cash is all cash in excess of the \$150 million normal transaction level maintained by Chrysler, including the projected Financing Contingencies which would be available as cash if the Base Case III forecast is realized.

** Although section 16 of the Act prohibits the Board from issuing guarantees after December 31, 1983, the Board would have the option of issuing the remaining guarantees before that date if additional financial reserves were necessary.

*** The negative financial reserves in 1980 represent the dollar amount of accounts payable deferred at the end of the year pending approval of the current application.

Adequate Assurances of the Availability of Financing - Sections 4(a)(4), 4(a)(5), and 4(c)

The Act requires the Board to determine that:

"the Corporation has submitted to the Board a satisfactory financing plan which . . . includes an aggregate amount of nonfederally guaranteed assistance of at least \$1,430,000 . . ."

and that:

"the Board has received adequate assurances regarding the availability of all financing contemplated by the financing plan and that such financing is adequate (taking into account the amount of [guaranteed loans and wage concessions] to meet all the Corporation's projected financing needs during the period covered by the Financing Plan."

The Board's May 10 determination and June 24 affirmation were based on the assurances furnished by Chrysler, and the receipt of certain additional assurances with respect to some of the participants in the financing plan.

Each of the additional assurances required by the Board was specified in the conditions to execution of the commitment included as Annex A to the Board's May 10 resolutions. As discussed in detail in the June 24 staff memorandum regarding satisfaction of these conditions, the analyses supported the determination that the conditions were satisfied. The changes which have occurred since July 31 are reflected in the following tables.

Recommendation: That the Board determine that the requirements have been met as of the Third Takedown.

Table 1 reflects Chrysler's January Financing Plan and the amounts the staff believes are adequately assured for inclusion toward the statutory targets. Table 2 reflects the changes from the Plan since the Board's July 31 approval.

Table 1
Summary of Non-federal Assistance to Meet Statutory Targets
(\$ in millions)

Assistance	Target	Chrysler Plan of 1/14	Adequately Assured	(Under) Target
Lender assistance	650	1148	614-637	(13-36)
Interest concessions	100	100	100	
Extended maturities	n/a	103	154	
Deferrals of interest	n/a	60	401	
Repurchase of debt		235		
Preferred stock		650		
Plus: total interest saved			144	
Less: restructuring costs			(6)	
cash costs of redemp.			(156-179)	
Net Worth improvement ^{4/}		(above)	1060-1184	
Asset sales	300	909	661	361
Chrysler Argentina		36	36	
Chrysler Australia		58	58	
Brazilian notes		*	14	
Real estate+surplus equip.		214	195	
Peugeot		100	100	
Chrys. Financial Corp. (51%)		320	250 ^{2/}	
Chrysler Boat		2	-	
Sale/leaseback of props.		136	1/	
Brazil equity		8	8	
Sale of Co. car inventory		35	1/	
Suppliers and dealers	180	112	54	(126)
Debentures		78	52	
Deferred payables and/or Notes		34	2	
New Concessions			1/	
State, local, and other governments	250	377	271	21
Michigan		150	150	
Delaware		5	5	
Indiana		32	31	
Canada		170	85	
Illinois		20	1/	
Equity	50	-	-	(50)
Other:				
Pension Deferrals	-	342	342 ^{3/}	342 ^{3/}
Add. employee concess.		964	964 ^{1/}	964 ^{1/}
Subtotal	1430	3852	2906-2929	1476-1499
Plus: Pre-existing commitments	227	-	-	(227)
Domestic banks	159			
Canadian banks	68			
Grand Total	1657	3852	2906-2929	1249-1272

^{1/} Adequate assurances of these amounts required for closing.

^{2/} Excludes \$70 which the staff believes is not adequately assured for inclusion toward the targets.

^{3/} Amount excludes \$100 line of credit from Treasury Department and related \$14 imputed interest.

^{4/} Alternative calculation consisting of conversion to preferred, forgiveness, and cash interest savings through 1983; not included in above totals.

* Inadvertently omitted from the Company schedule; adequately assured for July 31 findings.

Table 2

Summary of Changes in Non-federal Assistance to Meet Statutory Targets Since July 31
 (\$ in millions)

<u>Assistance</u>	<u>Changes in Chrysler Plan</u>	<u>Potential Changes in Adequately Assured</u>	<u>(Over/Under) Changes</u>	<u>Target Level</u>
			<u>(12-35)</u>	<u>(13-36)</u>
Lender assistance:	<u>493</u>	<u>(12-35)</u>	<u>(12-35)</u>	<u>(13-36)</u>
Interest concessions	-	-		
Extended maturities	(51)	-		
Deferrals of interest	(341)	-		
Repurchased debt	235	-		
Preferred stock	650			
Net cash effect of restruc.		(12-35)		
Asset sales:	<u>179</u>	<u>29</u>	<u>29</u>	<u>361</u>
Sales of equipment, real estate, and other assets	179	29		
Suppliers and dealers	<u>(38)</u>	<u>-</u>	<u>-</u>	<u>(126)</u>
Debentures	-	-		
Deferred payables and/or Notes	(38)			
State, local, and other governments	<u>20</u>	<u>(85)</u>	<u>(85)</u>	<u>21</u>
Canada	-	(85)	(85)	
Illinois	20			
Equity	-	-	-	(50)
Other:				
Pension Deferrals				342
Additional Employee Concessions	<u>964 1/</u>	<u>964 1/</u>	<u>964 1/</u>	<u>964 1/</u>
Subtotal	1618	873-896	873-896	1476-1499
Plus: Pre-existing commitments	-	-	-	(227)
Grand Total	<u>1618</u>	<u>873-896</u>	<u>873-896</u>	<u>1249-1272</u>

1/ Closing conditioned on receipt of adequate assurances for these amounts.

2/ Reflects LGB exclusion of \$114 PBGC line of credit at the U.S. Treasury and related imputed interest.

IV. Determination of Long Term Viability

In responding to previous loan guarantee requests, the Board made the following determinations, which the staff believes can still be made if Chrysler obtains the additional concessions incorporated in its January Plans.

- The company has sufficient financial resources to remain in business despite auto sales that remain below earlier projections as well as sufficient reserves to withstand future adverse development.
- The company has a reasonable prospect of becoming profitable and, thus, attracting private financing.
- The company has adequate capital and product expenditures in its plans to remain a viable competitor in the auto market.

To support these conclusions, the Board staff aided by the Board's consultants conducted extensive analyses of Chrysler's plans. These analyses began in September and followed each development in Chrysler's plans. The result is Base Case III. Its conclusions for net earnings, guaranteed loans, financial reserves, and net worth are shown below.

Base Case III Relative to Base Case II
Estimates as of December 31 of Each Year
 (\$ in millions)

	1980	1981	1982	1983	1984	1985
<u>Base Case III</u>						
Earnings	(1774)	(253)	319	587	1089	1273
Guaranteed Loans	800	1200	1200	800	450	--
Total Financial Reserves	783	662	730	1300	2256	3115
Excess Cash**	83	362	430	600	1200	1615
Unused Guarantees*	700	300	300	700	1050	1500
Net Worth	377	795	1256	1883	3050	4396

Base Case II

Earnings	(1225)	78	508	21	482	1025
Guaranteed Loans	1000	1200	1100	950	650	-
Total Financial Reserves	754	665	828	1093	1386	2788
Excess Cash	254	365	428	543	536	1288
Unused Guarantees*	500	300	400	550	850	1500
Net Worth	599	746	1324	1433	2016	3101

Variance: Favorable (Unfavorable) Relative to Base Case II

Earnings after tax	(549)	(332)	(190)	566	607	248
Guaranteed Loans	200	-	(100)	150	200	--
Total Reserves	29	(3)	(98)	207	870	327
Net Worth	(222)	49	(68)	450	1034	1295

*Although the Board's authority to issue loan guarantees expires on December 31, 1983, the Board does have the option of issuing unused guarantees before that date if additional reserves were necessary.

**Excess cash includes financing contingencies which will become available as cash if the Base Case III forecast is attained.

Appendices I and II contain, respectively, the profit and loss forecast and the projected balance sheet.

In the July 15 determination of viability, confirmed on July 31, the Board noted that:

"... the margins available are narrow... risks beyond those assumed in the Base Case exist and could render Chrysler not viable.... Accordingly, although Chrysler's situation has worsened since May 10, there is a rational basis on which the Board may conclude that the company still has a reasonable prospect of continuing as a going concern in the automobile business. That conclusion assumes that conditions in the industry will improve as generally forecast and that the company will take additional drastic actions to cut costs as required."

Chrysler has taken these actions and obtained additional concessions as discussed above. The results of those actions, as indicated in the Base Case III analysis, when compared to Chrysler's condition at the Board's last determination indicate:

1. Earnings are marginal from 1980 through 1984, although no more so than in Base Case II. Profits are still expected, but they start in 1982 rather than in 1981.

Reconciliation of Base Case II to Base Case III
(dollars in millions)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1980-</u> <u>1984</u>	<u>1985</u>
<u>Base Case II Net Income</u>	(1225)	78	508	21	482	(136)	1025
<u>Adjustments now Incorporated:</u>							
° Impact of sales and manufacturing Cost changes	(430)	(234)	(391)	109	(172)	(1118)	(348)
° Write off of assets	(79)	--	--	--	--	(79)	--
° Lower interest costs	--	(15)	(57)	(82)	(96)	(250)	(142)
° Other incentive programs and costs	(40)	--	--	--	--	(40)	--
° Financing Plan Adjustment	--	(70)	--	--	--	(70)	--
° Other Adjustments	<u>--</u>	<u>(12)</u>	<u>259</u>	<u>539</u>	<u>875</u>	<u>166</u>	<u>738</u>
<u>Base Case III Net Income</u>	(1774)	(253)	319	587	1089	(32)	1273

- The total level of federal guarantees required is comparable, with repayment anticipated to occur at a slightly faster rate as shown below.

Reconciliation of Base Case II to Base Case III --
Cumulative Guarantee Need

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Base Case II	1000	1200	1100	950	650	--
Base Case III	<u>800</u>	<u>1200</u>	<u>1200</u>	<u>800</u>	<u>450</u>	<u>--</u>
Variance	200	--	(100)	150	200	--

- The 1981 break-even level has been reduced from the Base Case II assumption of 1.5 million units to 1.3 million in Base Case III.
- Cash flow is positive by year end 1981 and continues to be so thereafter.
- Net Worth is generally higher than the Base Case II levels in spite of substantially greater losses in 1980 and 1981. The higher net worth projections stem from the conversion of debt to equity and the bargain repurchase of debt as a part of the company's new financial restructuring.
- The reduction in debt enhances the likelihood that the company can receive an infusion of new equity capital, and improves its ability to issue additional nonguaranteed debt after 1983.

In the short term, the viability finding may be based upon adequate cash flows from operations and available financial reserves, but over the long term, the company must become profitable if it is to repay existing financial obligations and be able to obtain additional debt and equity financing which may be needed for future capital and program expenditures.

In 1980, the company will realize a loss of approximately \$1.8 billion, but that loss includes non-cash charges of almost \$800 million. In 1981, non-cash charges are anticipated to total at least \$650 million with after tax losses totaling \$253 million, so the company will have a positive cash flow from operations. Of course, a positive cash flow is needed to fund capital expenditures, debt repayments and working capital requirements.

Planned capital and product expenditures are about \$2 billion less than those contemplated previously between 1980 and 1985, which clearly increases the risk to Chrysler's long-term competitions positions. However, as shown below, the company will still expend almost \$8 billion during the period and will still have products covering 70 percent of the market. As previously described, the expenditure reductions are either new product deferrals or deferrals of capacity expansion based on lower volume anticipations. Additionally, the removal of certain expenditures for the development of cars in the 1985 model year reflects savings possible with potential joint ventures.

Comparison of Capital and Product Expenditures
(\$ millions)

	<u>Base Case II</u>	<u>Base Case III</u>
1980	1,538	1,369
1981	1,459	789
1982	1,896	1,293
1983	2,006	1,565
1984	1,658	1,304
1985	1,314	1,494
TOTALS	9,871	7,814

Capital Infusion Program

Longer term viability would be enhanced with a new infusion of capital and/or by entering into joint venture with another company or companies. In either situation, more capital would become available for future years' product development and, in the case of a joint venture, the costs of developing new models could be amortized over more units if two or more companies share the development costs.

Booz, Allen & Hamilton, Chrysler's management consultant, states that:

"the company now faces a major long-term risk that its competitive position in the worldwide automotive industry may be impaired eventually. Consequently, Chrysler management has committed to undertake a detailed reassessment of its longer term business strategy."

Booz, Allen goes on to state that:

"alternatives to be examined should include, but not be limited to, a merger or joint ventures. As part of this strategic reassessment, Chrysler's Board of Directors has commissioned the company's financial advisor to explore possible mergers or joint ventures and has established a special committee of the Board to oversee the effort."

Chrysler's Board has authorized the company to enter into an agreement with the Loan Guarantee Board to pursue such efforts diligently. Booz, Allen concludes that:

"for the longer term,...Chrysler has a reasonable possibility of developing a more effective strategy and this strategy, if properly executed, would strengthen the prospects for long-term viability."

Salomon Brothers, Chrysler's financial advisor, states:

"the prospects of a merger or other business combination will be enhanced by virtue of the current debt restructuring program reflected in the Financing Plan and the granting of the additional United States guarantees of loans to the Company."

As long as industry sales remain at the levels now projected by the independent economic forecasting services and Chrysler is unable to obtain a new source of capital, the company's future will be uncertain. Marginally profitable in earlier years, the company's later year profit projections reflect lower labor costs than previously projected and savings from thinning the product line. These would leave relatively modest reserves to counter unforeseen developments. Nevertheless, the projected return to profitability taken together with the improvement in the company's basic balance sheet position as a result of the debt reduction and the Company's commitment to pursue a capital infusion provide a reasonable prospect for viability both in the nearterm when additional government guarantees are available and after 1983.

