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**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

-----X	:	
In re	:	Chapter 11
	:	
Chrysler LLC, <i>et al.</i> ,	:	Case No. 09-_____ ()
	:	
Debtors.	:	(Jointly Administered)
	:	
-----X	X	

DECLARATION OF SCOTT R. GARBERDING

I, Scott R. Garberding, make this Declaration under 28 U.S.C. § 1746 and state:

1. Since December 2008, I have served as Senior Vice President and Chief Procurement Officer at Chrysler LLC, where I have been employed since 1993. As CPO, I am

responsible for Chrysler's global sourcing activities, which include finding, evaluating and engaging suppliers for goods and services.

2. In my capacity as Senior Vice President and Chief Procurement Officer and as a consequence of my experience of more than fifteen years in the automotive industry, I am familiar with the network of Chrysler suppliers that provide materials and service to Chrysler and make parts of Chrysler vehicles. I have also worked to forge alliances with other automotive manufacturers and suppliers as described in this Declaration. Except as otherwise indicated, my testimony in this Declaration is based upon my personal knowledge, my review of business records or my first-hand experience and knowledge acquired in the ordinary and regular course of Chrysler's business as to the matters described in this Declaration. If I were called upon to testify, I could and would testify competently to the facts set forth in this Declaration.

3. After graduating from the Massachusetts Institute of Technology with a Master of Science in 1993, I began work as a Manufacturing Specialist at Chrysler's Truck Assembly Plant in Warren, Michigan. For my first six months in Warren, I worked on making the plant operational, dealing with equipment suppliers and monitoring the plant's quality systems. After spending a year at Warren, I joined Chrysler's Jeep and Truck Engineering Plant in Detroit and worked in the Advanced Manufacturing and Engineering Group, where my duties included optimizing part designs and ensuring that parts received from suppliers met Chrysler's quality specifications. I worked at this facility from 1994 to 1996 and regularly interacted with a wide array of suppliers.

4. In 1996, I moved to the Chrysler Operating System Group where for about nine months I led part of a team that was responsible for implementing Toyota manufacturing principles at Chrysler plants. In 1997, I was named the Manufacturing Engineering Manager at

Chrysler's Engine Plant in Trenton, Michigan. As with my previous positions, I interacted frequently with suppliers because I was responsible for analyzing the quality of suppliers' parts.

5. After spending a year at Trenton, and receiving a promotion to Manufacturing Manager, I relocated to Dayton, Ohio in January 1999 and became the Plant Manager at the Dayton Thermal Production Plant, which supplied parts for Chrysler and other car manufacturers. This position afforded me a new perspective on Chrysler's supplier relationships because the Dayton Plant made and sold heating and air conditioning system parts to Chrysler and other OEMs and suppliers. Thus, I was on the other side of the table, manufacturing and selling parts to Chrysler—not purchasing them. After two years in Dayton, I moved to Chrysler's Jefferson North Assembly Plant, then its Detroit Axle Plant. I served as Plant Manager in both locations, spending a total of five years as a plant manager with Chrysler.

6. In 2004, I was promoted to Chrysler's headquarters, becoming Vice President for Supplier Quality. In that position, I worked personally with all of Chrysler's production and parts suppliers and, to that end, would spend at least one day a week in supplier facilities reviewing performance data and collaborating with suppliers to increase their output quality or review their readiness for new product launches. I also oversaw a group of about five hundred people who were responsible for creating quality policies and procedures for all of Chrysler's suppliers, improving the quality of components purchased by Chrysler, ensuring that suppliers were ready to launch new products on time, and making certain that suppliers could deliver adequate quantities of components to Chrysler.

7. In January 2008, Thomas LaSorda, Chrysler's Vice-Chairman and President, asked me to become the Company's Vice President of Global Alliance Operations. In the Global Alliance Operations position, I oversaw Chrysler's efforts to explore and form business alliances

and ventures throughout the world with other car manufacturers and suppliers. I held that position until I was promoted in December 2008 to my current position.

8. Since 2004, I have participated in or convened the Chrysler Supplier Advisory Council. Currently, fourteen CEOs or senior executives from Chrysler's major suppliers—BorgWarner, Continental AG NA, Cooper-Standard Auto, Delphi, Denso Int'l America, Flex-N-Gate, Gentex, IAC Group, Lear, Magna, Metalsa, TI Automotive, U.S. Steel, and Yazaki North America—sit on the Council. This Council meets on a quarterly basis—and has recently augmented those meetings with monthly conference calls—to act as a sounding board for how Chrysler's actions impact suppliers. I also sit on the board of the Automobile Industry Action Group, which is a consortium of automobile makers, suppliers, service providers, academics and government agencies that work collaboratively to streamline industry processes and business practices. Beyond my leadership in these organizations, I gain further knowledge of the industry and develop relationships with suppliers across the industry through my participation in a number of industry-centered organizations, such as the Original Equipment Supplier Association, a lobbying group for suppliers, with whom I meet on a regular basis.

Stress on Chrysler's Suppliers

9. In my role as Chrysler's Chief Procurement Officer, as well as through my knowledge gained in a number of supplier-focused positions during my time in the industry, I can speak to the current challenges facing Chrysler's production suppliers and the likely effect a shutdown of a prolonged yet indeterminate length would have on the supplier base.

