

Obama Administration New Path to Viability for GM & Chrysler

In accordance with the March 31, 2009 deadline in the U.S. Treasury's loan agreements with General Motors and Chrysler, the Obama Administration is announcing its determination of the viability of the companies, pursuant to their February 17, 2009 submissions, and is laying out a new finite path forward for both companies to restructure and succeed. These findings and new framework for success are consistent with the President's commitment to support an American auto industry that can help revive modern manufacturing and support our nation's effort to move toward energy independence, but only in the context of a fundamental restructuring that will allow these companies to prosper without taxpayer support.

Key Findings

- **Viability of Existing Plans:** The plans submitted by GM and Chrysler on February 17, 2009 did not establish a credible path to viability. In their current form, they are not sufficient to justify a substantial new investment of taxpayer resources. Each will have a set period of time and an adequate amount of working capital to establish a new strategy for long-term economic viability.
- **General Motors:** While GM's current plan is not viable, the Administration is confident that with a more fundamental restructuring, GM will emerge from this process as a stronger more competitive business. This process will include leadership changes at GM and an increased effort by the U.S. Treasury and outside advisors to assist with the company's restructuring effort. Rick Wagoner is stepping aside as Chairman and CEO. In this context, the Administration will provide GM with working capital for 60 days to develop a more aggressive restructuring plan and a credible strategy to implement such a plan. The Administration will stand behind GM's restructuring effort.
- **Chrysler:** After extensive consultation with financial and industry experts, the Administration has reluctantly concluded that Chrysler is not viable as a stand-alone company. However, Chrysler has reached an understanding with Fiat that could be the basis of a path to viability. Fiat is prepared to transfer valuable technology to Chrysler and, after extensive consultation with the Administration, has committed to building new fuel efficient cars and engines in U.S. factories. At the same time, however, there are substantial hurdles to overcome before this deal can become a reality. Therefore, the Administration will provide Chrysler with working capital for 30 days to conclude a definitive agreement with Fiat and secure the support of necessary stakeholders. If successful, the government will consider investing up to the additional \$6 billion requested by Chrysler to help this partnership succeed. If an agreement is not reached, the government will not invest any additional taxpayer funds in Chrysler.
- **A Fresh Start to Implement Aggressive Restructurings:** While Chrysler and GM are different companies with different paths forward, both have unsustainable liabilities and both need a fresh start. Their best chance at success may well require utilizing the bankruptcy code in a quick and surgical way. Unlike a liquidation, where a company is broken up and sold off, or a conventional bankruptcy, where a company can get mired in litigation for several years, a structured bankruptcy process – if needed here – would be a tool to make it easier for General Motors and Chrysler to clear away old liabilities so they can get on a path to success while they keep making cars and providing jobs in our economy.

Key Findings, Cont.

- **A Commitment to Consumer Warrantees:** The Administration will stand behind new cars purchased from GM or Chrysler during this period through an innovative warrantee commitment program.
- **Appointment of a Director of Auto Recovery:** The Administration also announced that Edward Montgomery, a top labor economist and former Deputy Secretary of Labor, will serve as Director of Recovery for Auto Workers and Communities. Dr. Montgomery will work to leverage all resources of government to support the workers, communities and regions that rely on the American auto industry.

Detailed Findings on GM and Chrysler Plans

GENERAL MOTORS

Viability Determination: Based on extensive analysis and the advice of a range of financial and industry advisors, the Administration has determined that GM has not presented a viable plan that would succeed, even in an improved economic environment. While GM has made progress in its turnaround to date, GM's current plan will not result in a healthy company that is meaningfully cash flow positive in a normalized business environment and thus able to support its operations and obligations without continued government support. (A summary of the Administration's findings is provided separately).

The Administration does believe that there is a path to a viable GM and is confident that the company can emerge from this crisis as a strong, competitive business. However, this will require a more aggressive strategy to transform the company's operations than the current management has designed and deeper stakeholder concessions than those specified in the initial loan agreement.

New Framework for a Fresh Start Restructuring: Today, GM is announcing that Rick Wagoner is stepping aside as Chairman and CEO. Kent Kresa will serve as interim Chairman and current President Fritz Henderson will serve as CEO. GM is embarking on a process with the goal of replacing a majority of the board over the coming months. When complete, these changes will bring fresh thinking and new vision to the Company while maintaining a degree of continuity in the current challenging environment.

In this context, the Administration is willing to provide GM with adequate working capital for a finite period of 60 days to develop and implement a more aggressive plan. During this period, the Administration team, consisting of Treasury officials as well as private sector auto industry and restructuring experts retained by the Administration, will work closely with the company. These industry and restructuring experts will help focus this process on:

- *Sustainable profitability:* A viable GM should be able to generate meaningful positive free cash flow in a normalized business environment, generate net free cash flow over the course of a business cycle and invest capital in research and development and capital expenditures sufficient to maintain or enhance its competitive position while also earning an adequate return on its capital.
- *A healthy balance sheet:* The restructuring must substantially reduce GM's outstanding debt and existing liabilities to a level where they are consistent with both its normalized cash flow and the cyclical nature of its business. Given the deterioration in the auto market since late last year, this will require substantially greater balance sheet concessions than those called for in the existing loan agreements.
- *More aggressive operational restructuring:* The restructuring plan must rapidly achieve full competitiveness with foreign transplants and more aggressively implement significant manufacturing, headcount, brand, nameplate and retail network restructurings.
- *Technology leadership:* The new GM will have a significant focus on developing high fuel-efficiency cars that have broad consumer appeal because they are cost-effective, have good performance and are reliable, durable and safe.