It is the intent of the Act to give Chrysler a reasonable prospect of achieving economic viability consistent with the protection of the government's financial risk. The staff believes that sufficient alternatives are available to give the company a reasonable prospect of improving its long term prospects and that Chrysler has provided an adequate commitment to pursue those alternatives. Accordingly, the staff believes that the Board may determine that the requirements of Act have been met.

II. Other Section 4 Requirements

Other portions of Section 4 are also relevant to the 5(a)(4) determination. This section reviews these briefly.

A. The Energy Savings Plan - Section 4(a)(1)

The Act provides that the Board shall prior to action determine that:

- "(1) There exists an energy savings plan which --
- (A) is satisfactory to the Board;
 - (B) is developed in consultation with other appropriate Federal agencies;
 - (C) focuses on the national need to lessen United States dependence on petroleum; and
 - (D) can be carried out by the borrowers."

The Board's June 24 and July 31 determinations that this requirement is met by Chrysler's March 6 plan, as amended on April 17, was based on staff analyses and the fact that those plans, as well as earlier versions, had been favorably reviewed by the appropriate federal agencies. Chrysler was responsive to the comments of those agencies. Furthermore, pursuant to Section 4.01 (g) of the Agreement to Guarantee, Chrysler's Board and officers certified at the Closing for the first takedown that:

"The Energy Savings Plan, dated March 6 and April 17, 1980, of the Company is being and can be carried out by the Company and its subsidiaries in accordance with the terms thereof."

This same Energy Efficiency plan was approved in conjunction with the Second Takedown. Since the Second Takedown, Chrysler's situation has changed and they have submitted a September 4 Energy Efficiency Plan as part of their annual submission requirement. The September 4 Plan has been updated to contain the impacts of Chrysler's adjustments to its plan. This revised plan, dated January 14, 1981, is consistent with the plans that Chrysler has submitted as part of its January 15 application. Any product plan changes that have been made are incorporated in this plan as well as volume reductions. Pursuant to the Agreement to Guarantee, this plan will require a certificate, similar to the one above, as a condition of the third takedown.

Recommendation: That the Board determine that the requirements of Section 4(a)(1) will be met at the Closing with respect to the Third Takedown.

B. Impact of Failure - Section 4(a)(2)
The Act requires the board to determine that:

"The commitment is needed to enable the Corporation to continue to furnish goods and services, and failure to meet such needs would adversely and seriously affect the economy of, or employment in, the United States or any region thereof . . ."

The Board's June 24 and July 31 determinations were based upon a staff analysis that:

- The guarantee commitment for the full \$1.5 billion and the loans to be guaranteed pursuant thereto are necessary elements of, and preconditions to, achieving the Operating and Financing Plans. The net financing from operations and financing from other sources available to Chrysler, absent the loan guarantees, will not be sufficient to meet the financing needs of the Operating Plan. Without such financing the company could not continue to operate at all or at the levels included in the Operating Plan. This role of the guaranteed loans is reviewed in the staff's analysis in support of the determinations required under Sections 4(a)(3)(A) and 4(a)(4) of the Act.
- There is no alternative source of financing available to Chrysler to meet the full financing needs indicated by its Operating Plan, or any substantial part thereof, beyond that already ascribed to private financing as indicated by the staff's analysis in support of the determination under Section 5(a)(1) of the Act.
- Without the commitment and the loans thereunder as contemplated by the Financing Plan, it is doubtful that Chrysler would be able to continue to operate without seeking protection under Title 11 of the Bankruptcy Code, without substantially reducing its planned levels of production of goods and services. Even with such a reduction, the company's continued solvency would be questionable.
- There is substantial doubt that Chrysler would be able to reorganize successfully in a bankruptcy proceeding. The risks of failure appear sufficient to justify issuing the commitments provided in the Guarantee Act.
- A failure of Chrysler would result in a substantial deterioration of its production, and would adversely affect the level of GNP and employment in the United States, and in specific regions, especially Detroit.

These same considerations continue to be applicable. The staff has no reason to believe that its analysis should be changed as a result of the January Plans.

Recommendation: That the Board determine that the requirements of Section 4(a)(2) will be met at the Closing with respect to the Third Takedown.

C. Certification of Waiver of Defaults by Existing Creditors - Section 4(a)(6)

The Act requires the Board to determine that:

". . . the Corporation's existing creditors have certified to the Board that they will waive their rights to recover under any prior credit commitment which may be in default unless the Board determines that the exercise of the rights would not adversely affect the operating plan . . . or the financing plan . . ."

The Board's June 24 and July 31 determinations were based upon the new credit agreements entered at the closing for the first takedown by existing creditors providing that only very serious defaults (bankruptcy, large and continuing payment defaults or large cumulative losses) would trigger rights to accelerate. These provisions effectively provide the waivers required under Section 4(a)(6) and in fact go beyond the Section 4(a)(6) requirements in limiting the creditors rights to trigger default and acceleration. Pursuant to the Agreement to Guarantee, Chrysler at the Closing for the first takedown represented to the Board that it and its separate Subsidiaries were not in default under any agreements governing outstanding debt, except as specifically stated in a Schedule to such Agreement.

Chrysler made the same certification at the closing for the Second Takedown pursuant to Section 4.01 of the Agreement to Guarantee.

The debt restructuring plan described in Exhibit 4 to the January Request contemplates that Chrysler will be granted an option to repurchase half of the debt covered by the plan at 30% of its face amount, but the staff does not believe that this proposed repayment would contravene the requirements of Section 4(a)(6). Section 4(a)(6) was intended to prevent creditors from recovering amounts owed by Chrysler which Chrysler sought to keep outstanding. It was not intended to prevent voluntary debt repayments by Chrysler which the Board has approved. The express power granted to the Board to waive the 4(a)(6) requirement where the Board determines that the recovery by creditors would not affect the Operating Plan or Financing Plan clearly indicates that repayments may be permitted. The exercise by Chrysler of its option to repurchase debt pursuant to the debt restructuring plan is contemplated by the Operating and Financing Plans which the staff has recommended be approved, so the proposed repayment is consistent with the Plans and cannot have an adverse effect on these Plans.

The staff is unaware of any changes which have taken place since the Second Takedown which will affect this finding. Chrysler will make the required certification at the closing for the Third Takedown pursuant to Section 4.01 of the Agreement to Guarantee.

Recommendation: That the Board determine that the requirements of Section 4(a)(6) will be met at the Closing with respect to the Third Takedown.

D. No Conversion of Unguaranteed Loans - Section 4(a)(7)

The Act requires the Board to determine with respect to any commitment to guarantee that:

" . . . no credit extended or committed on a non-guaranteed basis prior to October 17, 1979, is being converted to a guaranteed basis pursuant to the Act . . . "

The Board's June 24 and July 31 determinations were based on the staff's analyses that Chrysler's Financing Plan provided that all federal guarantees would be issued only in connection with new financing and Chrysler's representation in the Application that no credit extended or committed prior to October 17, 1979, is being converted to a guaranteed basis. The view of the staff expressed in connection with the first two Drawdowns was that Section 4(a)(7) was only intended to prevent guarantees from being issued with respect to outstanding debt of Chrysler. The previously expressed staff opinion is equally applicable to the January Request for a Drawdown. The requested guarantees will be issued in connection with up to \$400 million new debt; no existing debt will be guaranteed.

Pursuant to Section 3.36 of the Agreement to Guarantee Chrysler represented and warranted at the Closing that "no Commitment Outstanding as of October 17, 1979, has been or is being converted to Guaranteed Indebtedness." Chrysler and its directors and officers confirmed the Section 3.36 representation prior to the July 31 takedown.

Pursuant to Section 4.01(h) of the Agreement to Guarantee, Chrysler and its directors and officers will again confirm the Section 3.36 representation as a condition to the Third Takedown. The staff is unaware of any changes which would have taken place since the Second Takedown which will affect this determination.

Recommendation: That the Board determine that the requirements of Section 4(a)(7) will be met on the Closing with respect to the Third Takedown.

E. Domestic Economic Viability - Section 4(a)(8)

The Board must determine that:

" . . . the financing plan . . . provides that expenditures under such financing plan will contribute to the domestic economic viability of the Corporation."

The Board's June 24 and July 31 determinations that this requirement was met was based upon the staff analysis which concluded that:

- The expenditures in the Operating and Financing Plans are necessary for the company's continued operations.
- Chrysler's operations are concentrated in the United States, with approximately 85 percent of capital expenditures during the planning period made domestically.
- Chrysler's foreign operations contribute to the company's domestic viability by permitting increased economies of scale as well as profit contributions.

At the closing for the First Takedown, Chrysler covenanted pursuant to the Agreement to Guarantee that:

". . . the proceeds of guaranteed indebtedness shall be used only for investments and capital expenditures which contribute to the domestic viability of the company in the automotive business." [Section 6.27]

The Board received a certification, as part of the Second Takedown, that this requirement was still being satisfied.

The same considerations continue to apply. Chrysler's January Plans include no change that is material to these analyses. Furthermore, as a condition to the Third Takedown and all other guaranteed loans, Chrysler will be required to certify its continued compliance with all provisions of the Agreement. [Section 4.01]

Recommendation: That the Board determine that the requirements of Section 4(a)(8) will be met at the Closing with respect to the Third Takedown.

Appendix I
Base Case III Forecast
Profit and Loss Statements

1979-1985
(\$ Million)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Net Sales	\$12,002	\$ 9,063	\$12,482	\$14,929	\$18,353	\$21,008	\$23,252
Equity in Net Earnings Unconsolidated Subsidiaries	2	(62)	(6)	2	7	11	13
Total Revenues	<u>12,004</u>	<u>9,001</u>	<u>12,476</u>	<u>14,931</u>	<u>18,360</u>	<u>21,019</u>	<u>23,265</u>
Costs, Other Than Items Below	12,224	9,609	11,506	13,257	16,288	18,302	20,336
Depreciation & Authorization	401	512	501	541	616	732	761
Pension Plans	261	310	343	401	475	526	568
Interest Expenses - Net	<u>215</u>	<u>304</u>	<u>350</u>	<u>383</u>	<u>360</u>	<u>318</u>	<u>165</u>
Earnings Before Taxes & Minority Interest	\$ (1,097)	\$ (1,734)	\$ (224)	\$ 349	\$ 621	\$ 1,141	\$1,435
Taxes on Income (Credit) and Minority Interest	--	40	29	30	34	52	162
Net Earnings/(Loss)	<u>\$ (1,097)</u>	<u>\$ (1,774)</u>	<u>\$ (253)</u>	<u>\$ 319</u>	<u>\$ 587</u>	<u>\$ 1,089</u>	<u>\$1,273</u>

January 16, 1981

Appendix II
Base Case III Forecast Balance Sheets
December 31, 1979-1985
(\$ Millions)

	1979	1980	1981	1982	1983	1984	1985
Cash	\$ 474	\$ 150	\$ 162	\$ 180	\$ 150	\$ 156	\$ 165
Accounts Receivable	610	487	583	698	750	850	950
Receivables from CFC Sale	--	--	320	--	--	--	--
Inventories	1,874	1,950	1,871	2,158	2,254	2,480	2,737
Other	162	171	178	180	180	180	180
Total Current Assets	\$ 3,120	\$ 2,758	\$ 3,114	\$ 3,216	\$ 3,334	\$ 3,666	\$ 4,032
Investments & Other Noncurrent Assets	1,184	1,178	871	872	893	925	965
Property, plant, equipment	2,349	2,522	2,146	2,431	2,758	2,869	3,162
TOTAL ASSETS	\$ 6,653	\$ 6,458	\$ 6,131	\$ 6,519	\$ 6,985	\$ 7,460	\$ 8,159
Accounts Payable	\$ 2,338	\$ 2,613	\$ 2,536	\$ 2,608	\$ 2,789	\$ 3,135	\$ 3,462
Short-Term Debt	601	35	35	37	40	25	20
Long-Term Debt Due Within One Year	276	24	20	34	135	186	128
Other	17	9	9	13	13	13	13
Total Current Liabilities	\$ 3,232	\$ 2,681	\$ 2,600	\$ 2,692	\$ 2,977	\$ 3,359	\$ 3,623
Other Non-Current Liab.	605	630	682	727	825	874	940
Long-Term Debt	992	1,970	1,204	1,044	1,100	927	800
U.S. Guaranteed Loans	--	800	1,200	1,200	800	450	--
Net Worth	1,824	377	795	1,256	1,883	3,050	4,396
Financing Contingency*	--	--	(350)	(400)	(600)	(1,200)	(1,600)
TOTAL LIABILITIES & NET WORTH	\$ 6,653	\$ 6,458	\$ 6,131	\$ 6,519	\$ 6,985	\$ 7,460	\$ 8,159
Memo: Working Capital	\$ (112)	\$ 77	\$ 514	\$ 524	\$ 357	\$ 307	\$ 409
Current Ratio	.97	1.03	1.20	1.19	1.12	1.09	1.11

* If the Base Case III forecasts are fully attained in all years, the amounts shown as financing contingencies would be available as extra cash balances.

January 16, 1980

IMPACT OF UAW AGREEMENT - PLANT CLOSING/OUTSOURCING
SUPPLEMENTAL LETTER

In addition to the economic terms specified in the term sheet for the company's agreement with the UAW, Chrysler has agreed to continue operations at five facilities through the end of the existing contract (September 1982). These plants had been considered for closing with outsourcing of the remaining required components. The plants are McGraw Glass, Windsor Spring, Eldon Ave. Axle, Detroit Forge, and the assembly portion of Mack Ave. There is no impact on Chrysler's profit projections arising from this agreement since the company's Operating and Financing Plans assumed that the facilities would remain in operation during the contract period.