10. As it entered bankruptcy, Chrysler suspended most operations to conserve its resources, while at the same time ensuring that the facilities are prepared to, first, resume normal production schedules quickly upon the completion of the proposed sale to Fiat and, second, make

sure consumers are not impacted by the bankruptcy filing (e.g., by continuing operations at parts depots to provide an uninterrupted supply of parts to service Chrysler's vehicles). Immediately upon the consummation of the Fiat sale, Chrysler anticipates that the purchased manufacturing and assembly facilities will resume normal operations under ownership of New Chrysler, the company that has been formed as part of the Fiat alliance.

11. If, however, Chrysler's is ordered to participate in an extended reorganization bidding process in bankruptcy and its operations are shut down for an extended, indeterminate period of time, the absence of cash flow to our suppliers and the lack of a clear, definitive and short timeline for that cash flow to resume would cause many of our suppliers to shut down and liquidate. As a result, Chrysler would be unable to restart production in any quick, efficient and cost-effective manner. At a certain point, it becomes entirely infeasible for New Chrysler to restart operations, thus causing the newly formed entity to shut down, permanently, before it has a chance to begin anew.

12. The failure of Chrysler's suppliers would also cause severe production problems for other OEMs, including GM and Ford, who rely on these same suppliers. Ninety-six of Chrysler's top 100 suppliers are used by at least one of the other Big Three American automobile companies; eighty-four of the top 100 are used by all three companies. In part due to this interdependence, according to the Center for Automotive Research, if at least one of the Big Three fails in 2009, the entire American automobile industry risks a collapse that would result in a loss of nearly 2.5 million jobs in 2009: almost 240,000 at the Big Three, nearly 800,000 supplier/indirect jobs and over 1.4 million spin-off (that is, expenditure-induced) jobs.¹

¹ David Cole & Sean McAlinden & Kristin Dzikczek & Debra Maranger, CAR Research Memorandum: The Impact on the U.S. Economy of a Major Contraction of the Detroit Three Automakers, CENTER FOR AUTOMOTIVE RESEARCH, Nov. 4, 2008.

13. OEMs such as Chrysler have integrated and dependent relationships with their suppliers that are outside the common conception of a supplier-manufacturer relationship and probably unique to the automotive industry. Chrysler's primary functions in the production of vehicles are to (a) engineer and design Chrysler, Dodge and Jeep vehicles, (b) coordinate the engineering performed by the various Tier I Suppliers, (c) manufacture the "skin" of the vehicles at Chrysler's stamping plants, (d) procure the "guts" of the vehicles from Tier I suppliers and certain of Chrysler's own plants, (e) assemble the vehicles from their constituent parts and (f) distribute the vehicles through Chrysler's dealership network for sale to consumers.² Consequently, a full 70% to 80% of every Chrysler car or truck is made by companies other than Chrysler.

14. Chrysler has approximately 1,300 suppliers that provide it with production parts for fifty-five different plants, facilities and other locations. But because each one of Chrysler's Tier 1 Suppliers has its own Tier 2 suppliers, and so on, the total number of suppliers that contribute to the production of Chrysler cars and trucks is well beyond 1,300. Chrysler makes \$35 billion in annual supplier payments; more than 85% of those payments are made in the NAFTA region. In fact, 78% of the material Chrysler purchases is from suppliers based in the United States.

15. Chrysler suppliers produce unique products that fit into a precise, sequenced assembly process that makes finding a replacement supplier—a process called "re-sourcing"—a difficult task in any case and one that takes planning and time to ensure that the assembly plant does not shut down. Chrysler demands exacting engineering specifications of its suppliers; it often requires that suppliers produce parts with tolerances of millimeters or less—much more

² Those suppliers that sell directly to the Chrysler are commonly referred to as "Tier I Suppliers" with their suppliers known as "Tier II Suppliers," etc.

precise than most manufacturing operations. Similarly, the raw materials that go into Chrysler products must be of a precise and uniform thickness, composition and grade and must have particular strength, flexibility and other performance characteristics. Moreover, these precision products and materials must fit together in a tightly ordered process based on "just-in-time" delivery to the assembly plant. The manufacturer of a Dodge Ram, for example, necessitates the work of 200 Tier I suppliers spread out in 536 locations, not to mention the hundreds of lower tier suppliers integrated—and integral—to the production. If any one of these suppliers stops producing or does not deliver their specified inventory of parts or supplies, all three Chrysler truck plants can shut down within three hours. To be sure, some suppliers are more easily resourced than others, but in no case is it as easy as simply calling another supplier to order a replacement product for that week's production schedule.

16. Moreover, an extended shutdown of Chrysler at this particular time would be especially devastating to the suppliers given three extraordinary events: (1) the shutdown of many Chrysler operations in December 2008 – January 2009, (2) the lack of available credit in the marketplace, and (3) General Motors's announcement of rolling shutdowns during Summer 2009.

17. Under the terms of a standard agreement, Chrysler's suppliers are not paid immediately upon our receipt of their parts or services. Instead, suppliers are typically paid approximately 45 days later. The 45-day payment cycle is important for understanding why a shut down would be devastating for many suppliers. If Chrysler were to shut down for an extended period and then restart, the suppliers would be in a position where each would need to begin manufacturing again without its regular source of revenue to fund such operations for the first 45 days. That is, because nothing had been produced 45 days previously, no payments from

the OEM (or higher tier supplier) would be due; however, the suppliers would need to purchase materials, pay operating costs and provide employee wages.