In order to execute a new, more aggressive restructuring plan within 60 days, we will work with GM to use all available tools to implement this plan. The best path to achieve this may well be an expedited, court-supervised process to extinguish unsustainable liabilities, should an out-of-court restructuring not be possible. The Administration is prepared to stand by GM throughout this process to ensure that GM emerges with a fresh start and a promising future. Consumers thinking about buying a GM car and workers and communities that depend on this iconic American company should have confidence that GM can and will come out of this crisis as a stronger, leaner and more competitive car company.

CHRYSLER

Viability Determination: After extensive consultation, the Administration has determined that Chrysler has not demonstrated that it can achieve long-term viability as a stand-alone company. In particular, Chrysler's plan contains a number of assumptions that are unrealistic or overly optimistic. (A summary of the Administration's findings is provided separately).

Independent financial analysts and industry experts are nearly unanimous in their views that, to be competitive in the decades to come, auto companies will need to transform their processes and products to improve efficiency, reduce costs and offer a higher-quality, more fuel-efficient fleet. These transformations will require substantial investment that Chrysler – according to its own plan – is not capable of making. Therefore, the Administration does not believe that on its own, Chrysler can achieve the scale or depth of product mix necessary to compete in the 21st century global auto market.

Chrysler/Fiat Partnership: Chrysler has also proposed a partnership with Fiat, which has the potential to address some of these problems and provide Chrysler with a path to viability. A Chrysler/Fiat alliance could lead to Chrysler manufacturing fuel-efficient vehicles using Fiat's technology while benefiting from the managerial expertise of the Fiat senior leadership that successfully led a turnaround in Fiat over the past five years. In addition, the product mix and geographic reach of both companies is very complementary.

The original partnership was unacceptable for several reasons, including the fact that Fiat could have gained majority ownership of Chrysler before American taxpayers had their investment in the company paid back. After consulting with the President's Auto Task Force, Chrysler and Fiat have agreed to important changes to their original agreement that would provide greater protections for U.S. taxpayers and would help ensure that new, fuel efficient Chrysler cars and engines are built in the U.S.

Finite Period to Pursue a Deal: However, while the Administration sees promise in this deal, substantially more needs to be accomplished to make this plan viable. In this context, the Administration is willing to provide Chrysler with 30 days of working capital to execute an acceptable partnership. The Administration believes Chrysler is being given a reasonable opportunity to finalize the agreement but is unwilling, in the absence of a long-term solution, to continue to invest taxpayer dollars in this company.

If a definitive agreement is reached, the Administration is willing to consider lending up to the additional \$6 billion requested by Chrysler to help the plan succeed. If the Chrysler/Fiat partnership has not been successfully concluded within 30 days, and in the absence of another viable partnership, the government will not invest any additional money in the company.

Requirements for Additional Government Support: Fiat, Chrysler and all of Chrysler's stakeholders must clearly understand that for this deal to succeed, significant hurdles must be cleared:

- First, Chrysler must restructure its balance sheet so that it has a sustainable debt burden. This at a minimum will require extinguishing the vast majority of Chrysler's outstanding secured debt and all of its unsecured debt and equity, other than trade creditors providing normal trade terms.
- Second, Chrysler, Fiat and the UAW need to reach an agreement that entails greater concessions than those outlined in the existing loan agreements.
- Third, Chrysler and Fiat need to demonstrate with a greater degree of detail an operating plan that is truly viable, that can generate meaningful positive cash flow in a normal business environment and that can demonstrate credibly that taxpayer loans will be repaid on a timely basis.
- Fourth, the final plan agreed by Chrysler, Fiat and their stakeholders must not, under appropriately conservative operating assumptions, require more than \$6 billion of post-restructuring loans from the U.S. Treasury.
- Fifth, Chrysler must have a viable, adequately capitalized mechanism to finance the purchase of Chrysler cars by its dealers and customers.
- Finally, Chrysler needs a credible plan to execute this restructuring. Given the magnitude of the concessions needed, the most effective way for Chrysler to emerge from this restructuring with a fresh start may be by using an expedited bankruptcy process as a tool to extinguish liabilities.

SUPPORT FOR CONSUMERS AND THE AUTO INDUSTRY

The Administration is committed to standing behind a tough but necessary industry restructuring that will result in stronger, more viable American car companies. During this process, the Administration wants to ensure that consumers have confidence in the cars they buy and suppliers that depend on viable auto companies have some support to weather this storm. Our actions are not intended to slow the necessary

consolidation and rationalization of key elements of the auto industry, but will help stabilize the industry during this period of transition.

Protection of consumer warranties: Consumers who are considering new car purchases should have the confidence that even in this difficult period, their warranties will be honored. That is why the Administration is launching an innovative new program that will provide government-funded protection for warranties issued by participating domestic auto manufacturers. The program will be available for all new warranties on new vehicles purchased from participating auto manufacturers during the period in which those manufacturers are restructuring. Both General Motors and Chrysler have already indicated their intention to participate. Details on this program are provided [HERE](#).

Supplier support program: Trade creditor support will be essential to the success of the effort to restructure GM and Chrysler. The vast majority of the trade at GM and, as part of the Fiat deal, at Chrysler, will carry through the process and be fully paid. In addition, the Administration recently announced a new \$5 billion Supplier Support Program. This program is already providing suppliers with the confidence they need to continue shipping their parts and the support they need to help access loans to pay their employees and continue their operations. The Administration will work closely with the car companies to implement this program in the weeks ahead and monitor closely the state of the automotive supply base.