The agreement acknowledges that the company will undertake to provide maximum employment opportunities to the existing employees. However, the fact that these are unusual times is clearly expressed and the Union understands that the nature of the agreement does not constitute a precedent for future demands.

The overall effect of this part of the agreement on Chrysler's viability is negligible since none of the aforementioned items have an effect on the company's Operating and Financing Plans, dated January 14, 1981. The company does, however, forfeit the opportunity for further decreases in costs that could have resulted from closing these plants.

SUPPLEMENTARY AGREEMENTS

In a series of side letters, the parties entered into the following understandings:

1. All employees and retirees who purchase a new Chrysler vehicle on credit between January 19 and February 28 will receive a \$250 rebate (does not apply to imports, trucks or Imperials).
2. The separate rebate program for Canadian employees represented by the UAW will be discontinued on January 19; these employees will thereafter be eligible to participate in the same rebate programs as UAW-represented employees in the U.S.
3. The Corporation has agreed not to close during the term of the existing Agreement the following plants which it had previously announced it was considering closing: McGraw Glass, Windsor Spring, Eldon Avenue Axle, Detroit Forge, and Mack Avenue assembly facility. Also, the Corporation agreed, within the limits of its resources, to bring additional work into these facilities.
4. The Corporation agreed that if in connection with reductions of its workforce it offers Special Early Retirement to salaried employees, it will also offer Special Early Retirement to affected hourly employees where permanent reductions are similarly required.
5. The Corporation agreed to furnish certain financial data to the UAW on the condition that such information be kept confidential.
6. Eligible Canadian employees may participate in the ESOP (retroactive to July 1, 1980) on the same basis as other eligible employees.
7. The parties will agree on a procedure to provide for communication by committees of employees with management concerning decisions which might adversely affect their job security.
8. The Corporation will provide to the affected UAW local, on request, at the time of any indefinite layoff, the numbers of bargaining unit employees and non-bargaining unit employees affected. The Corporation will meet with local UAW representatives to discuss any claims that there has been a disproportionate layoff of bargaining unit employees. A procedure is specified to refer such claims to higher levels.

9. The Corporation has agreed that supervisory personnel will be laid off during periods of temporary layoff unless they are on vacation, supervising employees who are working or are required for training or to perform definite assignments. The Corporation, on request, will furnish the local union information as to the number of supervisors working during a layoff and the reasons for retaining them. The local union is given the right to meet with management to discuss these matters and to have it referred to a higher level if not resolved at the local level.

10. The Corporation intends to enter into negotiations with the UAW towards establishing a Profit Sharing Plan. The discussions will start within 30 days of ratification with a mutually acceptable plan determined 90 days hence. The terms of the supplemental agreement are in substantial agreement with those specified in the Additional Provisions Pertaining to U.S. and Canadian Employees.

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD
FROM: Office of Chrysler Finance
SUBJECT: Section 5(a)(5): Compliance with Operating
Plan and Financing Plan

Section 5(a)(5) of the Act provides that the Guarantee Board may issue a loan guarantee only if in connection with the issuance thereof the Board determines with respect to the Operating Plan and Financing Plan submitted by the Company pursuant to Section 5(a)(4) of the Act that:

"... the Corporation is in compliance with such plans."

The reasons set forth below support a Board determination that the requirements of Section 5(a)(5) of the Act will be met at the Third Takedown. The staff recommends that the Board so determine.

The applicable Operating Plan and Financing Plan are those dated January 14, 1981 (the "January Operating Plan" and the "January Financing Plan"). The Board's staff has recommended that the Board approve these plans. These plans contain actual data through November and replace previously submitted plans. The staff has no reason to believe that they do not accurately reflect current operations.

The January plans include major revisions to the company's prior product programs and projections. In connection with this review of the plans, the Board's staff and its consultants have examined in detail the actions being taken by Chrysler to implement its plans. In the course of this examination, nothing has come to the staff's attention to indicate that Chrysler is not in compliance with its plans.

The January Request indicates that Chrysler's directors have determined that:

"The Company is in compliance with the Financing Plan and the Operating Plan."

As a condition to actual issuance of the loan guarantees, Chrysler and its officers and directors will, pursuant to Section 4.01(e) of the Agreement to Guarantee, certify the company's continued compliance with Section 5(a)(5) of the Act at the Closing.

Recommendation: That the Board determine that the requirements of Section 5(a)(5) will be met at the Closing with respect the Third Takedown.

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD

FROM: Office of Chrysler Finance

SUBJECT: Section 5(a)(6): Assurances that the Operating Plan and Financing Plan are Realistic and Feasible

Section 5(a)(6) of the Act provides that the Board may only issue a loan guarantee if, in connection with the issuance thereof:

"... the Board has received such assurances as it may require that such plans [the operating and financing plan] are realistic and feasible."

The relevant Operating Plan and Financing Plan are those submitted by Chrysler dated January 14, 1981 (the "January Operating Plan" and "January Financing Plan"). This memorandum, like the comparable analyses for the first two takedowns, discusses the assurances given the Board by others. The preceding staff memorandum in support of the Section 5(a)(4) determination discusses the analyses of the Operating Plan and Financing Plan performed by staff and consultants to the Board.

The assurances the Board has received and the staff analysis with respect to Section 5(a)(4) would support a determination by the Board that the requirements of Section 5(a)(6) are met with respect to these plans. The staff recommends that the Board so determine.

1. Operating Plan

In its analysis of the requirements of Section 5(a)(4) of the Act, the staff has recommended that the Board determine that the Plan meets the requirements of Section 4 of the Act, including that it is satisfactory, realistic and feasible based on the staff analysis. The staff, assisted by Ernst and Whinney, conducted extensive analysis of the Operating Plan in connection with its recommendation. In this analysis, consideration was given to the Department of Transportation's report, "The U.S. Automotive Industry, 1980" issued January 13, 1981.

Chrysler's officers and directors have reviewed the January Operating Plan and will certify that it is realistic feasible and and a fair presentation of the information purported to be shown thereby at the closing. This certificate is made after consideration of the present uncertainties facing Chrysler and the automobile industry and the analyses presented to the Corporation by its management consultant, Booz Allen.

Furthermore, the January Request includes forms of opinions to be delivered at the Closing for the Third Takedown from Chrysler's consultants (Booz Allen) and independent accountants (Touche Ross) with respect to specific matters in connection with the Operating Plan. As described in the financing analysis, the Booz Allen opinion submitted in draft form in Chrysler's January Request indicates that, for the K-car:

". . . Although still too soon to draw final conclusions, early indications are that consumers perceive the "K" car as a competitive product, buyers have expressed a high level of owner satisfaction, and market share has increased steadily since introduction. . ."

For the prospect of Chrysler's viability, the draft opinion states:

"In summary, based on our review to date, the January 14 Operating Plan and 1981 Budget, together with the restructuring actions currently being taken, give the Company a reasonable prospect of recovery. This assumes that adequate financing is available as projected in Chrysler's Financing Plan [and] . . . that unforeseen outside factors, such as prolonged abnormally high interest rates or a disruption of oil supplies, do not severely hold back the expected near-term recovery of the auto industry. For the longer term. . . Chrysler has a reasonable possibility of developing a more effective strategy and this strategy, if properly executed would strengthen the prospects for long-term viability."

At the closing, Touche Ross will deliver an opinion with respect to the Operating Plan and the Financing Plan that:

"... nothing came to our attention which would cause us to believe that the Plans were not prepared on a basis substantially consistent with the applicable generally accepted accounting principles ..."

2. Financing Plan

Pursuant to Section 5(a)(4) of the Act, the Board has concurrently determined that the Financing Plan, meets the requirements of Section 4 of the Act including that it is satisfactory, realistic and feasible based on the staff analyses. The staff conducted extensive analyses of the Financing Plan in connection with that determination and believes that the Financing Plan is a realistic and feasible plan for meeting the needs of the Corporation.

Chrysler's January Request includes the form of certification to be delivered at the Closing by its officers that the Financing Plan is reasonable and feasible. Forms of opinions to be delivered at the Closing including assurances from Chrysler's financial advisor (Salomon Brothers) as to specific matters are included in the Request.

In addition, as a precondition to actually issuing loan guarantees, the Agreement to Guarantee requires Chrysler and its directors and officers to certify that the Financing Plan is realistic, feasible and a fair presentation of the information to be shown thereby as of the Closing for the Third Takedown. [Sections 4.01(i), 4.04, and 4.05]

Recommendation: That the Board determine that the requirements of Section 5(a)(6) will be met at the Closing for the Third Takedown.

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD

FROM: Office of Chrysler Finance

SUBJECT: Section 5(a)(7): Agreement to Submit Revised Operating Plan and Financing Plan

Section 5(a)(7) of the Act provides that the Board may issue a loan guarantee only if in connection with the issuance thereof the Board determines that:

the Corporation has agreed for as long as guarantees issued under this Act are outstanding --

(A) to have prepared and submitted on or before the thirtieth day preceding each fiscal year beginning after December 31, 1980, a revised operating plan and financial plan which cover the four year period commencing with such fiscal year and which meets the requirements of section 4; and

(B) to prepare and deliver to the Board within one hundred and twenty days following the close of each fiscal year an analysis reconciling the Corporation's actual performance for such fiscal year with the operating plan and the financing plan in effect at the start of such fiscal year."

The reasons set forth below support a determination by the Board that the requirements of Section 5(a)(7) have been met. The staff recommends that the Board so determine.

Chrysler has, in the Agreement to Guarantee, covenanted and agreed to submit to the Board revised Operating and Financing Plans upon specified terms and conditions that meet and exceed the requirements imposed by Section 5(a)(7)(A) of the Act. These provisions were approved by the Board in connection with its May 10 determinations and June 24 confirmation prior to execution of the Agreement to Guarantee. These provisions have not been amended and no development has occurred which suggests that these provisions are not adequate for the Section 5(a)(7) requirement or otherwise. These provisions are reviewed below.

Section 6.06 of the Agreement to Guarantee provides in pertinent part:

Revisions to Operating Plan and Financing Plan. On or before the 30th day preceding the end of each fiscal year ending after the date of this Agreement, the Company shall deliver to the Board a proposed form of Operating Plan and Financing Plan, each of which shall cover the next succeeding four fiscal years of the Company and shall meet the requirements of Section 4 of the Guarantee Act.

These plans were delivered on September 6, 1980. Subsequent events have required Chrysler to prepare modifications to these plans which the staff has recommended that the Board determine meet the requirements of Section 4.

Sections 6.07 and 6.08 of the Agreement to Guarantee also address the Section 5(a)(7) requirement. They provide:

6.07 Annual Reconciliation to Operating Plan and Financing Plan. As soon as practicable, and in any event no later than 120 days after the end of each fiscal year ending after the date of this Agreement, the Company shall deliver to the Board an analysis reconciling the audited financial statements for such fiscal year delivered to the Board pursuant to Section 6.01 with the Operating Plan and the Financing Plan in effect at the start of such fiscal year. Each such analysis shall be accompanied by certificates in form and substance satisfactory to the Board from the Consultant (as to the Operating Plan) and from the Financial Advisor (as to the Financing Plan) with respect to the accuracy of such analysis.

6.08 Quarterly Reconciliation to Operating Plan and Financing Plan. As soon as practicable, and in any event no later than 45 days after the end of the first three quarterly accounting periods in each fiscal year ending after the date of this Agreement, the Company shall deliver to the Board an analysis reconciling the financial statements for such accounting period delivered to the Board pursuant to Section 6.01, with the Operating Plan and the Financing Plan in effect at the start of such fiscal year. Each such analysis shall be accompanied by opinions in form and substance satisfactory to the Board from the Consultant (as to the Operating Plan) and the Financial Advisor (as to the Financing Plan) with respect to such analysis.

The Agreement to Guarantee by its terms remains in effect for so long as any Federally guaranteed loans are outstanding subject, of course, to modification by mutual agreement of the Board and Chrysler.

The January Operating and Financing Plans (and related documentation) were filed pursuant to the provisions of Section 6.06 of the Agreement to Guarantee. These Plans represent revised versions of new four-year plans that had been filed in September, and contain the required information for the succeeding four fiscal years (1981-1984) as required by Section 5(a)(7)(A) of the Act. Thus, Chrysler is in compliance with the agreement entered into in satisfaction of the Section 5(a)(7)(A) requirement. The first filing pursuant to the agreement entered into to satisfy the Section 5(a)(7)(B) requirement (the annual reconciliation of actual performance to the Plans) is not due until late April of 1981.

Furthermore, other provisions of the Agreement to Guarantee and the Procedures Memorandum go beyond the minimum requirements of Section 5(a)(7) of the Act. These additional requirements help assure continued compliance with the requirements of Section 5(a)(7) by requiring regular certifications and reports; the failure to adhere to these requirements could (unless waived by the Board) constitute defaults which would trigger repayment of guaranteed loans.

Recommendation: That the Board determine that the requirements of Section 5(a)(7) will be met at the Closing with respect to the Third Takedown.

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD

FROM: Office of Chrysler Finance

SUBJECT: Section 5(a)(8): Foreign Entity Merger

Section 5(a)(8) of the Act authorizes the Board to issue a loan guarantee only if, at the time of issuance thereof, the Board determines that:

"... there is no substantial likelihood that Chrysler Corporation will be absorbed by or merged with any foreign entity."

The language of Section 5(a)(9) of the Act must be read literally in determining whether this condition will be satisfied. The Conference Report on the Act includes in the Joint Explanatory Statement the following explanation of the requirements of Section 5(a)(9):

"Inclusion in the [Act] of language concerning acquisition of the corporation by a foreign entity does not preclude acquisition of the corporation by a domestic corporation owned on [sic.] whole or in part by a foreign entity." H.R. Rep. No. 730, 96th Cong., 1st Sess., 18-19 (1979).

The reasons summarized below support a determination by the Board for the Third Takedown that there is no substantial likelihood that Chrysler will be absorbed by or merged with any foreign entity within the meaning of the Act. The staff recommends that the Board so determine.