18. Given the thin margins upon which the suppliers operate, this imbalance between revenue and expenses would be catastrophic for the suppliers' ability to secure adequate capital, including maintaining loan revolvers. As an example, shortly after Chrysler halted production for four weeks in December 2008 and January 2009, BorgWarner, one of the most well-respected suppliers in the industry, received a below-grade investment rating because it lacked liquidity. This makes it difficult for BorgWarner (and other suppliers in similar situations) to borrow money needed to purchase products from their own suppliers. Many suppliers are in this predicament after the winter shutdown and would be unable to sustain a second, more prolonged and uncertain shutdown in such a short time span.

19. Adding to that pressure is the reality, in my experience, that the banks in the current economic atmosphere have been very impatient with any business within the automobile industry that fails to abide by every covenant and provision of its loan agreement. For some suppliers, an above grade investment rating is one of their loan covenants. If a supplier rating drops below the requirements required and the loan covenant is violated, banks are quickly stepping in (almost immediately) to cut off the supplier's revolver. This very scenario occurred with Nicholas Plastics, a supplier of Chrysler and many other OEMs.

20. Because the withdrawal of a supplier's revolver without replacement cash would immediately shut down a supplier—and, consequently, shut down the OEMs' production lines—the OEMs themselves have been stepping in as replacement lenders. In early 2009, CONTECH, a producer of track bars, faced an imminent shutdown due to liquidity problems. Because Chrysler cannot build cars without the parts provided by CONTECH, Chrysler—even while it

faced its own unprecedented liquidity problems—stepped in as the operator of CONTECH, facing a 120 day timeframe when CONTECH's bank promised to withdraw all its financing.

21. Finally, I understand that GM has announced that it will be doing a rolling shutdown of some of its plants during a nine week period during the Summer of 2009. Importantly, as I understand it, GM will always have some of its assembly plants running during this period and there will be no disruption of operations that are in the process of launching new products. In this way, GM's suppliers will be provided some ongoing revenue to help them survive this period. Nevertheless, the low revenue stream and consequent stress on these suppliers—most of whom supply both GM and Chrysler—will be extraordinary.

22. Supplier stability is so integral to Chrysler that we track the financial health of every one of our suppliers. My department spends 30-40% of its time working with economically distressed suppliers. By looking at our suppliers' income statements and balance sheets, we calculate a score based on a combination of the supplier's liquidity (45% of total score), sales/profit (20%), debt leverage (15%), covenants (10%) and working capital (10%). To that objective score, we add a subjective analysis conducted by committee on a weekly basis. The resulting rating puts the supplier into one of five categories: (a) stable, (b) monitor, (c) concern, (d) risk or (e) high risk. The "high risk" category is comprised of those suppliers who face an imminent threat of production disruption or require substantial funding from Chrysler to maintain production. Those in the "risk" category are in imminent threat of becoming "high risk." The "concern" category encompasses those suppliers that are at some liquidity risk, but should have sufficient liquidity to operate for the next 6-12 months.

23. In October 2008, 11.5% of Chrysler's suppliers (as measured by annual value of business) were in the concern, risk or high risk categories – the highest percentage to be placed

in these categories in Chrysler's history. And yet from that historic high, every month from November 2008 to March 2009 has seen that percentage increase, leading to a total of 31.8% of suppliers in those three critical categories—13.5% high risk, 4.5% risk and 13.8% concern—in March 2009.

24. While Chrysler is in bankruptcy, a vital source of both revenue and credit is missing for these suppliers. And without a clear timeline for when that situation will end and production will resume, suppliers have no way of planning for survival through the shut-down period and reemergence when New Chrysler is ready to produce cars and trucks. If suppliers are not provided this short and definitive timeframe, I believe we will see massive supplier bankruptcies, and because of these bankruptcies it will quickly become infeasible for the Purchaser to resume production of Chrysler automobiles.

25. Indeed, even a brief shutdown of a supplier results in significant problems in restarting. Recently, DriveSol, which makes intermediate steering shafts (connecting the steering column to the steering gear), stopped production for about two weeks. Even in this short period of time, it was extremely difficult to keep Chrysler supplied. Any shut-down of longer than two weeks would almost certainly have resulted in the stoppage of Chrysler assembly lines. When DriveSol restarted, many of its employees were new hires, even though the plant had only been closed for about two weeks. To remedy the problem, Chrysler sent a team of people with manufacturing expertise to DriveSol to train its new employees in proper manufacturing operations. Only after this significant outlay of time, money and manpower was DriveSol able to resume operations.

26. Chrysler has the support structure and financial capability to provide this type of support only to about five to ten suppliers at any given time. It would not be able to provide that

support to the hundreds of suppliers who would need it in a shutdown during an extended bankruptcy shutdown of indeterminate length. Moreover, shutdowns of our Tier I suppliers—those suppliers who sell product directly to Chrysler—would cause ripples of shutdowns into lower tier suppliers. While Chrysler is aware of the multiple levels of suppliers that service and depend upon it, it is generally unaware of who the lower level suppliers are and is in no position to help them get restarted. In short, Chrysler is not in a position to simply flip the switch back on in our assembly plants and start producing cars immediately after an extended downtime. The damage to a supplier based would be too severe.

27. The fate of Chrysler's suppliers lies in Chrysler emerging from bankruptcy in a swift manner, thus ensuring that Chrysler's—and consequently its suppliers'—operations continue with as little disruption as possible. A re-launch of a company after a delayed and prospectively indeterminate bankruptcy timeline would increase the risk to suppliers to a point that would cause massive supplier liquidation throughout the industry.