Unlocking the Flow of Credit for Consumers and Dealers: A healthy automotive industry requires consumers who want to buy cars and are creditworthy to have access to credit. Unfortunately, in the current financing environment, even consumers with excellent credit histories have difficulty gaining access to credit. The Administration remains committed to improving access to credit in general and with respect to automotive purchases specifically. The launch of the Term Asset-Backed Securities Loan Facility (TALF) has expanded the funding available for retail auto loans, thereby directly helping consumers. And the Administration remains committed to facilitating the access to funding for the automotive finance companies that provide credit to these consumers. These efforts will be continued and expanded upon to ensure that consumers have the financing they need to purchase vehicles going forward.

AUTO TASK FORCE INITIATIVE TO SUPPORT AND REVITALIZE AUTO INDUSTRY WORKERS AND COMMUNITIES

The President is fully committed to standing behind the American auto industry, which is the backbone of our manufacturing base. To this purpose, the President's Task Force on Autos is launching a new initiative to support and help revitalize American auto communities. The Administration's goal is to both help revitalize the American auto industry and to help manufacturing communities in Michigan and the broader region create new businesses, new jobs and bring in new industries for a stronger economic future. And when despite all of our best efforts, individuals and communities are hard hit -- we will take all possible steps to ensure we are working as swiftly and in as coordinated a fashion as possible to provide relief and paths to re-employment.

This government-wide effort will require substantial leadership and coordination. Today, the President appointed Ed Montgomery, former Deputy Secretary of the Labor Department and current Dean at the University of Maryland, to become Director of Recovery for Auto Communities and Workers. Dr. Montgomery has more than 25 years experience working on issues related to worker training and local economic development and has worked first hand with State and local government agencies and non-profits in Michigan and Ohio on strategies to revitalizing areas hit by job loss.

In his new role, Dr. Montgomery will bring all parties – workers, firms, unions, other private sector employers, community-based organizations, state and local governments, and foundations – to the table to maximize communication and cooperation and to develop innovative strategies for relief and recovery. He will ensure that communities and workers can take full advantage of all available resources and to ensure that the funds are distributed quickly, efficiently and equitably

He will work with the Administration, relevant Governors and Congressional leaders to launch new executive and legislative initiatives to support these distressed communities and help them retool and revitalize their economies. He will identify and pursue all possible opportunities, including for example, initiatives to:

- Maximize the effectiveness of Recovery Act funds for new and more diverse economic development for new jobs, business and industry through various means including local infrastructure, housing, education and new industry.
- Deploy rapid response unit to communities facing plant closings to both meet immediate needs and to develop strategies for new job growth.
- Extend Trade-Adjustment-Assistance (TAA) to the auto industry, including retraining, healthcare extensions, income support and wage insurance.
- Attract major defense, research, green industry and other project to the region. Channel Workforce Investment Act (WIA) and other emergency grant funds to the region.
- Work with stakeholders to develop new legislative efforts to direct emergency support to affected communities and regions, and bring new jobs and economic opportunities to these areas.

Obama Administration's New Warrantee Commitment Program

Today, the Treasury Department announced an innovative new program to give consumers who are considering new car purchases the confidence that even in this difficult economic period, their warrantees will be honored. This program is part of the Administration's broader program to stabilize the auto industry and stand behind a restructuring effort that will result in stronger, more competitive and viable American car companies.

The Administration has committed to working with both GM and Chrysler during a finite period to develop improved restructuring plans. The goal in both cases is to help these companies emerge with a fresh start toward becoming competitive businesses without taxpayer assistance. During this period of restructuring, the Administration is committed to standing behind the process. The Administration is confident that GM will emerge as stronger company and is hopeful that Chrysler can reach an agreement with Fiat that leads to a viable future. However, no matter what the outcome, consumers should have confidence that if they buy new cars from either company their warrantees will be honored.

The warranty program will cover all warranties on new vehicles purchased from participating auto manufacturers during the period in which those manufacturers are restructuring. Both General Motors and Chrysler have agreed to participate in the program. Specifically, the program will:

- Create a separate account that will be funded with cash contributed by the manufacturer and a loan from the US Government to pay for repairs covered by the manufacturer's warranty on each new vehicle sold by a participating domestic auto manufacturer during its restructuring period. The cash contribution will be 125% of the costs projected by the manufacturer to satisfy anticipated claims under the warranty issued on that vehicle; and
- In the event of a failure of a participating auto manufacturer, appoint a program administrator who, together with the US Government, will identify an auto service provider to supply warranty services.

The program will help provide much needed certainty to consumers, and a boost to the auto industry, during the restructuring period. While the Administration recognizes that general economic uncertainty may continue to impact new vehicle sales, and that the ultimate solution for a healthy auto industry is a broad restructuring of the industry and a general economic recovery, the program will support and encourage the continued viability and restructuring of the auto industry by mitigating consumer uncertainty that is depressing demand for new vehicles.

What does the program mean for consumers?