The parties most likely to know of the likelihood that Chrysler will be merged or absorbed by a foreign entity-- Chrysler and its directors and officers--have included in Chrysler's January Request proposed form of certification to be delivered at the Closing stating that there is no substantial likelihood of such events occurring.

Pursuant to Section 4.01(i) of the Agreement to Guarantee, Chrysler will at the Closing for the Third Takedown, deliver written certificate from its officers and directors to this effect and confirm the representation and warranty of Section 3.42 of the Agreement that:

"There is not substantial likelihood that the Company will be acquired by any foreign entity."

If the company cannot make this representation at the Closing, it will not receive guarantees. [Section 4.10]

Likewise, Section 7.19 of the Agreement to Guarantee precludes merger or consolidation generally:

"The company shall not, and shall not permit any significant Subsidiary to liquidate, dissolve, merge or consolidate...."

At the Closing for the Third Takedown, Chrysler will confirm that it is in compliance with the provisions of the Agreement as a condition for the takedown. [Section 4.10]

Although Chrysler meets the literal interpretation of Section 5(a)(8), it should be noted that Chrysler's Board of Directors has recently authorized the company to seek prospective merger partners. The investment banking firm of Salomon Brothers has been retained as Chrysler's agent in this matter. In the draft form of Salomon Brothers' opinion included in the January Request, Salomon Brothers indicates that, while it has carried out discussions with various parties, these discussions have not led to any firm indications of interest. No merger has been proposed by Chrysler at this date and none is expected by the closing. Any proposed merger, however, would be required to meet the technical requirements of Section 5(a)(8).

Recommendation: That the Board determine that the requirements of Section 5(a)(8) will be met with respect to the Third Takedown.

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD

FROM: Office of Chrysler Finance

SUBJECT: Section 5(a)(9): Compliance with Commitment

Section 5(a)(9) of the Act provides that the Board may issue a loan guarantee if, in connection with the issuance thereof, the Board determines that:

"the borrower is in compliance with the terms and conditions of the commitment to issue the guarantees required by the Board pursuant to Section 9(b), except to the extent that such terms and conditions are modified, amended, or waived by the Board."

The reasons set forth below support a determination by the Board that the requirements of Section 5(a)(9) are met with respect to Chrysler's January Request for the Third Takedown. The staff recommends that the Board so determine.

Background

The terms and conditions of the Board's commitment to issue guarantees to Chrysler are contained in the Agreement to Guarantee dated as of May 15, 1980, and entered into on June 24 between Chrysler and the Board. The only "borrower" under the Agreement to Guarantee is Chrysler Corporation. Also on June 24, the Board and Chrysler entered into a Memorandum of Operating Plan and Financing Plan Procedures and Requirements (the "Procedures Memorandum") which contains numerous requirements for certifications and reporting by Chrysler regarding its Operating and Financing Plans. The Agreement to Guarantee (Section 6.43) requires that Chrysler comply with the Procedures Memorandum. Chrysler also entered into an Indenture of Mortgage and Deed of Trust, dated as of June 2, 1980 (the "Indenture") under which it pledged substantially all its assets to trustees to secure the United States in the event of a default by Chrysler in payment of the guaranteed indebtedness. Compliance with the Indenture is also required by the Agreement to Guarantee [Section 8.01(F)].

Because of the stringency of the covenants in the agreements required of Chrysler by the Board, waivers of certain provisions have been necessary or desirable in order to permit Chrysler to conduct its operations in a more efficient manner. Since June 24, Chrysler has requested various waivers of the Agreement to Guarantee, Procedures Memorandum and Indenture. On the recommendation of the Board's staff, the Board has granted these waivers. Certain additional requests for waivers have been received but not yet acted upon by the Board, and discussions of and recommendations with respect to these requests are included in this Memorandum.

Waivers Previously Granted

A brief description of waivers previously granted is set forth below, together with a brief statement of the justification for the waiver. This listing does not include waivers which were granted to permit temporary non-compliance with covenants. In those cases where temporary waivers were granted, since Chrysler is now in compliance with the particular covenant, the temporary waiver is no longer necessary to enable Chrysler to meet the conditions of Section 5(a)(9) of the Act.

July 15. Section 6.40 of the Agreement to Guarantee, which required a shareholder meeting by November 15, 1980, to consider authorizing additional shares of common stock to cover exercise of United States Warrants. (The waiver allowed postponement of this requirement to the regular annual meeting in the Spring of 1981, thereby avoiding the large expense of a special meeting.)

September 15. Sections 8.01(T)(c) and 8.01(T)(e)(i) of the Agreement to Guarantee, which would make a deferral of part of the 1979 plan year contribution to Chrysler's Salaried Employee's Retirement Plan an event of default. (This waiver, which was conditioned upon IRS approval of the deferral under applicable provisions of ERISA, enhanced Chrysler's 1980 cash flow.)

September 15. Section 6.44 of the Agreement to Guarantee with respect to the requirement that Chrysler assign to the Indenture Trustees its rights under leases for its Kansas City, Minneapolis and Cleveland Parts Depots. (The consent of the lessors is required in each case to accomplish the assignment. The Kansas City lease expired at the end of 1980 and was not renewed. For the other two depots, Chrysler was given additional time -- through February 28, 1981 -- to negotiate with the lessor to obtain the consent.)

December 4. Section 1.09(a)(3) of the Procedures Memorandum, which requires that certificates of the Consultant and Financial Adviser accompany the Alternate Plan filed on October 1. (The filing of the certificate was allowed to be deferred until the time when detailed Operating and Financing Budgets for 1981 were filed. (The staff is now recommending that the filing of the Alternate Plan and related certificates be waived.)

December 29. Section 7.16 and 7.17 of the Agreement to Guarantee, which would have precluded Chrysler's allowing \$2.2 million of dividends and trade account receivable from Sigma Motors Corporation to be converted to equity. (Chrysler is attempting to sell its 25% interest in this company. The holder of the other 75% of the stock insisted that the equity of the company be increased. In order to preserve the marketability of its

interest, which would have been substantially reduced if it were a less than 25% interest, Chrysler had to make its pro rata contribution to the equity increase.)

December 31. Sections 6.41 of the Agreement to Guarantee and 1.16 of the Indenture, which would have required Chrysler to obtain the consent of Mitsubishi Motors Corporation ("MMC") to an assignment by Chrysler to the Indenture Trustees of its rights under the new financing arrangements entered into with MMC. (Because MMC opposed the assignment, the Board waived the requirement for assignment.)

December 31. Section 7.24 of the Agreement to Guarantee, which would have prohibited any material adverse change in the payment terms applicable to Chrysler's imports of MMC vehicles and parts. On the whole the new arrangements provide Chrysler the economic equivalence of the old agreements, and the non-financial terms of the new agreements represent an improvement over those in the old agreements.)

The above listing does not include certain waivers of requirements of the Indenture which were granted in connection with release of surplus property being sold by Chrysler. These waivers were granted to avoid duplicative filings when the Board already had sufficient information to evaluate the request for release. The listing also omits all consents and approvals given by the Board for actions which cannot be taken without Board consent. The Agreement to Guarantee contemplates that these actions will be taken, but requires approval or consent in order to give the Board the opportunity to examine the transaction. These consents and approvals should therefore, not be considered waivers.

Additional Waivers Requested

Chrysler has requested that the Board accept certain filings it has made with the Request and will make at the Closing as satisfactory for purposes of meeting certain routine filing requirements which would have been required in any case, whether or not the Request had been filed. The staff recommends that the Board act favorably on this request of Chrysler, since the filings made, and to be made, cover the same matters required to be covered in the routine filings and unnecessary duplicative filings can be avoided by granting the requested waivers.

Chrysler has also requested other waivers of the Agreement to Guarantee and Procedures Memorandum which are described below. These waivers were requested because Chrysler does not believe it possible to comply with the covenants involved.

These waivers are requested in letters from Chrysler dated November 19, 1980, December 19, 1980, and January 15, 1981, presented as Attachments 1 through 3.

Duplicative Certifications

The Procedures Memorandum requires, in connection with the annual updating of the Operating and Financing Plans required by the Act, that various certifications be delivered. The Procedures Memorandum also requires semi-annual revisions to the Alternative Plan required to be delivered pursuant to Section 1.09 of the Procedures Memorandum, which revisions are to be accompanied by various certifications. (As described above, the Board has previously permitted Chrysler to defer the filing of certificates of outside experts as to the Alternative Plan. As described below, the Board's staff now recommends that the requirement that Chrysler file an Alternative Plan be waived and that all requirements for certifications with respect to such Plan also be waived.)

As part of the Request and in connection with the Third Takedown Chrysler has filed or will file certificates of its officers and outside consultants as to the Operating and Financing Plans and related documents. The Board's staff has reviewed the matters covered or to be covered by these documents and has compared them to the matters required to be covered by certificates which the Procedures Memorandum requires Chrysler to submit. The substantive points required to be covered in the documents to be submitted under the Procedures Memorandum will be substantially covered by the documents submitted in connection with the Third Takedown.

The documents required under the Procedures Memorandum which have not been submitted are as follows:

<u>Document</u>	<u>Section of Procedure Memorandum</u>
Certificates of Independent Public Accountants as to Consistency of Accounting in Operating Plan and Budget and Financing Plan and Budget with Financial Statements	1.03(e)(1) and 1.06(e)(1)
Certificate of Consultant as to Reasonableness and Feasibility of Operating Plan and Budget	1.03(e)(2)

Certificate of Financial Adviser as to Reasonableness and Feasibility of Financing Plan and Budget	1.06(e)(2)
Company Certificate as to Operating Plan and Budget	1.03(f)
Company Certificate as to Financing Plan and Budget	1.06(f)

The matters required to be covered by these certificates have been or will be covered by the opinion of Booz-Allen and Hamilton (the Consultant) to be delivered at the closing (the form of which is at Exhibit 9 to the Request), the opinion of Salomon Brothers (the Financial Adviser), also to be delivered at the closing (the form of which is at Exhibit 10 to the Request) letters of Touche Ross & Company (the Independent Public Accountant) to be delivered at the Closing and by certifications of Chrysler officers to be delivered at the Closing.

Chrysler has requested that the Board accept these filings as satisfactory for purposes of the above requirements of the Procedures Memorandum. Because the filings required under the Procedures Memorandum would simply repeat matters already covered by documents delivered and to be delivered in connection with the Third Drawdown, the Board's staff recommends that the Board grant Chrysler's request that it be relieved from filing these documents, on the condition that the documents actually delivered in connection with the Third Takedown substantially cover the matters which were to be covered by the documents not delivered and otherwise satisfactory to the Board.

Certificates Which Cannot be Given

Section 1.08(e) of the Procedures Memorandum requires delivery within 45 days of the end of each quarter of certificates of Chrysler's Independent Public Accountants, Consultant and Financial Adviser that the Minimum Objectives and Projections contained in the Operating Plan and Financing Plan remain reasonable and achievable. Because of rapid deterioration in the automobile market in the fourth quarter, it had become clear by mid-November that the Projections and Minimum Objectives in the Plans could not be attained. Chrysler submitted revised projections for the fourth quarter (as a modification to its previously filed September 4, 1980 Plans which were then being reviewed by the staff). The staff, after reviewing the revised projections, advised Chrysler that the staff could not recommend approval of the revised projections by the Board because continued downturns in the Company's business had made these revised projections also unrealistic. A further set

of revised projections for the fourth quarter were submitted as part of the December Plans, and the staff has recommended approval of these projections.

Because Chrysler was preparing new Plans at the time the quarterly certificate as to the Projections was due, the staff advised Chrysler to seek a waiver of the requirement that the certificate of the outside experts be filed.

Additional opinions were required on November 15 from the Consultant and Financial Adviser with respect to the quarterly reconciliation of actual results for the third quarter to the results contemplated for the quarter by the Operating and Financing Plans. Because of the preparation of new Plans by the Company (the September 4 Plans, which included revised projections for the last part of 1980), the Board's staff did not believe that these opinions would be useful in connection with reviewing the company's performance. Accordingly, Chrysler was advised to seek a waiver of the requirement for these opinions, which the company did in a letter dated November 19, 1980, a copy of which is attached hereto as Exhibit 2.

Because delivery of the above items would not serve any useful purpose in connection with analysis of the company's performance, the staff recommends that the Board grant a formal waiver of the requirements for delivery of these items.

Waivers of Certain Covenants

Deferral of Supplier Payables. Chrysler's new Operating and Financing Plans contemplate deferral of supplier payables through the end of the first quarter of 1981. This latest deferral program was put into effect in December 1980. Chrysler advised suppliers that all invoices due on that date for amounts over \$10,000 would not be paid. Interest will be paid on deferred payables from the time they normally would have been paid until actual payment is made.

Under the Agreement to Guarantee, Chrysler's ability to incur debt is stringently limited and creation of new debt requires Board consent in all cases. Supplier payables are not considered debt for the purpose of these limitations so long as they are paid at the customary time; the deferral program initiated in December 1980 has resulted in the deferred payables' becoming subject to the covenants regarding debt in the Agreement to Guarantee.

Section 7.06 of the Agreement to Guarantee restricts Chrysler's ability to incur debt. The company's action to defer payables was a technical violation of Section 7.06.

Chrysler has approached its major suppliers and requested that they enter into arrangements with Chrysler permitting the deferral of payables for as long as four months. The amounts deferred would bear interest at 18% and Chrysler would execute and deliver a note for the amount owed.

Section 6.18 of the Agreement to Guarantee requires Chrysler and its subsidiaries to pay debts as they become due. The supplier payable deferral program constitutes a technical violation of this covenant. In addition, Section 7.24 of the Agreement to Guarantee prohibits Chrysler from agreeing to material adverse changes in the payment terms for its supplier payables. The payment of interest on deferred supplier payables may constitute a violation of this covenant.