The Payment of Certain Parties as a Function of Chrysler's Fiduciary Obligations

28. Chrysler remains mindful of its fiduciary obligations to preserve and maximize the value of its estate for the benefit of stakeholders as it pursues a sale transaction. Accordingly, during the requested short period between the Petition Date and the anticipated consummation of a sale transaction, Chrysler intends to make every effort to minimize the adverse effects of its chapter 11 filing on the transition of Chrysler's assets to New Chrysler or other purchaser (any such purchaser, the "Purchaser"). By doing so, Chrysler will help promote the successful consummation of the sale transaction, thereby maximizing the value received by stakeholders. Chrysler intends to fulfill its fiduciary duties, and thus maximize stakeholder recoveries, by obtaining authority to pay those parties whose continuing survival and cooperation is necessary

to avoid a delay or interruption in the transition of Chrysler's operating assets to the Purchaser or otherwise are critical to preserve the value of a sale transaction.

29. To that end, it is imperative that Chrysler obtain authority to make payments to suppliers, vendors, and certain administrative claimholders and lienholders to preserve Chrysler's supplier base. If Chrysler is not permitted to pay the prepetition claims of these parties and continue its troubled supplier program, Chrysler's vendors and suppliers may (a) not be able to timely respond with the supply of indispensable goods and services as may be needed in these chapter 11 cases absent payment of outstanding prepetition invoices or (b) simply lack the financial wherewithal to continue in operation after a precipitous and unplanned period of nonpayment, particularly in light of the extraordinary economic pressures facing the automotive sector. By contrast, most vendors can manage their cash through a brief period of inactivity if cash payments are not interrupted suddenly. For this reason, among many others, it is Chrysler's intention to effect the Sale Transaction, and restore their ordinary course business relationships with suppliers, as rapidly as possible. An extended shutdown could cause suppliers irreparable harm; an expedited sale process and an abbreviated idling of the Debtors' facilities would mitigate such harm to a substantial degree (and, moreover, conserve much of the cash that otherwise would be used by the Debtors to make payments to suppliers upon prepetition debt upon the grant of certain requested relief). The best means to preserve the supplier base, and to minimize any payments upon prepetition debt made pursuant to the grant of certain requested relief is for the Sale Transaction to be concluded quickly. Accordingly, the relief Chrysler is seeking is critical to its efforts to preserve going concern value and the opportunity to complete a sale transaction for the benefit of stakeholders during a time of unprecedented uncertainty for both Chrysler and the automotive industry generally.

Essential Suppliers

30. As I discussed above, Chrysler's business of designing, assembling and selling cars cannot function without the unique, specially-designed parts produced by suppliers who are not readily replaceable. In the face of a challenging economic environment in the automotive industry, the supplier base must be supported by Chrysler pending the sale as a core element of the value to be transferred to a buyer. The proposed payments to suppliers thus constitute an essential component of preserving going concern value pending a sale and ensuring that these key business partners will be able to continue their business relationships with a Purchaser.

31. Having the authority to make payment to suppliers also is critical to Chrysler's ability to ensure that, after the Petition Date, their operating parts depots continue to receive an uninterrupted flow of service parts necessary to repair and maintain consumer vehicles on an ongoing basis.³ Although the purchase of service parts is a much smaller component of Chrysler's businesses than the purchase of production parts and raw materials used in manufacturing operations, the supply of service parts nevertheless is indispensable to preserve and protect the going concern value of Chrysler's brands and businesses pending consummation of a sale transaction. During a period where all aspects of Chrysler's businesses are certain to be under intense public scrutiny, the inability of consumers of Chrysler, Jeep and Dodge brand vehicles to have their vehicles maintained and repaired without interruption would threaten a collapse in confidence in Chrysler's brands, which in turn would impair the going concern value of Chrysler's businesses. The willingness of Chrysler's suppliers to produce and ship service parts thus is essential to Chrysler's efforts to preserve the value of its chapter 11 estates.

³ While a vehicle is in production, Chrysler often has certain extra parts manufactured and shipped to Chrysler's Mopar part distribution centers. These part distribution centers, which are anticipated to remain in operation as of the Petition Date and throughout these chapter 11 cases, provide parts to dealers and other authorized third parties for use in the repair of Chrysler's vehicles, thereby allowing Chrysler to honor its warranty obligations or perform necessary maintenance in the event of a vehicle recall or service campaign.

32. It is vital to the ability of the Purchaser to operate that, upon the consummation of a sale transaction and the transfer of Chrysler's manufacturing and assembly facilities, those facilities are stocked with the production parts and raw materials necessary to achieve the Purchaser's targeted production levels. Achieving these inventory levels may require Chrysler's vendors and suppliers to restart production and/or delivery of necessary production parts, raw materials and other goods and services slightly in advance of the closing of a sale transaction.

33. It is my understanding that it is Chrysler's intention, in connection with the consummation of a sale transaction, to "assume" the purchase orders and other contracts between Chrysler and its key vendor constituencies who are anticipated to provide goods and services to the Purchaser in connection with production to be restarted by the Purchaser. It is my further understanding that at the time of assumption, Chrysler will be required to cure all outstanding defaults under such contracts, including most of the claims of certain essential suppliers (collectively, the "Essential Suppliers") Chrysler seeks authority to pay. Accordingly, it is my understanding that approval of the payment of such claims at this time generally will not alter the ultimate recovery for Essential Suppliers, but simply will alter the timing of such payments.