- *If you buy a new GM or Chrysler car during this restructuring period you will be eligible.*
- *You do not have to do anything to receive the U.S. commitment to your warrantee. It is automatic.*
- *The U.S. Treasury will work with the auto companies to back-stop your warrantee, and will commit to honoring that warrantee in the event that the manufacturer cannot.*

Background on the Warrantee Commitment Program

Program Operation:

As part of their normal business operations, auto manufacturers establish an accounting reserve for each new vehicle sold, which reflects the expected cost of providing warranty services on that vehicle. Under the Warranty Commitment Program, the participating auto manufacturer will contribute cash to a separate special purpose company whose sole purpose is to pay covered warranty claims. The total amount of cash to be contributed will equal to 125% of the expected cost of paying for warranty service on each covered vehicle. The manufacturer will contribute 15% of the projected cost from its own funds, and Treasury will provide additional funds to cover 110% of the projected cost. The company holding the funds will be run separately from the auto manufacturer and will be able to continue paying warranty claims even if the auto manufacturer goes into bankruptcy or goes out of business. In that case, the special purpose company will use the funds in that account to facilitate the transfer of warranty obligations from the issuing manufacturer to a new warranty services provider.

The program will be run by a third party program administrator with the backing of financial resources allocated from the Treasury Department's Troubled Asset Relief Program (TARP).

Eligible Auto Manufacturers:

Any domestic auto manufacturer is eligible to participate in the program. If a manufacturer decides to participate, it will work with the third party administrator to establish a warranty support program. Participating auto manufacturers will contribute 15% of the cash reserve for each new warranty they issue. The US Government will provide the remainder of the funding for the cash reserve on each new warranty issued by the participating auto manufacturer during the period in which it is enrolled in the program.

If the auto manufacturer goes out of business, the program administrator and the US Government will conduct a process to identify a qualified third party warranty service provider to assume responsibility for all of the manufacturer's warranties covered by the program, in exchange for the assets of the program. Because of the significant funding of the reserve account, Treasury is confident that qualified third parties will be interested in taking over the warrantee obligations.

Eligible Warranties:

The program will cover the participating manufacturer's warranty on every new car sold during its restructuring period.

GM February 17 Plan
Viability Determination

Summary

The Loan and Security Agreement of December 31, 2008 between the General Motors Corporation and the United States Department of the Treasury (“LSA”) laid out conditions that needed to be met by March 31, including the approval of Labor Modifications, VEBA Modifications, and the commencement of a Bond Exchange (all as defined in the LSA).

As of the date of this memo, the above steps have not been completed, nor are they expected to be completed by March 31. As a result, General Motors has not satisfied the terms of its loan agreement. Additionally, after substantial effort and review, the President’s Designee¹ has concluded that the GM plan, in its current form, is not viable and will need to be restructured substantially while GM operates under an amendment to the existing LSA. It is strongly believed, however, that such a substantial restructuring will lead to a viable GM.

This determination of viability was based on a thorough review, as conducted by the Task Force and its outside advisors and as summarized below, of the Company’s submitted plan and prospects. While there were many individual considerations, no single factor was critical to the assessment. Rather, the ultimate determination of viability was based upon a total consideration of all relevant factors, taken as a whole.

General Motors is in the early stages of an operational turnaround in which the Company has made material progress in a number of areas, including purchasing, product design, manufacturing, brand rationalization and its dealer network. Despite these steps, a great deal more progress needs to be made, and GM’s plan contemplates initiatives that will take many years to complete. In the end, GM’s plan is based on a number of assumptions that will be very challenging to meet without a more dramatic restructuring in which many of its planned changes are accelerated. A few highlights:

- **Market Share:** GM has been losing market share to its competitors for decades, yet its plan assumes only a very moderate decline, despite reducing fleet sales and shuttering brands that represent 1.8% of its current market share.
- **Price:** The plan assumes improvement in net price realization despite a severely distressed market, lingering consumer quality perceptions, and an increase in smaller vehicles (where the Company has previously struggled to maintain pricing power).
- **Brands/Dealers:** The Company is currently burdened with underperforming brands, nameplates and an excess of dealers. The plan does not act aggressively enough to curb these problems.
- **Product mix:** GM earns a large share of its profits from high-margin trucks and SUVs, which are vulnerable to a continuing shift in consumer preference to smaller vehicles. Additionally, while the Chevy Volt holds promise, it will likely be too expensive to be commercially successful in the short-term.
- **Legacy liabilities:** In GM’s plan, its cash needs associated with legacy liabilities grow to unsustainable levels, reaching approximately \$6 billion per year in 2013 and 2014.

Moreover, even under the Company’s optimistic assumptions, the Company continues to experience negative free cash flow (before financing but after legacy obligations) through the projection period, failing a fundamental test of viability.

In short, while the Company has made meaningful progress in its turnaround plan over the last few years, the progress has been far too slow, allowing the Company to continue to lag the best-in-class competitors. As a result, the President’s Designee has found that General Motors’ plan is not viable as it is currently structured. However, because of GM’s scale, franchise and progress to date, we believe that there could be a viable business within GM if the Company and its stakeholders engage in a substantially more aggressive restructuring plan.

Detailed Determination

The Loan and Security Agreement of December 31, 2008 between the General Motors Corporation and the United States Department of the Treasury ("LSA") laid out various conditions that needed to be met by March 31, including:

- (a) Approval of the Labor Modifications (Compensation Reductions, the Severance Rationalization and the Work Rule Modifications) by the members of the Unions;
- (b) Receipt of all necessary approvals of the VEBA Modifications other than regulatory and judicial approvals; provided, that the Borrower must have filed and be diligently prosecuting applications for any necessary regulatory and judicial approvals; and
- (c) The commencement of an exchange offer to implement a Bond Exchange.

As of the date of this memo, none of the above steps has been completed. As a result, General Motors has not satisfied the terms of its loan agreement.