Because of the need for prompt action to conserve its cash, the company deferred the supplier payables without first coming to the Board for appropriate waivers. Since these actions were necessary to permit continued operations of the company, the Board's staff recommends that the necessary waivers be granted.

Pledge of Leasehold Interests. In Section 6.41 of the Agreement to Guarantee, Chrysler agreed to obtain necessary consents to the pledge of certain property to the Trustees under the Indenture, no later than August 22, 1980. These consents were not obtained at the time of the first closing because of the need to negotiate with various parties whose consents were required. Because of its inability to obtain the consents from the lessors of four of its parts depots, Chrysler asked for waivers of the requirement that it assign its rights under the leases of these parts depots. On September 15, 1980, the Board granted additional time to Chrysler to obtain the consents.

The additional time granted to obtain consent to the assignment of the San Leandro, California parts depot has now expired. The Board granted Chrysler additional time because the lessor was seeking to sell the property and refused to grant the consent, asking that Chrysler deal with the new owner. The lessor has now found a purchaser, but the sale has not closed. Chrysler has succeeded in obtaining a written commitment of the new owner to grant the consent as soon as the transfer of title is completed. Chrysler has requested that the Board extend the deadline for obtaining the consent and completing the assignment of Chrysler's rights to the Trustees until February 28, 1981. (The February 28 date was picked for convenience; the extensions of time for two other parts depots also expire on that date.) Because Chrysler has been making a good faith effort to obtain the consent at the earliest possible time, the Board's staff recommends approval of the request for additional time.

Amendments to Defense Contracts. Section 7.27 of the Agreement to Guarantee requires that consent of the Board be obtained by Chrysler for all amendments to Material Commercial Agreements. These agreements are listed on Schedule 6 of the Agreement to Guarantee.

Chrysler's defense subsidiary, Chrysler Defense, Incorporated ("CDI") is a party to several contracts with the Department of Defense ("DOD") for the provision of XM1 and M60 tanks and related parts and services which are within the definition of Material Commercial Agreement.

Large numbers of routine amendments to these contracts are entered into each year because of the inherent nature of the tank procurement process. CDI has been transmitting these amendments to the Board through Chrysler's loan guarantee program compliance staff, and the staff has been submitting them to the Board for approval. In the first few months following execution of the Agreement to Guarantee, however, Chrysler did not have its internal systems for loan guarantee compliance functioning smoothly and several amendments to tank-related contracts were executed by CDI and not transmitted to the Board for approval. In the process of reviewing the company's compliance with its agreements with the Board, Chrysler's compliance staff discovered these unapproved amendments and brought them to the attention of the Board's staff.

The Board's staff and Chrysler are in the process of arriving at a mechanism to avoid the necessity of submitting large numbers of routine amendments to the Board for approval. The demands on staff time caused by Chrysler's current financial situation and its request for additional guaranteed loans have, however, delayed the process of devising and implementing a satisfactory program to deal with routine amendments to contracts related to tank production.

Having reviewed the present status of Chrysler's tank-related contracts with DOD and the nature of the unapproved amendments, the Board's staff believes that the interests of the Board were not prejudiced by the unapproved amendments. In order to remove any question about the consequences of the failure of Chrysler and CDI to obtain consent to these amendments, Chrysler has asked that the Board waive any default arising from the execution of these amendments without obtaining Board consent. The Board's staff recommends that the Board grant the requested waiver.

Canadian Bank Deposits. Section 7.28 of the Agreement to Guarantee prohibits Chrysler from maintaining bank deposits outside the United States except under certain very limited circumstances. Chrysler believes that it is advantageous to pay its Canadian suppliers with drafts drawn on Canadian banks rather than to pay with drafts payable in Canadian dollars but drawn on U.S. banks. Accordingly, Chrysler has been using drafts drawn

on its Canadian banks to pay its suppliers in Canada. At the time the drafts are written, funds are transferred to the Canadian bank to cover the drafts. Because this practice is a less expensive manner of paying Canadian suppliers, the Board's staff believes it should be permitted. It is, however, unclear whether the deposit of funds in Canadian banks to cover the drafts drawn to pay Canadian suppliers is prohibited by Section 7.28 of the Agreement to Guarantee. Accordingly, the Board's staff recommends that the Board waive the requirements of Section 7.28 to the extent necessary to permit this practice to continue.

Submission of Alternative Plan. Section 1.09 of the Procedures Memorandum requires that Chrysler submit to the Board an Alternative Plan, assessing all material risks relating to the Operating and Financing Plans, and setting forth Chrysler's likely actions should those risks materialize. In connection with this submission, Chrysler is required to file a company certificate pursuant to Section 1.21, as well as certificates from Chrysler's Consultant and Financial Adviser. Section 1.10 of the Procedures Memorandum requires that the Board approve the Alternative Plan, and sets forth procedures for obtaining such approval.

The Board did not approve that Plan pursuant to Section 1.10. Subsequent to the preparation of that Alternative Plan, however, the actions set forth therein have been incorporated into Chrysler's most recent Operating and Financing Plans. Since Chrysler has already agreed to take the actions set forth in the existing Alternative Plan, Board approval of that Plan pursuant to Section 1.10 would be unnecessary and inappropriate.

Therefore, the staff recommends that the Board waive the provision of Section 1.10(e) requiring that the Alternative Plan be approved by the Board. In addition, as stated above, the Board has already authorized the deferral of filing of certificates from Chrysler's Consultant and Financial Adviser, in connection with the Alternative Plan. The staff recommends that, in accordance with the waiver of the approval requirement, the Board also waive entirely the requirement of Section 1.09(a)(2) and 1.09(a)(3) that the Alternative Plan be accompanied by these certificates, and that the Board waive any other requirement of the Procedures Memorandum relating to submission of the Alternative Plan due in October, 1980.

Net Income Covenants. Section 7.29 of the Agreement to Guarantee states that the net deficit, if any, of Chrysler and its consolidated Subsidiaries for the year 1981 shall not exceed \$100 million. In addition, Cumulative Net Income of Chrysler and its consolidated Subsidiaries, measured from January 1, 1981, is required to be not less than \$100 million. Under the Financing and Operating Plans dated January 14, 1981, however, the deficit for 1981 is projected to be approximately \$253 million, and the cumulative income of Chrysler and its Subsidiaries through 1982

is expected to be \$66 million. In a letter to the Board dated January 15, 1981, Chrysler requests that the financial objectives set forth in Section 7.29 be waived, to accord with the performance anticipated in the Operating and Financing Plans being considered by the Board.

The assumptions and projections underlying the measure of performance set forth in the Agreement to Guarantee have changed since the date of that Agreement. The revised assumptions and projections are presently before the Board, as incorporated in the Operating and Financing Plans. The staff recommends that the levels of performance set forth in the Agreement to Guarantee be amended so as to reflect the modification of these underlying assumptions. Given the measures of the anticipated performance for 1981 and 1982, the staff recommends that the Board waive the provisions of Section 7.29, on the condition that the net deficit for 1981 not exceed \$275 million, and that Cumulative Net Income from January 1, 1981 to December 31, 1982, be not less than \$50 million. The staff believes that these levels of net income approach the lower limits of the range in which the Board should require Chrysler to operate.

Modification of Peugeot Agreements. In an agreement dated February 5, 1980, Chrysler received a loan of \$100 million from the Societe Financiere de Banque, which is a subsidiary of Peugeot S.A. ("PSA"); Chrysler pledged 1.8 million shares of PSA stock and certain other assets as security for the loan. In a separate agreement entered into on the same date, Chrysler granted PSA an option to purchase the stock pledged as security, but this option could be exercised only after repayment of the loan by Chrysler. Both of these agreements were modified by amendments dated June 24, 1980; the parties agreed that the option held by Peugeot could be exercised during specified time periods, which were to be determined by whether PSA and Chrysler had entered into commercial and/or industrial cooperation agreements, although the option could only be exercised after repayment of the loan by Chrysler. PSA and Chrysler signed a commercial cooperation agreement on May 30, 1980, but an industrial cooperation agreement has not been signed by the parties. Under the terms of the amendments, therefore, the option held by PSA became effective on November 1, 1980 (subject to repayment of the loan by Chrysler), and would expire May 30, 1981.

The loan from PSA to Chrysler is a non-recourse loan; PSA's only remedy, upon a default by Chrysler, is to sell the stock and assets that had been pledged as security. Due to the non-recourse character of this arrangement, the Board characterized the loan as a disposition of assets; the pledged assets are therefore not subject to the lien of the Indenture, although any surplus proceeds realized on a foreclosure sale would be subject to the lien. At present, the loan is payable upon demand by PSA.

PSA has been concerned by the decline in Chrysler's financial position over the last two months. Negotiations had been ongoing with regard to the proposed industrial cooperation agreement, but the discontinuation of Chrysler's A-body program has postponed the conclusion of such an agreement for the near future. PSA has indicated that given Board approval of the proposed amendments and of the additional \$400 million in loan guarantees, they do not have any present intention of demanding payment of the loan.

The proposed amendments to these agreements (attached as Exhibit 12 to the Request) would accomplish three primary changes. First, the option granted to PSA would become effective at the date of repayment of the loan (without any expiration date), and would remain in effect for seven months, unless an industrial cooperation agreement calling for joint production of a new small car had been concluded. Second, instead of being payable on demand of PSA, the loan would become payable upon 48 hours' notice. Third, PSA would, upon failure by Chrysler to pay the loan, be entitled to retain the pledged stock or, as provided in the original agreement, sell the stock in the market.

The proposed amendments may also affect the accounting treatment of the stock. The Peugeot investment is at present carried on Chrysler's books at approximately \$340 million, Chrysler's historical cost. The granting by Chrysler of the revised option may necessitate a write-down of the investment to its market value, which is presently less than \$100 million. Since the loan is a non-recourse loan, the \$100 million principal amount of the loan would serve as a floor for any writedown of the Peugeot stock. A writedown may be taken in 1980.

These agreements are Non-Federally Guaranteed Assistance Agreements (as defined in Section 1.01 of the Agreement to Guarantee), and Section 7.03 of the Agreement to Guarantee prohibits amendment of any such agreement. While the proposed amendments do facilitate PSA's purchase of the stock; the potential long-range disadvantage to Chrysler represented by the termination of its investment in PSA appears to be outweighed by the potential termination of its shorter-term debt obligation. The staff therefore recommends that the Board approve the amendments by waiving the application of Section 7.03 to the proposed amendments to the Agreement to Sell and Loan and Pledge Agreement

Waiver of Reporting Requirements. Under Section 6.01 of the Agreement to Guarantee, Chrysler is required to file yearly, quarterly, and monthly Financial statements. The chief financial officer and the chief accounting officer of Chrysler are also required to submit statements which include computations showing that the Company and its Subsidiaries were in compliance with certain provisions of the Agreement to Guarantee at the end of the applicable reporting period. In addition, Section 4.10(a) of the Indenture states that Chrysler will deliver to the Corporate

Trustee all of the financial information required to be delivered to the Board under Section 6.01 of the Agreement to Guarantee. Chrysler has not transmitted the required computations either to the Board or to the Corporate Trustee.

Compliance by Chrysler with the requirements of Section 6.01 is necessary if the Board and its staff are to monitor adequately the financial position of the Company. Since the Board and its staff have conducted an independent review of Chrysler's financial position, and of its compliance with the provisions of the Agreement to Guarantee, however, the staff believes that Chrysler's past failure to submit these computations will not affect the performance of the Board's current functions. The staff therefore recommends that this requirement of Section 6.01 be waived for submissions due to be filed between June 24, 1980, and the date of these Resolutions; accordingly, the provision of Section 4.10(a) of the Indenture would also be waived with regard to these submissions. Given the importance of this reporting, however, the staff recommends that this waiver be conditioned upon the submission by Chrysler of the computations required by Section 6.01 with all Financial statements due to be submitted from this date forward.

CONCLUSION

The Board's staff is in almost daily communication with Chrysler's loan guarantee compliance staff and its finance staff regarding Chrysler's compliance with the Agreement to Guarantee, Procedures Memorandum and Indenture. In addition, the Corporate Trustee under the Indenture and the Board's staff talk on a regular basis regarding compliance by Chrysler with the Indenture. The Corporate Trustee has advised the staff that it is satisfied that Chrysler was in compliance with the Indenture, subject to the waiver of the requirements described above. Based upon all the information the staff has, assuming that the Board grants the various waivers recommended above, the Board's staff believes that Chrysler is in compliance with the Agreement to Guarantee, Procedures Memorandum and Indenture.

Pursuant to Section 4.01 of the Agreement to Guarantee, Chrysler's officers and directors will deliver a certificate at the Closing stating that the company and its subsidiaries are in compliance with the Agreement to Guarantee. Assuming the Board grants the requested waivers, the staff has no reason to believe that the certificates cannot be delivered. Accordingly, the staff believes that, after granting the waivers requested by Chrysler, the Board can make the required determination under Section 5(a)(9) of the Act.

Recommendation:

That the Board 1) grant the requested waivers and 2) determine that the requirements of Section 5(a)(9) will be met at the closing with respect to the Third Takedown.

**CHRYSLER
CORPORATION**F. W. ZUCKERMAN
ASSISTANT CONTROLLER

November 19, 1980

Mr. Michael A. Driggs
Director - Office of Chrysler Finance
1331 "G" Street, N.W.
Suite 600
Washington, D.C. 20220

Dear Mr. Driggs:

Chrysler Corporation requests that the enclosed forecast for the calendar year 1980, shown to the Loan Guarantee Board on November 6, be regarded as a modification to the Chrysler Corporation 1980-1983 Operating and Financing Plans dated July 10, 1980 and modified on September 4, 1980. This modification results primarily from lower volumes occasioned by higher than anticipated interest rates and initial reaction to industry-wide pricing. Approval of this modification avoids an out-of-compliance situation for Chrysler.