The Seamless Transfer of Chrysler's Facilities to the Purchaser and the Need for Service Parts Will Require the Timely Shipment of Goods From the Essential Suppliers

34. The vast majority of component parts incorporated into Chrysler vehicles have been produced by outside suppliers. Because of (a) the dire financial situations faced by many of Chrysler's suppliers and (b) the upheaval in the automotive industry expected to accompany Chrysler's chapter 11 filing, I believe that many of Chrysler's vendors, unless paid on account of their prepetition debt, will be financially unable to supply Chrysler with the specialized goods and/or services necessary to (a) recommence operations at Chrysler's manufacturing and

assembly facilities and (b) supply the service departments of Chrysler's dealerships with parts necessary to preserve the value of Chrysler's brands.

35. The timely provision by Chrysler's suppliers of production parts, raw materials and other necessary goods and services upon (or in some cases in advance of) the consummation of a sale transaction will be required to insure the seamless transition of Chrysler's facilities to the Purchaser and the preservation of the going concern value of Chrysler's brands and businesses. In most cases, however, because of the highly engineered nature of Chrysler's vehicles, the goods and services purchased from suppliers for use in the operation of Chrysler's facilities are available, as a practical matter, only from a single supplier. In most instances, Chrysler does not have (and a Purchaser will not have) any viable alternatives to obtain substitute goods or services from other suppliers. Moreover, seeking to re-source necessary goods to a different supplier is impractical for various reasons, largely due to the unique and expensive equipment required to produce highly-engineered parts, as well as passenger safety and reliability concerns.

36. The risks to suppliers are mitigated by the use of a prompt sale process to consummate a Sale Transaction by which most supplier agreements will be assumed and assigned to the Purchaser (and amounts outstanding on prepetition invoices eventually cured). Moreover, the availability of the Supplier Support Program—pursuant to which Chrysler's suppliers may receive guarantees of, or advances upon, payment of certain of their Chrysler-related receivables—will further alleviate the financial pressure on its vendor constituency.

37. Nevertheless, Chrysler's supplier base is on an exceedingly fragile footing and the temporary idling of Chrysler's facilities (and the associated reduction in their suppliers'

production volumes) will subject Chrysler's supplier base to potentially significant levels of financial stress as the steady flow of payments from Chrysler upon outstanding receivables is interrupted. As compared to other bankruptcy filers, the confidence and perception issues faced by Chrysler at this time very well may be unique. As a result of the extraordinary financial stress on the industry at this time, the filing of these cases jeopardizes the survival of a great many of Chrysler's suppliers if payments are delayed pending the anticipated cure of outstanding defaults.

38. Obtaining the ability to pay, and help maintain the financial viability of, Chrysler's vendor constituency is necessary to ensure a smooth transition of Chrysler's operating businesses to the purchaser. The payment of its supplier and constituency further enhances value and promotes a successful sale transaction by engendering confidence among Chrysler's suppliers, dealers and end consumers that (a) the idling of Chrysler's facilities will be as brief as possible and (b) the service departments of Chrysler's (or the Purchaser's) dealerships will continue to be supplied with the necessary service parts to effectively maintain and repair Chrysler, Jeep and Dodge vehicles after the Petition Date and into the future. To provide its various constituencies with these assurances, Chrysler must have the ability to work with its suppliers to ensure that necessary parts will continue to be produced and necessary services will continue to be performed. Indeed, as described above, continuity in the service of vehicles assumes even greater significance in light of the extremely public nature of these chapter 11 cases and the contemplated Fiat sale.

The Identity of the Essential Suppliers

39. Essential Suppliers are those vendors that would have the ability to impair the value of a sale transaction through the interruption of their supply of indispensable goods or services, e.g., due to the supplier's own financial distress. The Essential Suppliers the Debtors

have sought authority to pay fall into two main categories: (a) "direct" production part suppliers (i.e., vendors that supply highly engineered component parts that are directly integrated Chrysler's vehicles); and (b) "indirect" suppliers (i.e., suppliers that provide services or deliver goods that are not directly incorporated into Chrysler's vehicles). I discuss each category below.

Direct Production Part Suppliers

40. "Direct Production Part Suppliers" supply (a) key component parts incorporated directly into Chrysler's vehicles or sub-assemblies during Chrysler's manufacturing and assembly processes or (b) service parts sold by Chrysler to dealerships or other parties authorized to repair Chrysler's vehicles. The components supplied by the Direct Production Part Suppliers (e.g., tires, bumpers, lighting equipment, axles, driveshafts, braking systems, engines, seats, windows and electronics) plainly are integral to the manufacture and assembly of automobiles and their availability is essential to the resumed operations, and going concern value, of Chrysler's facilities. Indeed, in cases where large components or assemblies are especially expensive to ship, or where components must be sequenced with an assembly line, the Direct Production Part Suppliers often have operations within or adjacent to Chrysler's own facilities to facilitate the supply of parts and provision of related services. Chrysler purchased nearly \$25.6 billion from their domestic Direct Production Part Suppliers in 2008.