The LSA also requires that the President's Designee review the Restructuring Plan Report in order to determine whether General Motors has taken all necessary steps to achieve and sustain the long-term viability, international competitiveness and energy efficiency of the Company and its subsidiaries

Since receiving the Company's plan on February 17th, the Government has engaged in substantial efforts to assess its viability. This work has involved staff from the Department of the Treasury, National Economic Council, Council of Economic Advisors as well as the numerous other Cabinet agencies involved in the President's Task Force on the Auto Industry. The working group has also worked extensively with several dozen individuals at industry-leading consulting, financial advisory and law firms. Numerous outside experts and affected stakeholders have been consulted. As a result of this work, the President's Designee has concluded that the General Motors plan, in its current form, is not viable and will need to be restructured substantially in order to lead to a viable General Motors. It is strongly believed, however, that such a substantial restructuring will lead to a viable General Motors.

While the President's Designee considered many factors when assessing viability, the most fundamental benchmark was the following: for a business to be viable, it must be able – after accounting for spending on research and development and capital expenditures necessary to maintain and enhance the company's competitive position -- to generate positive cashflow and earn an adequate return on capital over the course of a normal business cycle.

Progress to date:

General Motors is in the early stages of an operational turnaround in which GM has made material progress in a number of areas:

- o Purchasing: GM has organized its purchasing globally, with its purchasing organization taking advantage of GM's global scale, and has put into place a rigorous, metric-oriented approach to drive supplier quality and cost improvements.
- o Product design: GM has refined its product design process to create global vehicle platforms, thus allowing GM to reduce engineering costs and improve the content of its cars. These global platforms leverage the scale of the business and allow GM to amortize product development costs over a large range

of models. GM has also, since 2005, focused on customer needs, interior designs, styling and quality to provide more attractive products. Examples of successes of this initiative include the 2008 North American Car of the Year Chevy Malibu and the 2008 Motor Trend Car of the Year Cadillac CTS (though they constitute a modest share of GM's portfolio today).

- o Manufacturing: GM has worked to create greater flexibility within its facilities, allowing for increased capacity utilization and an enhanced ability to spread its significant fixed costs across a broader car base.
- o Brand rationalization: The recently announced decisions to divest or shut down Saab, Saturn and Hummer, while late, were important steps in reducing the Company's brand portfolio and allowing it to focus its financial and human resources on a smaller number of higher quality brands.
- o Dealer network: GM has been eliminating dealers from markets where it is oversaturated, as well as eliminating dealers who are either unprofitable or create a poor customer experience.

However, it is important to recognize that a great deal more progress needs to be made, and that GM's plan is based on fairly optimistic assumptions that will be challenging in the absence of a more aggressive restructuring.

- The plan contemplates that each of its restructuring initiatives will continue well into the future, in some cases until 2014, before they are complete.
 - o The slow pace at which this turnaround is progressing undermines the Company's ability to compete against large, highly capable and well-funded competitors. GM's plan forecasts it to catch up to (and, in some cases, surpass) its competitors' current performance metrics; however, its key competitors are constantly working to improve as well, potentially leaving GM further behind over time.
- Given the slow pace of the turnaround, the assumptions in GM's business plan are too optimistic.
 - o Market Share
 - GM has been losing market share slowly to its competitors for decades. In 1980, GM's US market share was 45%; in 1990, GM's US share was 36%, in 2000, its share was 29%. In 2008, its share was 22%. In short, GM has been losing 0.7% per year for the last 30 years.
 - Yet, in its forecast, GM assumes a much slower rate of decline, 0.3% per year until 2014, even though it is reducing fleet sales and shuttering brands which represent a loss of 1.8% market share, of which only a fraction will be retained. Management's plan to achieve this is driven by a reduction in nameplates and an ensuing increase in marketing spend per nameplate.
 - Furthermore, in the current plan, GM has retained too many unprofitable nameplates that tarnish its brands, distract the focus of its management team, demand increasingly scarce marketing dollars and are a lingering drag on consumer perception, market share and margin.
 - o Price
 - In 2006 and 2007, GM North America achieved a 30.4% contribution margin. Then, the plan assumes, despite a severely distressed market, that margins increase to 30.8% in 2009 and 30.7% in 2010. These figures remain at 30.9% in 2013 and 30.3% in 2014, despite GM's plan to increase its focus on passenger cars and crossovers, which have traditionally earned lower margins.
 - Fundamentally, the lingering consumer perception is that GM makes lower-quality cars (despite meaningful improvements in the last few years), which in turn leads to greater discounting, which harms GM's price realizations and depresses profitability. These lower price points are an important impediment to enhanced GM profitability and need to be reversed over time in order for GM to bring its margins into line with its best-in-class peers.