We believe the attached documents along with our prior submissions will satisfy your requirements. We have included quarterly data and new minimum objectives for 1980. Because of the temporary nature of the causal factors, we believe this 1980 change will not have a material effect on our future plans; consequently, there should be no change to a going concern determination.

In addition to this request for modification, we request that you waive submission of the quarterly opinions of the Independent Public Accountants, Consultants and Financial Advisor due November 15 because of the proximity of this date to the submission of the 1981 budget on December 1, 1980. We will provide those opinions with the submission of the approved budget on or about December 10, 1980.

Very truly yours,



Attach.

cc: W. Cain

December 19, 1980

Michael A. Driggs, Executive Director
Chrysler Corporation Loan Guarantee Board
Suite 600, 1331 G. Street, N.W.
Washington, D.C. 20220

Dear Michael:

In connection with the Application for additional Loan Guarantees which will be filed with the Loan Guarantee Board by Chrysler Corporation on or about December 19, 1980, and the issuance of Guarantees which will follow (hereafter collectively referred to as the "Takedown"), Chrysler hereby requests the Loan Guarantee Board to adopt appropriate resolutions to waive or accept substitutions of certain requirements of the Agreement to Guarantee and/or the Memorandum of Operating and Financing Plan Procedures and Requirements ("Procedures Memorandum") as follows:

1. Waive the requirements of Section 1.09(a)(3)A and B of the Procedures Memorandum and accept the Certificates of the "Consultant" and "Financial Advisor" that are being submitted in connection with the Takedown in lieu thereof.
2. Accept the Company Certificate being submitted in connection with the Takedown as satisfaction of the requirements of Section 1.09(a)(2) of the Procedures Memorandum.
3. Waive the requirements of Sections 1.03(e)(1) and 1.06(e)(1) of the Procedures Memorandum and accept the Certificate of the Independent Public Accountant which is being submitted in connection with the Takedown in lieu thereof.
4. Waive the requirements of Section 1.03(e)(2) of the Procedures Memorandum and accept the Certificate of the Consultant which is being submitted in connection with the Takedown in lieu thereof.
5. Waive the requirement of Section 1.06(e)(2) of the Procedures Memorandum and accept the Certificate of the Financial Advisor which is being submitted in connection with the Takedown in lieu thereof.

6. Accept the Company Certificate being submitted in connection with the Takedown in satisfaction of the requirements of Sections 1.03(f) and 1.06(f) of the Procedures Memorandum.

We also request the following additional actions be taken by the Board:

1. Waive the requirements of Section 1.08(e) of the Procedures Memorandum as to the Certificates and opinions due on November 15, 1980.
2. Waive the requirements of Section 6.08 of the Agreement to Guarantee as to the opinions of the Consultant and Financial Advisor due November 15, 1980.
3. Waive the prohibitions of Section 6.18, 7.06 and 7.24 of the Agreement to Guarantee and any other appropriate Section of the Agreement to Guarantee that might be breached by Chrysler's current program of delaying payments to suppliers. This program includes the payment of interest to some suppliers and the possible issuance of notes if requested.
4. Waive the requirements of Section 7.21 of the Agreement to Guarantee in so far as it concerns cancellations, terminations amendments, supplements or modifications of Material Commercial Agreements between Chrysler Corporation and Chrysler Defense, Inc., and the United States of America and those between Chrysler or Chrysler Defense and subcontractors of Chrysler and Chrysler Defense under prime contracts with the United States of America which are listed on Sechedule 6, as amended, to the Agreement to Guarantee. This waiver shall apply to all such "cancellations, ...modifications" which have occurred since June 24, 1980, to the date hereof and which have not been approved by the Board.
5. Extend to February 28, 1981, the waiver of the requirements of Section 6.41 of the Agreement to Guarantee approved by a resolution of the Loan Guarantee Board on September 15, 1980, which allowed additional time for closing and the obtaining of consent of assignment as to the San Leandro Parts Depot lease.

6. Take appropriate action to clarify the understanding of both Chrysler and the Board that the placement of funds in accounts with Canadian Banks to cover checks drawn by the Company to meet operating expenses does not constitute a "Deposit" subject to the restrictions of Section 7.28 of the Agreement to Guarantee.

If you have any questions on the above, please contact the undersigned.

Very truly yours,


R. W. CAIN, Manager
Loan Guarantee Act Compliance
and Special Financing

/bjk

✓cc: B. D. Bolander, Esq.
Office of the General Counsel

**CHRYSLER
CORPORATION**F. W. ZUCKERMAN
ASSISTANT CONTROLLER

January 15, 1981

Mr. G. William Miller
Secretary of the Treasury
Department of the Treasury
15th Street & Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Mr. Miller:

Section 7.29 of the Agreement to Guarantee states that the net after tax deficit of the Company and its consolidated subsidiaries for the year 1981 shall not exceed \$100 million. Chrysler's Operating Plan for 1981 shows a net after tax deficit of \$253 million. It is hereby requested that the Loan Guarantee Board waive the requirement that the 1981 net after tax deficit shall not exceed \$100 million. Chrysler requests Loan Guarantee Board approval of a 1981 net after tax deficit of \$253 million.

In addition, the Operating Plan of the company indicates that the cumulative net after tax income for 1981 and 1982 is \$66 million, whereas Section 7.29 requires that the cumulative net after tax income be no less than \$100 million. Accordingly, Chrysler requests that the Loan Guarantee Board waive that requirement of Section 7.29 and approve a cumulative 1981 and 1982 net after tax income of \$66 million.

Also, it is the opinion of the Company that the January 14, 1981 submission of the Operating and Financing Plans are modifications to the October 1, 1980 Alternative Plan and supercede that plan. Therefore, the Company requests waiver of any requirement for an Alternative Plan and related certificates and opinions.



F. W. Zuckerman

cc: B. D. Bolander
M. A. Driggs
G. Greenwald
L. D. Lynch, Jr.

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD

FROM: Office of Chrysler Finance

SUBJECT: Sections 5(c) and 5(d): Guarantee Fees

Sections 5(c) and 5(d) of the Act respectively require the Board to impose a guarantee fee to cover the Government's administrative expense in connection with the guarantee program and, to the extent feasible, to impose an additional guarantee fee as compensation for the risk incurred by the Government in guaranteeing the loan. Section 5(c) provides:

"The Board shall prescribe and collect no less frequently than annually a guarantee fee in connection with each guarantee made under this Act. Such fee shall be sufficient to compensate the Government for all of the Government's administrative expense related to the guarantee, but in no case may such fee be less than one-half of 1 per centum per annum of the outstanding principal amount of loans guaranteed under this Act computed daily."

Section 5(d) provides:

"To the maximum extent feasible, the Board shall ensure that the Government is compensated for the risk assumed in making guarantees under this Act, and for such purpose the Board is authorized to--

(1) prescribe and collect a guarantee fee in addition to the guarantee fee required by subsection (c);

(2) enter into contracts under which the Government, contingent upon the financial success of the Corporation, would participate in gains of the Corporation or its security holders; or

(3) use other instruments deemed appropriate by the Board."

The staff believes that the Board should make this determination for the same reasons that supported its May 10 and July 15 determinations that the requirements of Section 5(c) and Section 5(d) are met by the requirements of Section 2.02 and 4.29 of the Agreement to Guarantee, which require the payment of a guarantee fee and the issuance to the United States of warrants for the purchase of Chrysler common stock.

Section 5(c) Requirement: Covers Administrative Expenses

The requirements of Section 5(c) continue to be met because:

- Section 2.02 of the Agreement to Guarantee requires Chrysler to pay a guarantee fee equal to one percent per annum of the outstanding principal amount of loans guaranteed. These have been paid by Chrysler as scheduled.
- This fee is anticipated to be sufficient to compensate the Government for all administrative expenses relating to the guarantees for fiscal years 1980 through 1983. The Treasury Department's budgeted expenses were considered in the staff analyses presented to the Board on May 10 and June 24, and, as described there in more detail are estimated to be no more than \$1.3 million annually. The projected guarantee fees appear sufficient to compensate the Government for not only the Treasury Department's expenses but also the additional expenses that are being incurred by the other Board members' agencies. The company's January Financing Plan and the staff's Base Case III analyses project even higher balances and fees than was the case when the Board made its May 10 and July 15 determinations. These are reviewed in Attachment I. All would appear to adequately cover actual administrative costs. Furthermore, Section 2.02 of the Agreement to Guarantee authorizes the Board to increase the guarantee fee, from time to time as it deems necessary, by 1/2 of one percent per annum. This right can be exercised if necessary to assure that all costs are met.

Section 5(d) Requirement: Covers Risk Assumed

The requirements of Section 5(d) are met because:

- Section 2.02 of the Agreement to Guarantee requires Chrysler to pay an additional guarantee fee, commencing after December 31, 1983, on the amount of guaranteed indebtedness outstanding after December 31, 1983. Since the Government's risks increase the longer the guarantees remain unpaid, the additional guarantee fee is equal to an ever increasing percentage of the corporation's net operating cash flow, increasing from 1/2 of one percent per annum to 1-1/2 percent per annum during 1984-1990.

- Section 4.29 of the Agreement to Guarantee requires Chrysler to issue to the Government warrants to purchase up to 18 million shares of Chrysler common stock at \$13 per share as a condition precedent to the issuance of any guarantee, but with the warrants apportioned for the amount of guarantees actually issued at any one time. The Board will not be able to exercise these warrants without obtaining an appropriation from Congress, but the warrants could be sold, thereby permitting the Board to realize the profits which would accrue from an increase in the market price of Chrysler's stock. Warrants for 6 million shares were issued in connection with the June 24 takedown of \$500 million in guaranteed loans. Warrants for an additional 3.6 million shares were issued in connection with the Second Takedown on July 31 of \$300 million of loan guarantees. Additional warrants will be issued at the Third Takedown at the rate of 1.2 million shares for each \$100 million in loans guaranteed.

Recommendation: That the Board determine that the requirements of Section 5(c) and (d) will be met at the Closing with respect to the Third Takedown.

Chrysler Financing Plan:
Daily Average of Outstanding Loans

<u>Calendar Year</u>	<u>Base Case III</u> (dollars in millions)
1980	\$ 375
1981	1,200
1982	1,200
1983	1,000
1984	625
1985	275

Guaranteed Fees Generated

<u>Calendar Year</u>	<u>Base Case III</u> (dollars in millions)
1980	\$ 3.75
1981	12.00
1982	12.00
1983	10.00
1984	6.25
1985	<u>2.75</u>
Total	\$46.75

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD

FROM: Office of Chrysler Finance

SUBJECT: Section 6(a)(1): Wage Concessions by Unionized Employees

Section 6(a)(1) of the Act requires that no loan guarantee may be issued if the Board determines that:

- (a) "Collective bargaining agreements entered into by the Corporation after September 14, 1979, with labor organizations representing employees of the Corporation which govern the payment of wages and benefits to such employees from September 14, 1979, to September 14, 1982, have not been modified so that the cost to the Corporation of such wages and benefits, as determined by the Board, shall be reduced by a total amount of at least \$462,500,000 for the three-year period ending on September 14, 1982, below the cost of such wages and benefits which the Corporation would otherwise have been obligated to incur during such period, except that such dollar amount shall include \$203,000,000 in wages and benefits to be forgone pursuant to the master collective bargaining agreement entered into on October 25, 1979, between the Corporation and the International Union, United Automobile Aerospace and Agricultural Implement Workers of America."

The Act also sets the following requirements with respect to union concessions in Sections 6(b)-(f):

- (b) "The limitations set forth (above) shall not apply to any increase in wages or benefits required by law."
- (c) "Any increase in the wages and benefits of a person employed by the Corporation resulting from reclassification or reevaluation of a job or a promotion effected in order to evade the provisions of this section shall be considered an indirect form of compensation."
- (d) (1) "The Corporation shall not enter into a collective bargaining agreement with a labor organization which:
 - (A) reduces the amounts and levels of wages and benefits provided by such a collective bargaining agreement beyond the labor's organization's proportionate share, as determined by the Board, or

- (B) reduces wages and benefits below the levels and amounts provided on September 13, 1979."
- (2) The proportionate share of a labor organization shall be determined by multiplying the total reduction required by paragraph (1) by the quotient obtained by dividing the total number of the Corporation's employees represented by labor organizations.
- (e) "The cost reduction realized by the Corporation under the terms of this subsection shall not be recoupable."
- (f) "If the Board determines that cash contributions from labor organizations or employees are legally committed so that the total contributions from employees and labor organizations during the period of September 13, 1979, through September 13, 1982, will exceed the total amount of wages and benefits not paid as a result of subsection (a), the Board may permit an increase in the levels and amounts of employee wages and benefits beyond the levels and amounts in effect on September 13, 1979, which would otherwise be prohibited by subsection (a), if (1) such increase will not impair the ability of the Corporation to continue as a going concern, or to meet such other tests of viability as the Board shall prescribe, and (2) the amount of such increase does not exceed the amount of the cash contributions committed."

A determination by the Board that the requirements of Section 6(a)(1) have been met is supported by the discussion below. The staff recommends that the Board so determine.

The Board's June 24 and July 31 determinations that this requirement is met should be confirmed for the reason that formed the basis for that determination. Since that time, nothing has come to the staff's attention to change that analysis. The report of the interagency task force chaired by the Department of Labor has not been changed and the labor contracts that formed the basis of the Board's determination remain in effect, and this will be confirmed at the Closing by Chrysler and by the Department of Labor.

The January Request includes a draft of the certification to be delivered at the Closing by Chrysler's officers and directors to the effect that Section 6(a)(1) is met.

The Agreement to Guarantee requires Chrysler and its officers and directors to confirm at the Closing for the Third Takedown their representation and warranty in the Agreement to Guarantee that this requirement is met (Sections 3.19 and 4.01(i)). Also, pursuant to Section 4.16 of the Agreement, letters were received prior to the First Closing from the Department of Labor and unions representing at least 95 percent of the company's employees recommending that the

Board determine that this requirement had been met. The opinions expressed in these letters have not been modified or withdrawn.