41. Due to Chrysler's exacting engineering specifications and overriding public safety concerns, the development of a new part and the design of the manufacturing process is necessarily rigorous and lasts, on average, approximately two years.⁴ As part of this process, Chrysler maintains a number of quality control programs that are essential to maintaining consumer confidence in the quality of the vehicles that Chrysler manufacture. These programs

⁴ Depending upon the complexity and importance of the part at issue, the PPAP Process can last even longer.

require Chrysler's Tier I suppliers (and, indirectly, through the Tier I suppliers, the Tier II suppliers) to complete a detailed production part approval process (or similar process) (the "PPAP Process")—i.e., an inspection, testing and approval regime governing the component parts utilized in the manufacture of Chrysler's vehicles and other products—prior to the integration of the suppliers' products into Chrysler's vehicles. Thus, if a Direct Production Part Supplier were unable to ship parts to Chrysler in anticipation of the transfer of Chrysler's facilities to the Purchaser, and Chrysler sought to re-source those parts from an alternate supplier, it would be extremely difficult, if not impossible, for Chrysler to complete such a re-sourcing in the limited period of time between the anticipated re-mobilization of Chrysler's supply chain and the consummation of a sale transaction.⁵

42. The obstacles to re-sourcing imposed by the Debtors' rigorous PPAP process are complemented by the potential invalidation of mandatory government testing (e.g., emissions testing, fuel economy testing, crashworthiness testing) in the event of a re-sourcing. Compliance with regulatory testing regimens may take many months to complete. To the extent that a re-sourcing materially alters the results of such testing, the Debtors may need to re-submit to protracted additional testing or certifications.

⁵ For example, changes to powertrain parts — even a part as simple as a screw or other fastener — could (a) require the recalibration of entire powertrain assemblies and (b) impact a vehicle's entire architecture. In Chrysler's experience, where new tooling is required, re-sourcing a supplier of powertrain parts from scratch requires the new supplier to complete the entire PPAP process and, thus, can take two years. If the Production Tooling (as such term is defined below) that was used by the old supplier can be removed and used by the new supplier, such timeframes can be shortened, but often such action is impractical because the tooling was originally developed and configured to work within the original supplier's processes and manufacturing facility. Moreover, substantial amounts of time can be absorbed in rigging the tooling, shipping the tooling and installing it at a new facility, training the new supplier on the tooling, acquiring and integrating appropriate capital equipment that can be utilized with the tooling and ensuring that parts being produced are within specification. Thus, even where the necessary tooling is transferable, re-sourcing a Direct Production Part Supplier can still take up to six months. Finally, the regulatory environment within which vehicle manufacturers operate and their need to comply with federal motor vehicle safety standards would impose further costs and delays.

43. Intellectual property concerns also can make re-sourcing difficult, as intellectual property developed by an old supplier may not be usable by a new supplier under existing patent and copyright law. Moreover, even if re-sourcing could be quickly accomplished, the simple cost and administration of multiple re-sourcings likely would be extremely difficult, if not impossible, under the difficult circumstances faced by Chrysler and its limited resources.⁶

44. Additionally, I believe that there is a risk that many of Chrysler's suppliers may assert that they have liens on the Production Tooling in their possession for the value of the fabrication work performed with such tooling and might assert a right to maintain possession of, or even sell, the Production Tooling if not paid.

45. Based on the analysis provided I me, I estimate that, as of the Petition Date, the aggregate amount of prepetition claims held by Direct Production Part Suppliers was approximately \$1.7 billion.⁷

Indirect Suppliers

46. The efficient operation of Chrysler's manufacturing and assembly facilities depends on a substantial number of suppliers (collectively, the "Indirect Suppliers") that provide Chrysler with services and goods that, while not directly incorporated into Chrysler's vehicles, are nevertheless indispensable to the production of such vehicles. Chrysler utilizes a number of

⁶ For example, most of the parts manufactured by Direct Production Part Suppliers are produced using certain tooling (often including other specific equipment not technically considered "tooling") that is owned by Chrysler (collectively, the "Production Tooling"). Many of the Direct Production Part Suppliers to whom parts are re-sourced would expect and require that new Production Tooling (which is generally paid for by an OEM) be paid for by Chrysler if the tooling utilized by the old supplier is not configurable to the new supplier's processes.

⁷ While the overwhelming majority of the prepetition claims held by Direct Production Part Suppliers arise out of the delivery of production parts to Chrysler, Chrysler anticipates that the Direct Production Part Suppliers also will seek to recover other, such as claims arising out of certain amortized costs that the Direct Production Parts Suppliers were unable to recover due to Chrysler's cancellation of certain vehicle programs. Based upon past discussions I or other Chrysler employees have had with certain of their Direct Production Part Suppliers, Chrysler estimate that the amount of these non-production claims could be as much as 25% of the total of production-related claims.

highly-skilled and specialized Indirect Suppliers to provide them with, among other goods and services: (a) perishable tools (e.g., welding tips, drill bits, grinding heads, motor bearings, assorted hand and cutting tools, gloves and bags) consumed or used during manufacturing and assembly (collectively, the "Perishable Tools"); (b) materials required to power, utilize and/or maintain Chrysler's equipment and machinery (e.g., gasoline, propane, lubricants, gases, oils, fluids, electrical components and various chemicals and solvents) (collectively, the "Maintenance Materials"); (c) maintenance and repair services necessary for the efficient and continuous functioning of Chrysler's equipment and machinery; (d) services related to Chrysler's engineering, research and development efforts (the "ER&D Services"); and (e) manufacturing and strategic consulting services. Based on the analysis provided to me, I estimate that Chrysler paid approximately \$3.3 billion to Indirect Suppliers in 2008.