- o Brands/dealers
 - GM has been successfully pruning unprofitable or underperforming dealers for several years. However, its current pace will leave it with too many such dealers for a long period of time while requiring significant closure costs that its competitors will not incur. These underperforming dealers create a drag on the overall brand equity of GM and hurt the prospects of the many stronger dealers who could help GM drive incremental sales.
- o Europe
 - GM's European operations have experienced negative results for at least the last decade with a sharp decline in market share from 12.9% to 9.3% between 1995 and 2008, leaving the Company with high fixed costs and low capacity utilization.
 - The European business is seeking additional capital beyond the funds requested from the Treasury. These funds have not been allocated and thus represent a risk to the viability of GM's current plan.
- o Product mix and CAFE compliance
 - GM earns a disproportionate share of its profits from high-margin trucks and SUVs and is thus vulnerable to energy cost-driven shifts in consumer demand. For example, of its top 20 profit contributors in 2008, only nine were cars.
 - GM is at least one generation behind Toyota on advanced, "green" powertrain development. In an attempt to leapfrog Toyota, GM has devoted significant resources to the Chevy Volt. While the Volt holds promise, it is currently projected to be much more expensive than its gasoline-fueled peers and will likely need substantial reductions in manufacturing cost in order to become commercially viable
 - Absent the successful introduction of a number of new-generation nameplates, as described in the Company's plan, GM's product portfolio is more vulnerable to CAFE standard increases than the portfolios of many of its competitors (although GM is in compliance today with current standards). Many of its products fail to meet the minimum threshold on fuel economy and rank in the bottom quartile of fuel economy achievement.
- o Legacy liabilities – cash costs
 - As GM moves through its forecast period, its cash needs associated with legacy liabilities grow, reaching approximately \$6 billion per year in 2013 and 2014. To meet this cash outflow, GM needs to sell 900,000 additional cars per year, creating a difficult burden that leaves it fighting to maximize volume rather than return on investment.
- Even under the Company's optimistic assumptions, the Company remains breakeven, at best, on a free cash flow basis throughout the projection period, thus failing the fundamental test of viability.
 - o Under its own plan, GM generates \$14.5bn of negative free cash flow over its 6 year forecast period. Even in 2014, on its own assumptions, GM generates negative free cash flow after servicing legacy obligations.
 - o Given the highly challenging current market, the Company is already behind plan in its overall volume expectations and market share for calendar year 2009.
 - o Since the Company has built a plan with little margin for error, even slight swings in its assumptions produce significant and ongoing negative cash flows. For example, a 1% share miss in overall global sales, all else being equal, in 2014 would lead to a \$2 billion cash flow reduction in that year.

In short, while the Company has made meaningful progress in its turnaround plan over the last few years, the progress has been far too slow, allowing the Company to continue to lag the best-in-class competitors. Furthermore, even if the projected plan is achieved, the cash flow forecast is quite modest, leaving the Company little margin for error in what will

be a very difficult turnaround. As a result, the President's Designee has found that General Motors' plan is not viable as it is currently structured. However, given the improvements that have been made to date, and the path on which these improvements place GM, we believe that there could be a viable business within GM if the Company and its stakeholders engage in a substantially more aggressive restructuring plan.

Chrysler February 17 Plan
Viability Determination

Summary

The Loan and Security Agreement of December 31, 2008 between Chrysler, LLC and the United States Department of the Treasury (“LSA”) laid out various conditions that needed to be met by March 31, including the approval of Labor Modifications, VEBA Modifications, and the commencement of a Debt Exchange (all as defined in the LSA).

As of the date of this memo, the above steps have not been completed, nor are they expected to be completed by March 31. As a result, Chrysler has not satisfied the terms of its loan agreement. Additionally, after substantial effort and review, the President’s Designee¹ has concluded that the Chrysler plan is not likely to lead to viability on a standalone basis, and that Chrysler must seek a partner in order to achieve the scale and other important attributes it needs to be successful in the global automotive industry while Chrysler operates under an amendment to the existing LSA.

This determination of viability was based on a thorough review, as conducted by the Task Force and its outside advisors and as summarized below, of the Company’s submitted plan and prospects. While there were many individual considerations, no single factor was critical to the assessment. Rather, the ultimate determination of viability was based upon a total consideration of all relevant factors, taken as a whole.

The Plan that was submitted by Chrysler on February 17, 2009 reflects some progress that has been made under current management but ultimately is insufficient due to several structural issues that Chrysler, as a standalone entity, is highly unlikely to overcome. In particular, Chrysler’s limited scale in an increasingly capital-intensive global business, the inferior quality of its existing product portfolio and its heavy truck mix leave the Company poorly positioned. Chrysler’s plan to address these issues is based on overly optimistic assumptions that are inconsistent with its current products and its resources. A few key challenges:

- **Scale:** Chrysler cannot afford to dedicate enough R&D to each product platform to maintain competitiveness, suffers from having a smaller supply purchasing base and amortizes its significant fixed costs over a much smaller base of vehicles than its competitors
- **Quality:** While the Company is committed to improving quality, its current quality scores significantly lag competitors. Chrysler admits that improving quality and associated brand perception will take a number of years.
- **Product Mix:** Chrysler does not have a product pipeline to cover the smaller car segments which are projected to grow in share of the overall car market and will struggle to meet proposed fuel-efficiency standards.
- **Manufacturing:** In contrast to best-in-class OEMs, as well as both GM and Ford, Chrysler has not invested significantly in common architectures and flexible plant manufacturing capacity, which will be critical to long-term profitability.
- **Geographic Concentration:** Unlike many of its competitors, Chrysler’s business is heavily weighted to North America, which makes the Company more vulnerable to local economic fluctuations and less able to take advantage of developing markets.

While the Company has made meaningful changes to its cost structure in the last few years, the combination of a fundamentally disadvantaged operating structure and a limited set of desirable products make standalone viability for the business highly challenging. As a result, the President’s Designee has found that Chrysler’s plan is not viable as currently structured. However, to the extent Chrysler can develop a partner who would improve Chrysler’s scale, bolster its product development, and allow it to enter the small car market with a robust set of products, Chrysler has some prospects for long term viability.

Detailed Determination

The Loan and Security Agreement of December 31, 2008 between the Chrysler Corporation and the United States Department of the Treasury ("LSA") laid out various conditions that needed to be met by March 31, including:

- (a) Approval of the Labor Modifications (Compensation Reductions, the Severance Rationalization and the Work Rule Modifications) by the members of the Unions;
- (b) Receipt of all necessary approvals of the VEBA Modifications other than regulatory and judicial approvals; provided, that the Borrower must have filed and be diligently prosecuting applications for any necessary regulatory and judicial approvals; and
- (c) The commencement of an exchange offer to implement a Debt Exchange.