It should be noted, however, that Chrysler's unionized employees are expected to grant additional concessions to those required by Section 6(a)(1). These are discussed in the analysis supporting the determination required by Section 5(a)(4).

While Section 6(d)(1)(A) of the Act does not permit the Corporation to enter into a collective bargaining agreement with any labor union which calls for concessions in excess of that union's proportionate share of the \$462.5 million required by Section 6(a)(1), the requirements of Section (d)(1)(A) only apply to the concessions required by Section 6(a)(1). Once each labor union has agreed to its proportionate share of the required \$462.5 million of concessions, a labor union may agree to additional concessions beyond that amount without regard to the proportionate share requirement (it is likely that the additional concessions will, nevertheless, still be proportionate).

Section 6(d)(1)(A) provides that "to meet the requirements of this section, the Corporation shall not enter into a collective bargaining agreement with a labor organization which reduces ... wages and benefits ... beyond the labor organization's proportionate share ... ". The language of this provisions clearly is intended only to apply to the concessions required "to meet the requirements of [Section 6]." Any additional concessions beyond the proportionate share may be granted; they could not, however, be counted toward the \$462.5 million of concessions required under Section 6.

Recommendation: That the Board determine that the requirements of Section 6(a)(1) will be met as of the Closing Date with respect to the Third Takedown.

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD
FROM: Office of Chrysler Finance
SUBJECT: Section 6(a)(2): Non-Union Employee Concessions

Section 6(a)(2) of the Act provides that no loan guarantees may be issued by the Board, if the Board determines that:

"the Corporation has not put into effect a plan for achieving at least \$125,000,000 in concessions as defined in Section 4(b)(1)(B) from employees not represented by a labor organization."

The Act qualifies this requirement by providing that it will not "apply to any increase in wages or benefits required by law". Furthermore, "any increases in wages and benefits of a person employed by the Corporation resulting from reclassification or to evade the provision of this section shall be considered an indirect form of compensation" and thus implicitly offset any concession reached.

The reasons below and in the foregoing discussion for the Section 6(a)(1) requirement support a finding by the Board that the requirements of the Act have been met. The staff recommends the Board so determine.

The staff believes that the Board's June 24 and July 31 determinations that this requirement has been met should be affirmed for the reasons that formed the basis of those determinations. Since that time, nothing has come to the staff's attention to change that analysis. The report of the interagency task force chaired by the Department of Labor has not been changed and the company's plan for non-union employees now contemplates further concessions as described in the analysis supporting the Section 5(a)(4) determination. The company submitted on February 18, 1980, its plan for implementing the concessions for these employees. This plan was supplemented by a formal plan submitted April 18, 1980. The plan was reviewed by the Task Force and found to provide the cost savings required by the Act.

Like the determination concerning the Section 6(a)(1) requirement, the Board's June 24 and July 31 determinations under this provision were also based on a report from the interagency task force chaired by the Department of Labor which concluded that Chrysler's February 18, 1980, plan for non-union employees (as supplemented on April 18, 1980) would provide cost savings which meet the requirements of the Act.

Chrysler's practice is to grant employees not represented by labor organizations salary and benefit improvements comparable to those negotiated for union employees. Consistent with this past practice, on April 18, 1980, Chrysler submitted its final plan for non-union employees, which would provide wage and benefit concessions similar to those of non-unionized employees, which yield cost savings of \$137.9 million.

As stated in the July 31 determination, the Task Force reviewed the underlying assumptions and calculations used in valuing the concessions. Their review found the calculations to be correct and the assumptions to be reasonable.

Since these cost savings reflect discretionary Chrysler management actions rather than binding contracts, the Agreement to Guarantee requires Chrysler to keep its plan in effect over the guarantee period (Section 6.33).

Chrysler's January Request includes the form of certification to be delivered at the Closing by the company's officers and directors to the effect that Section 6(a)(2) is met.

It should be noted that Chrysler's employees are expected to provide additional concessions to those required by Section 6(a)(2). These are discussed in the analysis supporting the determination required by Section 5(a)(4).

Recommendation: That the Board determine that the requirements of Section 6(a)(2) will be met at the Closing with respect to the Third Takedown.

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD

FROM: Office of Chrysler Finance

SUBJECT: Section 8(b) Determination: Accrual of
Concessions and Unguaranteed Assistance

Section 8(b) of the Act limits the total principal amount of guaranteed loans outstanding at any time as follows:

"subject to subsection (a) the total principal amount of loans which are guaranteed under this Act and which are outstanding at any time shall not exceed the amount of non-federally guaranteed assistance under Section 4(a) and the amount of concessions and contributions under Section 6 which have accrued to the Corporation."

Chrysler Corporation has requested that additional guarantees be issued for up to \$400 million on the Closing Date for the Third Takedown, which will be on or after January 31, 1981. Provision of the full \$400 million at this takedown will bring total guaranteed borrowings to \$1,200 million, including the \$800 million in guaranteed loans issued previously this year.

Chrysler has indicated in its Request that it will obtain at least \$1,851.3 million as of January 31 in non-federal assistance under Section 4(a) and concessions and contributions under Section 6 as of the Closing.

The staff recommends that the Board determine that at least \$1,175 million in such items have accrued for the purpose of matching federal guarantees under Section 8(b).

In addition, the staff believes that Chrysler could provide adequate assurances for up to an additional \$25 million which may have accrued by the Closing Date and recommends that the Board authorize up to an additional \$25 million of guarantees on the condition that Chrysler provides adequate assurance as to the financing not previously included in a financing plan for which a Section 4(a)(4) determination has been made by the Board, the amount of such accruals (less any related costs) pursuant to Section 8(b), and the treatment of related costs. Table 1 reflects the minimum amount of non-guaranteed assistance the staff believes has accrued as of the Closing based on its analysis of the materials submitted by Chrysler. The amount actually accrued would vary with actual closing date and intervening developments. Table 1 does not include certain items presented by Chrysler which the staff does not believe need to be included at this time.

The Act does not define "accrual" for purposes of Section 8(b) and, except in the case of asset sales, provides little specific

guidance as to the methodology to be used in computing the amount and date of accrual of the non-federally guaranteed assistance. In the case of asset sales, the Act specifies that a conservative estimate of the minimum amount realizable in a sale is to be used. The General Counsel of the Board believes this reflects an intention to require deduction of any brokerage commission in determining the amount of accruals.

The legislative history also does not provide much specific guidance on the computation of the amount of accruals. Although the Conference Report states that "there must be at least \$1 of non-federally guaranteed assistance in place for each dollar of guarantees, the application of this language to assistance which has been contracted but not received or to the computation of amounts of the accruals is not clear." House Report 96-730, p. 18. The Senate Report, discussing a slightly different provision, indicates that the Board "has the authority to determine when funds (or concessions) have been utilized and are thus available to be used as a match for federal guarantees." Senate Report 96-463, p. 35.

As a result, except in the case of asset sales, the staff believes that the Board has the discretion to determine the timing of accruals and method of deducting any costs incurred directly to obtain the non-guaranteed assistance. The staff believes that the Board could but is not required to adopt a treatment consistent with generally accepted accounting principles, which would provide for daily accruals of non-guaranteed assistance such as the interest and pension fund deferrals and labor concessions and the amortization of associated costs in certain instances or could adopt a realization concept reflecting the actual cash benefit to Chrysler which would accrue the assistance only at the time actual payment would otherwise be required and deduct all associated costs at the outset, or could measure the amount of the accruals by the amount of commitments and concessions received.

Discussion of Accrued Non-Federal Assistance [Preliminary]

1. Lender Assistance

Table 1 reflects lender assistance consisting of interest concessions and deferrals, interest on the deferred interest and amounts arising from restructured debt maturities. The amount and timing of this assistance is governed by agreements executed by Chrysler Corporation and its lenders on or prior to June 24, 1980. In calculating lender assistance, interest deferrals and concessions are accrued on a daily basis. As of January 31, 1981, lender assistance from these sources will total \$107 million.

Since July 31, Chrysler and major portion of its lenders have agreed in principle to another restructuring of \$1.009 -

\$1.165 billion in outstanding principal and \$68 in deferred interest notes, which have accumulated according to the June 24 agreement, as discussed more fully in the Section 5(a)(4) findings. The lenders will exchange \$504.5 - \$582.5 in principals and \$ 68 million of deferred interest notes for preferred stock with a liquidation value of \$916 - 1,040 million. They will also grant an option to Chrysler to cancel \$504.5 - \$582.5 million in outstanding principal in exchange for cash payments of \$.30 on each dollar of this portion of the principal, with installments of \$31.8 - 43.7 million to be paid at quarterly intervals starting 105 days after closing if each part of the option is exercised. In addition, \$4 million in deferred interest notes shall be repaid on the same quarterly basis. These agreements are scheduled to be closed concurrently with the issuance of guaranteed loans on the Closing date, at which time one-half of the conversion to preferred stock will take place.

The execution of the terms of the agreements will provide substantial financial benefits to the company beyond those arising from the June 24 agreements. The company's net worth will increase by \$925 - \$1058 million by the end of 1981, and the company will save approximately \$256 million¹ in cash interest payments scheduled to be paid through 1985 under the June 24 agreements. The execution of the January lender agreements represent the potential for significant additional accruals under Section 8(b)². However, for the purposes of this finding and Table I, the lender assistance will be deemed to accrue under the terms of June 24 agreements, since this finding relates to accruals through the Closing Date of the Third Takedown.

2. State and Local Governments

State and local government assistance will total \$187 million as of December 31, 1980. Three states have made loans: Michigan for \$150 million, Indiana for \$32 million, and Delaware for \$5 million. These loans are secured by assets located within these states as provided by a Board waiver.

On January 14, the Illinois legislature approved a \$20 million loan to Chrysler subject to certain employment conditions and secured by the Company's Belvedere Assembly facility. Should this financing be completed prior to closing, this amount less any related material costs, represents a potential accrual.

1/ Assumes company will cancel debt at the intervals provided in the agreements.

2/ Consistency with the July 31 findings would require that additional restructuring costs of an estimated \$1 million be eliminated from the additional accrued amounts.

3. Supplier and Dealer Assistance

Supplier and dealer assistance derives from two sources: debentures and new debt. The debentures were offered through E. F. Hutton with total subscriptions of \$74.6 million at the closing of the sale. Cash totaling \$16.7 million was credited to Chrysler's account with the remaining \$58 million to be paid in installments over 24 months. As of January 31, 1981, accruals from the debentures will total \$29.6 million.

New debt consists of adequately assured supplier deferrals evidenced by signed, long-term notes. Several companies have agreed to sign such long-term notes to defer payments due from Chrysler. As of January 31, 1981, new debt from suppliers will total \$ million, \$1.5 million of which had accrued as of the July 31 findings.

In addition, as a condition to issuance, Chrysler will be required to document as of closing \$36 million in new supplier concessions arising from price roll-backs, extended terms, new notes as other means. To the extent that these new concessions can be quantified and adequately assured to remain in place through 1983, potential additional accruals could result.

4. Asset Sales

Proceeds from the sale of assets will total \$334.6 million by January 31, 1981: \$223.6 million from previously completed sales of subsidiaries, real estate and equipment prior to July 31 and \$100.0 million from real estate sales and equipment sales since July 31. These amounts are net of the brokerage and legal fees incurred in connection with these sales.

Chrysler contemplates the sale of certain other assets; to the extent these sales are completed prior to closing, additional accruals could arise.

5. Pension Deferrals

Consistent with the methodology recommended in the July 15 findings, \$270.5 million in pension deferrals has accrued as of January 31, 1981. These deferrals have been adjusted to exclude the \$100 million line of credit that Chrysler has with the PBGC and \$14 million in related imputed interest, amounts which have been excluded on a pro-rata basis over the deferral period, 1980-1983.

The accrued amount of deferrals excludes a \$27.7 million 1979 pension payment due September 15, 1980 which Chrysler will fund

over the next 15 years pursuant to an agreement with the Internal Revenue Service. This obligation related to employment in 1979, but following its previous customary practice, the company would have paid it by September 15, 1980. The Board could find that this deferral represents additional financing for the purpose of this section.

6. Employee Concessions

Employee concessions will total \$272.8 million by January 31, 1981. This amount is consistent with the methodology reviewed and found appropriate by the Department of Labor Task Force as more fully described in the May 10, 1980 determinations under Section 6(a)(1) and 6(a)(2).

Additionally, the company and the U.A.W. and salaried employees have agreed on January, 1981 to further concessions. As described more fully in the Section 5(a)(4) finding, the parties have agreed to forego cost-of-living adjustment (COLA) payments and certain other benefits accruing after March 1. Accordingly, no additional accruals from these concessions can be counted toward Section 8(b) at this time.

Summary

Total accruals of non-federally guaranteed assistance will total at least \$1,182.8 million on January 31, 1981. These totals are based on daily accrual of lender assistance (net of restructuring costs), employee concessions, supplier assistance, and pension deferrals as adjusted to exclude on a pro-rata basis the PBGC line of credit and related imputed interest. State and local assistance and other asset sales have been accrued from their completion dates.

The level of guarantees that the accrual will support will ultimately depend on the date of the Third Closing. Should the potential asset sales and state loan be completed, the total would exceed \$1,200 million by early February, including the daily accruals of lender assistance, pension deferrals and employee concessions.