47. When operating, many of Chrysler's manufacturing and assembly facilities run multiple shifts per day. Chrysler also has a significant number of testing and engineering facilities. Many of the Indirect Suppliers supply Chrysler with the goods and services necessary to ensure the uninterrupted functioning of these facilities by preventing and, when necessary, correcting breakdowns in machinery and equipment in order to minimize manufacturing and assembly disruptions.

48. If the Indirect Suppliers are unable to provide such goods and services as may be necessary to ramp up Chrysler's facilities following their temporary idling, the loss of these goods and services would increase the risk that Chrysler would be unable to successfully consummate a Sale Transaction. Chrysler generally does not maintain replacement machinery and equipment that can be put into use, as the cost of such replacement equipment and machinery generally was considered cost-prohibitive. Moreover, a substantial amount of the

Perishable Tools and Maintenance Materials utilized by Chrysler are specifically designed for the production of specific parts and, thus, must be specially ordered as opposed to being "catalogue" items that can be easily replaced. In a limited number of circumstances, the Indirect Suppliers provide Chrysler with Single Source Goods and Services, leaving Chrysler with no choice but to turn to the applicable Indirect Supplier for assistance. Accordingly, the recommencement of operations at Chrysler's facilities in anticipation of and following a sale transaction will require renewed access to the goods and services provided by the Indirect Suppliers.

49. Based on the analysis provided to me, I estimate that, as of the Petition Date, the aggregate amount of prepetition claims held by Indirect Suppliers was approximately \$600 million.

Foreign Vendors

50. In light of the size, sophistication and global nature of Chrysler's businesses, when Chrysler's manufacturing and assembly facilities are operating, it regularly transacts business with vendors (any such vendor, a "Foreign Vendor") located in developing "low-cost" countries or regions such as China, Korea, India, Southeast Asia, Latin America, South America and Central Europe (collectively, the "LCCs"). Many of these Foreign Vendors supply goods or services crucial to the efficient operation of Chrysler's facilities. Moreover, certain of these Foreign Vendors supply goods or services to Chrysler that cannot be obtained from other sources or cannot be obtained from other sources in sufficient quantity or quality or without significant delays. Indeed, with respect to certain goods (e.g., the wiring used in Chrysler's vehicles), the market and supply base for such goods exists only in the LCCs. If production parts are not obtained from the Foreign Vendors as needed (a) to supply Chrysler's operating parts depots with

necessary service parts or (b) upon the anticipated recommencement of operations shortly before the consummation of a sale transaction, Chrysler likely would be unable to maximize the going concern value of its brands and businesses and, thus, fully maximize stakeholder recoveries through the consummation of a sale transaction.⁸

51. Based on information provided to me, I understand that foreign suppliers, particularly those located in LCCs, often have confused and guarded reactions to the United States bankruptcy process. Accordingly, having (a) filed for bankruptcy and (b) declared its intentions to (i) temporarily idle its manufacturing and assembly facilities and (ii) effect a sale transaction in the near term, Chrysler runs a substantial risk that its Foreign Vendors may react by refusing to ship necessary service parts on a continuing basis following the Petition Date and vital production parts during the period immediately preceding a sale transaction, if they are not paid prepetition amounts outstanding. Uncertainty regarding the idling of Chrysler's facilities, the implementation of a sale transaction and Chrysler's status post-bankruptcy could cause a Foreign Vendor to adopt a negative attitude in approaching the unfamiliar territory of chapter 11, which could undermine Chrysler's ability to effect a value-maximizing sale transaction.

52. In addition to undermining Chrysler's relationship with its current Foreign Vendors, the generally guarded reaction to the United States bankruptcy process among foreign suppliers likely would complicate any effort by Chrysler to re-source parts currently supplied by Foreign Vendors to alternative foreign suppliers.

53. There is a further substantial risk that, in those circumstances where Foreign Vendors maintain possession of Chrysler's tooling, those vendors may refuse to release such

⁸ While a "just in time" model is not always possible for Foreign Vendors, the ability to minimize storage costs and limit the amount of funds tied up in raw materials and component parts remains crucial. Moreover, in light of the global nature of Chrysler's suppliers, world events — including weather, natural disasters or political or social unrest — sometimes further narrows the margin for error in Chrysler's supply chain.

tooling in the absence of payment and leave Chrysler without the ability to either re-source critical parts or transfer necessary tooling to the Purchaser in connection with a sale transaction.

54. Furthermore, it is possible that Chrysler's nonpayment of outstanding invoices pending the closing of a sale transaction could be harmful to a Foreign Vendor, even if that Foreign Vendor were willing to do business with Chrysler. As with the domestic automotive industry, certain of the Foreign Vendors are thinly capitalized and have precarious financial situations. Certain of these Foreign Vendors are highly dependent upon Chrysler for their continued viability and can ill afford any loss of operating revenue. With limited or no access to additional capital, and faced with the prospect of an interruption in the flow of receivables from Chrysler while Chrysler's manufacturing and assembly facilities are idled, the nonpayment of the Foreign Claims could result in some of the Foreign Vendors suffering work stoppages or other business disruptions prior to the closing of a sale transaction and might ultimately result in such vendors ceasing operations altogether or filing insolvency proceedings. If that occurred, Chrysler would suffer damaging interruptions in the supply of parts necessary to maintain and service Chrysler's vehicles and Chrysler's ability to resume operations at their manufacturing and assembly facilities in advance of a sale transaction would be undermined.