As of the date of this memo, the above steps have not been completed. As a result, Chrysler has not satisfied the terms of its loan agreement.

The LSA also requires that the President's Designee review the Restructuring Plan Report in order to determine whether Chrysler has taken all necessary steps to achieve and sustain the long-term viability, international competitiveness and energy efficiency of the Company and its subsidiaries

Since receiving the Company's plan on February 17th, the Government has engaged in substantial efforts to assess its viability. This work has involved staff from the Department of Treasury, National Economic Council, Council of Economic Advisors as well as the numerous other Cabinet agencies involved in the President's Task Force on the Auto Industry. The working group has also worked extensively with several dozen individuals at industry-leading consulting, financial advisory and law firms. Numerous outside experts and affected stakeholders have been consulted. Based on this work, the President's Designee has concluded that the Chrysler plan is not likely to lead to viability on a standalone basis, and that Chrysler must seek a partner in order to achieve the scale and other important attributes it needs to be successful in the global automotive industry.

While the President's Designee considered many factors when assessing viability, the most fundamental benchmark was the following: for a business to be viable, it must be able – after accounting for spending on research and development and capital expenditures necessary to maintain and enhance the company's competitive position -- to generate positive cashflow and earn an adequate return on capital over the course of a normal business cycle.

The Plan that was submitted by Chrysler on February 17, 2009 reflects some progress that has been made under current management but ultimately is insufficient due to several structural issues that Chrysler, as a standalone entity, is highly unlikely to overcome:

Progress to date:

- Chrysler has made meaningful progress, and identified a great deal more opportunity, in reducing its cost structure as part of a major operating restructuring:
 - o **Structural costs:** The Company plans to reduce structural costs by 29% from 2007 to 2009. These improvements are driven largely by aggressive reductions in salaried headcount, which is expected to fall by 60% from 2000 to 2010.

- o **Capacity utilization:** The plan contemplates the reduction of manufacturing capacity by 1.3M units in order to respond to a depressed global auto market. The manufacturing capacity will be eliminated mainly through the closure of two assembly plants and five engine plants from 2009 to 2014.
- o **Wage rate rationalization:** The Company projects that its US hourly wage rate will reach benchmark levels by 2010. These assumptions are based on current negotiations, which have yet to be finalized.
- Chrysler's plan also focuses on improving product quality, which has historically lagged at Chrysler:
 - o Since the formation of Chrysler LLC, there has been a renewed effort to increase the quality and interior content of vehicles, although quality often takes many years to significantly improve and the perception of quality can lag still further. Importantly, current market research by independent experts does not suggest any significant improvement in customers' perception of Chrysler product quality.

In short, Chrysler's current management team has made meaningful progress in addressing the areas under which they have the most control, particularly on a short-term basis. However, Chrysler suffers from a number of structural disadvantages that can not be addressed on a standalone basis. In particular, Chrysler's limited scale in an increasingly capital-intensive global business, the poor quality of its existing product portfolio and its heavy truck mix leave the Company poorly positioned. Chrysler's plan to address these issues is based on overly optimistic assumptions that are inconsistent with its current products and its resources.

- Chrysler's smaller scale has broad implications for its business, both at the top line as it seeks necessary improvements in its product portfolio and at the bottom line as it seeks to improve its cost structure.
 - o **Product Development:** Chrysler's scale limits its product development budget overall, and particularly limits the amount the Company can spend developing each platform. Chrysler currently dedicates only 50% as many engineers to each platform, on average, as GM does. Furthermore, Chrysler has much lower volume platforms, on average, than most of its competitors, and these lower volume platforms mean that Chrysler must amortize its R&D and capital expenditures over a much smaller base. This, of course, limits the Company's ability to innovate and develop new product.
 - o **Purchasing:** Due to its limited scale, the Company is unable to exert leverage on suppliers to reduce its cost of goods. For example, GM's average yearly global buy is ~\$90B, whereas Chrysler's is ~\$20B.
 - o **Fixed costs:** Chrysler's more limited scale means that some of its fixed costs are spread over a smaller base. As a result, Chrysler has a significant disadvantage on fixed costs (estimated at approximately 3-4% of revenue), which translates into several hundred dollars per car of reduced profit.
- Chrysler's products have also historically underperformed in terms of quality, which remains a significant challenge:
 - o **Quality Ratings:** Chrysler has low quality scores across all of its brands, and perceived quality lags the best-in-class OEMs (2008 IQS of 147 for Chrysler versus 105 for Toyota). Moreover, every single one of Chrysler's brands are in the bottom quartile based on JD Power APEAL scores. Finally, a recent Consumer Reports article listed Chrysler last in terms of the number of recommended nameplates in its portfolio (zero Chrysler nameplates were recommended). By contrast, all of GM's continuing brands outperform Chrysler on an IQS basis and, on average, substantially outperform on APEAL scores.
 - o **Timeframe:** While there has been a renewed focus on quality since January 2008, Chrysler admits that improving quality and associated brand perception will take a number of years, as about 40% of quality issues (IQS/100 vehicles) are design related and are typically not addressed until a new product is developed.