Table I
ESTIMATED ACCRUAL OF NON-FEDERALLY GUARANTEED ASSISTANCE
(millions of dollars)

	7/31/ 80	1/31/ 81
Lender Assistance <u>/1</u>	50.7	115.5
State and Local Gov'ts.	186.3	186.3
Suppliers and Dealers	18.7	31.1
Debentures <u>/2</u>	17.2	29.6
New Debt	1.5	1.5
Asset Sales	223.6	334.6
Real Estate	14.9	88.1
Equipment	3.3	30.1
Australia	57.6	57.6
Argentina	36.3	36.3
Brazil	11.9	14.3
Brazilian equity	--	8.2
Peugeot	100.0	100.0
Pension Deferrals <u>/3</u>	182.3	270.5
Employee Concessions	139.0	244.8
Total	800.6	1182.8
Potential Additions:		
Pension deferred		27.7
Asset Sales in 1/81		15.5
Supplier roll-backs		<u>/4</u>
Supplier deferred payments		<u>/4</u>
Additional lender concessions		<u>/4</u>
State and local loans (Illinois)		20.0
Sub-Total Potential Additions		63.2
Potential Grand Total		1245.4

- /1 Daily accrual; excludes \$5.6 of restructuring costs. Potential conversion of debt to equity is excluded.
- /2 Debentures accrue \$2 at the beginning of each month; amount is offset by exchange of Goodyear debt, which accrues daily at the rate of .583 each month.
- /3 Excludes on a pro-rata basis \$100 line of credit with PBGC and \$14 of related imputed interest; also excludes \$27.7 payment for salaried employees due 9/15/80 but deferred over 15 years.
- /4 Not calculable presently due to lack of documentation.

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD

FROM: Office of Chrysler Finance

SUBJECT: Section 10(b): General Accounting Office Audits

Section 10(b) of the Act provides that:

"The General Accounting Office may make such audits as may be deemed appropriate by the Comptroller General of the United States of all accounts, books, records, memoranda, correspondence, and other documents and transactions of the Corporation and any other borrower. No guarantee may be made under this Act unless and until the Corporation and any other borrower agree, in writing, to allow the General Accounting Office to make such audits. . . ."

The reasons set forth below support a determination that this requirement is satisfied with respect to guarantee of loans to Chrysler pursuant to the January Request for the Third Takedown. The Board staff recommends that the Board so determine.

The staff believes that the Board may make this determination for the reasons below:

- The only borrower for the guaranteed loans contemplated by the Third Takedown is Chrysler Corporation.
- The guarantees would be issued pursuant to the Agreement to Guarantee, which contains provisions that specifically authorize General Accounting Office (GAO) audits and permit GAO access to documents and knowledgeable individuals. The relevant provisions are Sections 6.11 and 6.12.
- Pursuant to Section 4.27 of the Agreement to Guarantee, Chrysler Corporation's subsidiaries and affiliates (as defined in the Agreement to Guarantee)¹ delivered to the Board, on June 24, 1980 at the closing for the Agreement to Guarantee and the first takedown, written agreements consenting to the same audit and access provisions. The one Chrysler subsidiary formed between the First and Second Takedowns delivered the required consent at the closing for the Second Takedown.

1/ In general, a Chrysler Corporation affiliate is an entity over which Chrysler has the power to direct or cause the direction of its management and policies. A Chrysler subsidiary is an entity in which Chrysler owns voting shares sufficient to elect a majority of the subsidiary's board of directors or other governing body.

- Chrysler's January Request includes the draft form of certification to be delivered at the Closing by its officers and directors that Section 10(b) is met.
- Finally, at the Closing for the Third Takedown, Chrysler will be required by the Agreement to Guarantee to certify that Section 10(b) is met. Additional subsidiaries and affiliates, if any, which have not yet submitted consents will be required to submit them at the Closing, although the Board's staff does not anticipate the formation of any additional subsidiaries.

Recommendation: That the Board determine that the requirements of Section 10(b) will be met at the Closing with respect to the Third Takedown.

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD

FROM: Office of Chrysler Finance

SUBJECT: Section 11(b): Undertakings to Sell Assets
in Excess of \$5 Million

Section 11(b) of the Act provides that:

"If the Corporation undertakes a sale of any asset having a value in excess of \$5,000,000, and if the Board determines such sale is likely to impair the ability and capacity of the Corporation to repay the guaranteed loans as scheduled, or to impair the ability of the Corporation to continue as a going concern or to meet such other tests of viability as the Board shall prescribe, the Board shall not issue any further guarantees for loans under this Act, and all guaranteed loans made prior to such determination shall be due and payable in full."

Since the July 31 Takedown, the Board's staff has reviewed all sales of assets having a value in excess of \$5 million presented by Chrysler to the Board for review under Section 11(b). The Board's staff has, in each case, recommended that the Board make a favorable determination under Section 11(b) with respect to the sale. The Board has done so.

Chrysler has advised the Board's staff of one pending sale of an asset having a value in excess of \$5.0 million. Because the staff has not yet finished the process of reviewing the sale and preparing a recommendation to the Board on this sale, the Board had not yet acted on this sale pursuant to Section 11(b). This sale was made contingent on favorable Board action; accordingly, the Board may act on Chrysler's January Request without reviewing this sale, which will not be undertaken without favorable Board action.

Between the time of the Board's preliminary determinations and the Third Takedown, additional sales may be proposed by Chrysler. The one pending sale and any additional sales will be reviewed by the staff and presented to the Board with recommendations at or prior to the time of the Third Takedown.

As part of the routine reporting required under the Agreement to Guarantee, Chrysler must deliver each quarter a listing of each sale subject to Section 11(b). The Board has already reviewed and acted favorably on all sales listed in these submissions.

In addition, as part of the request Chrysler has delivered a certificate signed by its officers to the effect that all sales of assets having a value in excess of \$5 million entered into by

Chrysler since January 6, 1981, will not have the adverse effect set forth in Section 11(b). This certification will be confirmed at the Third Takedown.

Finally, at the Third Takedown the previously submitted lists will be updated, providing a final check that the Board has reviewed and acted favorably on all sales subject to Section 11(b).

Because the Board has already taken all action required to be taken under Section 11(b) with respect to sales which have been consummated as of today's date, the Board's staff believes no further action is necessary at this time.

Recommendation: That the Board determine that the requirements of Section 11(b) will be met at the Closing with respect to the Third Takedown.

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD

FROM: Office of Chrysler Finance

SUBJECT: Section 11(c): Contracts in Excess of
\$10 Million

Section 11(c) of the Act provides that:

If the Corporation enters into any contract, including but not limited to future wage and benefit settlements, having any aggregate value of \$10,000,000 or more, the Board shall determine and certify that the performance of the obligations of the Corporation pursuant to such contract will not reduce the ability of the Corporation to repay the guaranteed loans as scheduled, will not conflict with the Corporation's operating plan or financing plan as required under this Act, and will not impair the ability of the Corporation to continue as a going concern or to meet such other tests of viability as the Board shall prescribe. If in any case such determination and certification cannot be made, the Board shall not issue any further guarantees for loans under this Act until such certification can be made, and all loans guaranteed under this Act shall be due and payable in full.

Since the July 31 Takedown, the Board's staff has reviewed all contacts having an aggregate value of \$10 million or more presented by Chrysler to the Board for review under Section 11(c). The Board's staff has in each case, recommended that the Board make a favorable determination under Section 11(c) with respect to the contract. The Board has done so.

Chrysler has advised the Board's staff of certain additional contracts having a value in excess of \$10.0 million proposed to be entered into by Chrysler or entered into subject to favorable Board action under subsection 11(c). Because the staff has not yet completed its review of these contracts and preparation of recommendations to the Board, the Board has not yet acted on these contracts. Since none of these contracts is yet binding on the Corporation, the Board may take action on Chrysler's January Request without having reviewed the pending contracts under subsection 11(c).

Between the time of the Board's preliminary determinations and the Third Takedown, additional contracts may be negotiated by Chrysler. Any such additional contracts, as well as the pending contracts will be reviewed by the staff and presented to the Board with staff recommendations at, or prior to, the time of the Third Takedown.

As part of the routine reporting required under the Agreement to Guarantee, Chrysler must submit quarterly a listing of all contracts subject to Section 11(c) entered into during that quarter. In addition, complete listings of contracts subject to Section 11(c) were delivered at the first two Takedowns. The Board has already reviewed and acted favorably on each of the sales listed on these submissions.

In addition, as part of the Request, Chrysler has delivered a certificate signed by its officers to the effect that all contracts having a value of \$10 million or more entered into by the Corporation since January 6, 1980, meet the requirements of Section 11(c). This certification will be confirmed at the Third Takedown.

Finally, at the Third Takedown the previously-submitted lists will be updated, providing a final check that the Board has reviewed and acted favorably on all contracts subject to Section 11(c).

Because the Board has already taken all actions required under Section 11(c) with respect to all contracts which have become legally binding against Chrysler as of today's date, the Board's staff believes no further action is necessary at this time.

Recommendation: That the Board determine the requirements of Section 11(c) will be met at the Closing with respect to the Third Takedown.

MEMORANDUM FOR: CHRYSLER CORPORATION LOAN GUARANTEE BOARD

FROM: Office of Chrysler Finance

SUBJECT: Section 11(g): Gross Income Exclusion

Section 11(g) of the Act requires two findings by the Board with respect to the Federal income tax treatment of income from guaranteed loans. Specifically, Section 11(g) of the Act provides that:

"[a] loan shall not be guaranteed under this Act if the income from such loan is excluded from gross income for purposes of Chapter 1 of the Internal Revenue Code of 1954 or if the guarantee provides significant collateral or security to other obligations, the income from which is so excluded."

The current provisions of Chapter 1 of the Internal Revenue Code of 1954 (the "Code") and the form of the proposed Guarantee Agreement and other agreements that would relate to the loans to be guaranteed support a determination that the guarantees of the proposed loans will not violate the requirements of Section 11(g). The staff recommends that the Board so determine.

Section 11(g) of the Act requires first that no loan may be guaranteed if income from the guaranteed loan would be excluded from gross income under Chapter 1 of the Internal Revenue Code of 1954 (the "Code"). The relevant Code provisions have not been modified since the Board's May 10 determination and June 24 and July 31 affirmations.

The analysis is identical to that which governed the Board's determinations for the first two takedowns. Part III of Subchapter B of Chapter 1 of the Internal Revenue Code (Code sections 101 through 128) describes the items specifically excluded from gross income for the Federal income tax. Income from the proposed guaranteed loans to Chrysler would not be included among any of the items described as specifically excluded from gross income. Therefore, the guaranteed loans for the Third Takedown would satisfy the first requirement in Section 11(g).

Furthermore, Chrysler has submitted proofs dated December 2, 1980, of the Offering Circular, the Guarantee Agreement, the Underwriting Agreement and the Fiscal Agency Agreement with respect to the Notes to be guaranteed for the Third Takedown (Tabs 4 to 6). These neither refer to nor contemplate that, any guarantee will provide significant collateral, or security, to other obligations, the income from which would be excluded from gross income for Federal income tax purposes. In addition, the Agreement to Guarantee includes specific representations and conditions that preclude Chrysler from using the guarantees for loans in a manner that would violate Section 11(g) of the Act [Sections 4.18 and 4.01(i)].

Chrysler's January Request includes a form of certification to be delivered at the Closing by Chrysler's officers and directors to the effect that Section 11(g) is met with respect to the Third Takedown. This same certification will be provided by Chrysler's officers and directors as a condition to the Closing.

Background

Section 61 of the Code provides that, except as otherwise provided in the Federal income tax laws, "gross income means all income from whatever source derived" Thus, except to the extent specifically exempted by any other income tax provision, all income on a loan to Chrysler which is guaranteed under the Act will be includable in the recipient's gross income.

As noted above, Part III of Subchapter B of Chapter 1 of the Code (Sections 101 through 128) describes those items which are specifically excluded from gross income. No other items of are so excluded (although recognition of income may be delayed or deferred in certain cases; see, e.g., Code Section 402(a), relating to the taxability of a beneficiary of a tax-exempt employees' trust described in Code Section 401(a)).

Income from a Guaranteed Loan

Section 11(g) provides in part that no loan may be guaranteed if the income from the loan would be excluded from gross income for Federal income tax purposes.

In order for the income from a guaranteed loan to be excluded from gross income, it would be necessary for the loan income (that is, the interest payments and any gains on sale of the loan) to be described in Part III of Subchapter B of Chapter 1 of the Code, which describes the items specifically excluded from gross income for Federal income tax purposes.

The income from the loans proposed to the guaranteed under the Act for in the Third Takedown is not included in the items excluded from gross income listed in Code Sections 101 through 128. Therefore, this requirement of Section 11(g) is satisfied for the Third Takedown.

Collateral for Excluded Income

Section 11(g) also provides that no loan shall be guaranteed if the guarantee provides significant collateral, or security, to other obligations, if the income from such other obligations is excluded from gross income for Federal income tax purposes.

This requirement is intended to prevent the use of the guarantees to secure a tax-exempt security. For example, the prohibition would prevent Chrysler from issuing guaranteed securities to secure the payment of an industrial development bond as defined in Code Section 103(b), if the income from such bonds were excluded from gross income for Federal income tax purposes under Code Section 103(a)(1) pursuant to Code Section 103(b)(4) or (6).

The Agreement to Guarantee entered into by Chrysler and the Board on June 24, 1980, precludes Chrysler from using the guarantees for loans in a manner that would violate Section 11(g) of the Act. Specifically, Section 4.08 of the Agreement to Guarantee establishes as a condition for each guarantee that "the Guaranteed Indebtedness shall comply with Section 11(g) of the Guarantee Act," and Section 4.01(h) requires the company to certify that it is in compliance with all terms of the Agreement to Guarantee as a condition to each takedown.

Furthermore, Section 4.08 of the Guarantee Agreement for these Notes also expressly precludes any holder of the Notes from pledging them as collateral or security for obligations the income from which is excludable from gross income for purposes of Chapter 1 of the Internal Revenue Code of 1954, and thus in a manner that would violate Section 11(g).

Recommendation: That the Board determines that the requirements of Section 11(g) will be met at the Closing with respect to the Third Takedown.