- The Company is burdened with an unfavorable product mix, which may create further disadvantage in the evolving marketplace:
 - **Market tastes and shifts:** Chrysler does not have a product pipeline to cover the smaller car segments which are projected to grow in share of the overall car market. Chrysler's shares of the small and medium car markets are 3% and 7%, respectively (while each category represents 21% and 25% of the market, respectively), and has been declining in each segment.
 - **Current focus:** In the near term, Chrysler is planning to lift profitability by focusing on its more profitable truck and SUV segments. Given the potential variability in fuel prices, Chrysler's volume assumptions for these cars may be at risk.
 - **CAFE standards:** Chrysler's product strength is in the pickup, SUV, and minivan segments – all of which are relatively low in fuel efficiency. On a standalone basis, Chrysler will struggle to comply with increasing fuel efficiency standards, and it may even have to restrict the sale of certain models to make sure it is in accordance with proposed standards.

The limitations imposed on Chrysler by its smaller scale permeate its ability to manage its business and hinder its hopes of improving its fortunes. For example:

- Given Chrysler's limited financial resources, it can not make the necessary catch-up investments in R&D required to refresh its portfolio and bring it up to par with its competitors. So, while Chrysler's declining competitive position demands that it makes substantial investments in new products and a more diversified mix of products, its own plan projects the following:
 - **Limited new products:** The 2009 through 2014 product plan delivers only four new nameplates under the current Chrysler umbrella, with potential for additional nameplates only through a partnership.
 - **Powertrain development:** While Chrysler is investing in newer powertrain development, as are all the OEMs, its limited resources lead it to project spending just over 3% of revenue on R&D over the next five years, versus 4-5% for General Motors, Toyota and Honda.
 - **Small cars:** Chrysler's standalone plan does not provide for a substantial entrance into the small car segments – an area that will be increasingly important to automotive manufacturer profitability if potential gasoline price hikes meaningfully increase demand for smaller, more fuel-efficient cars and as CAFE standards demand a higher mix of small cars.
- Chrysler also lags its competitors in terms of manufacturing flexibility:
 - Virtually all industry observers and outside experts agree that increasing flexibility in the manufacturing footprint is critical to driving long-term profitability in the global automotive industry. In contrast to other best-in-class OEMs, as well as both GM and Ford, Chrysler has not invested significantly in common architectures and flexible plant manufacturing capacity to build multiple platforms in a given plant.
 - Chrysler is planning to invest in more flexible capacity but is behind both the transplants and GM in this capability. This lag increases Chrysler's risk to market segment shifts and individual product acceptance. For example, of the nine plants Chrysler is targeting to have by 2013, only two will be flexible across multiple platforms (compared to ~80% of GM plants).

Given these substantial obstacles, the assumptions in Chrysler's business plan are too aggressive:

- **Market share:** Chrysler's plan assumes that it maintains its current market share, although the Company has consistently lost share over the last decade

- o Chrysler has lost five percentage points of market share since the height of its share, at 16.2%, in 1998. This loss has occurred across all segments, even within its historically strong minivan offerings, where share has declined from 39% to 33% since 2006.
 - o The plan projects market share to stabilize at 10.7% and assumes that Chrysler will be able to find partnerships to launch new products in a very competitive market. Continued share erosion in line with recent history would translate into several billion dollars of increased losses over time.
 - o Unlike GM, which has had a number of successful recent product introductions and has developed a new global product development process that has promise, there are few tangible signs that Chrysler can reverse its share erosion. In fact, the gap in perceived brand quality for Chrysler, Dodge and Jeep relative to their competitors has increased meaningfully over the last several years, suggesting that Chrysler's market share, if not for significantly increased incentives that have further eroded profitability, is even more vulnerable than history suggests.
- **Financing:** The viability plan relies on Chrysler's captive financing arm to provide a significant amount of financing, which may prove challenging:
 - o In general, Chrysler's customer mix is skewed to a lower FICO score buyer (in the first quarter of 2008, approximately 34% of buyers were subprime or near-subprime), so the current financing environment disproportionately hurts traditional Chrysler buyers' ability to purchase a new car.
 - o Given the separation and independence of Chrysler Financial and increased credit standards, it is unlikely that demand will return to the robust levels of recent years in the near term.
 - o In 2008, 48% of financing for Chrysler buyers was provided by Chrysler Financial. The captive finance unit has substantial financing challenges of its own in the current financing environment, so future demand may depend on Chrysler finding alternate lending sources.
- **Price realization:** Chrysler also assumes only a modest decline in price realization despite entering highly competitive segments:
 - o Given the quality gap from which Chrysler suffers, it will be challenging to maintain pricing as projected.
 - o Even more importantly, the Company projects providing lower incentives than it has provided in its recent history – at a level of more than 25% less than the recent historical average. If the incentives were “normalized”, based on the average of 2006 - 2007 incentives, the Company will lose consistently between \$500 million and \$1 billion per year from 2010 to 2014 on an EBIT basis. This is inconsistent with the Company's recent history with regard to incentives, in which increasingly larger incentives still translated into continued share erosion.
- **Variable margin:** The plan also includes a constant variable margin assumption, despite a shift to producing lower margin vehicles. The primary drivers of this assumption are improved price realization and a reduction in cost of goods fueled by material cost management and supplier concessions of 3%, which may prove difficult given Chrysler's limited scale and distressed supply base.

While the Company has made meaningful changes to its cost structure in the last few years, the combination of a fundamentally disadvantaged operating structure and a limited set of desirable products make standalone viability for the business highly challenging. As a result, the President's Designee has found that Chrysler's plan is not viable as currently structured. However, a partnership with another automotive company, such as Fiat or another prospective partner, which addresses many of these issues could lead to a path to viability for Chrysler.