55. In addition, Chrysler has a number of nondebtor subsidiaries located in 17 foreign countries (collectively with Chrysler, the "Nondebtor Subsidiaries"), including in, among others, Egypt, Mexico, Chile, Venezuela, Taiwan, Turkey, Korea and Brazil. If the Foreign Claims are not paid, the Foreign Vendors may take immediate action against the Nondebtor Subsidiaries, or against property owned by Chrysler itself in foreign countries.

Summary of Essential Suppliers and Foreign Vendors

56. The Essential Suppliers and Foreign Vendors provide goods and services essential to Chrysler's ability to (a) restart operations at their manufacturing and assembly facilities in connection with a sale transaction and (b) preserve supplier, dealer and consumer confidence in Chrysler, Jeep and Dodge brand vehicles after the Petition Date through the provision of necessary service parts. Moreover, the survival of the Essential Suppliers and Foreign Vendors is essential to preserve the going concern value of Chrysler's businesses and to consummate a sale transaction for the benefit of stakeholders. In my opinion, the provision of authority to Chrysler to pay the Essential Suppliers and Foreign Vendors in its sole discretion is critical to avoid a significant diminution in the value of its estates and its ability to maximize stakeholder recoveries through a sale transaction.

57. Chrysler's management and employees, including myself, in consultation with its professionals, have held numerous internal meetings and have exercised high levels of care in reviewing the facts and circumstances of its Essential Suppliers. Similarly, Chrysler's management, again, including myself, has carefully reviewed the facts and circumstances of their Foreign Vendors by concentrating on factors such as the sophistication of the supplier, the financial state of the supplier, the sole source nature of the supplier, pricing levels, the vehicles to which the parts in question relate and the nature of the Chrysler-supplier working relationships.

58. Chrysler intends to pay only certain of these vendors and intends to require clear prospective commitments from these vendors to supply both Chrysler and the Purchaser (as applicable) in exchange for, and as a condition to, the payment of the Essential Supplier Claims. Likewise, Chrysler would pay the prepetition claims of certain Foreign Vendors, but only to the extent necessary, and on such terms and conditions as are appropriate in Chrysler's sole business

judgment, to avoid irreparable loss of value to the detriment of Chrysler's estates and stakeholders.

59. It is my understanding that Chrysler is seeking authority to pay the prepetition claims of Essential Suppliers and Foreign Vendors, in its sole discretion, to the extent such payment is permitted by, and consistent with the terms of Chrysler's proposed postpetition financing facility. Given the scope of Chrysler's operations, and the importance of preserving the supplier body to consummate a Sale Transaction on a going concern basis, Chrysler submits that the exercise of such authority would be a reasonable and appropriate expenditure of estate funds.

Troubled Supplier Program

60. In light of the substantial financial difficulties faced by the entire automotive industry (particularly in the last two years), Chrysler has dealt with the financial distress of a substantial number of their suppliers in the ordinary course of Chrysler's businesses. In the automotive industry, when a supplier faces financial distress, one common outcome is the negotiation of, and entry into, an agreement or agreements between the troubled supplier and its customers designed to alleviate that distress (any such agreement, an "Accommodation Agreement"). While any particular Accommodation Agreement will contain provisions specific to the relevant troubled supplier or customer, a standard Accommodation Agreement might include some or all of the following kinds of provisions:

- increased pricing for the supplier;
- provision for a one-time payment to the supplier;
- provision of secured or unsecured funding to the supplier by the customer;
- shortening of payment terms paid by customers to the supplier;

- a commitment by the supplier to continue manufacturing products for the customer;
- agreements regarding the customer's ability/inability (depending on the negotiations) to re-source the supplier;
- the right of customers to access the supplier's facility, books and records and meet and confer with officers;
- an acknowledgement that tooling utilized to manufacture parts is owned by the customers and not the supplier, and providing for its removal by the customers;
- the option for the customer to purchase supplier-owned tooling, machinery and capital equipment at reasonable pricing;
- the right of the customers to enter into and operate the supplier's facility upon the occurrence of certain events; and/or
- a requirement that a parts bank be built by the supplier upon a customer's request.

Chrysler has negotiated and entered into more than 20 Accommodation Agreements in the past two years, and continues to have various obligations outstanding under those agreements.

61. Chrysler anticipates that the commencement of these chapter 11 cases and macroeconomic conditions generally (including the credit crisis and the particular financial distress being experienced in the automotive industry) will cause a number of its suppliers to experience acute financial distress in the upcoming weeks. Moreover, a bankruptcy filing by another OEM would exacerbate this distress to a potentially unsustainable degree.

62. Chrysler is seeking to have the authority, under existing and new Accommodation Agreements, to (a) pay prepetition unsecured nonpriority claims (which claims are also Essential Supplier Claims) and (b) extend secured and unsecured financing to troubled suppliers, up to a maximum aggregate amount of \$550 million (to the extent such payments and financing are permitted by, and consistent with, the terms of Chrysler's postpetition financing facility).

Supplier Support Program

63. On March 19, 2009, President Obama announced the establishment of the Supplier Support Program by the U.S. Treasury. The Supplier Support Program is intended to provide liquidity for certain qualifying automotive suppliers and contemplates the guarantee, or early payment, of qualified automotive receivables through an OEM's establishment of a bankruptcy-remote special purpose vehicle funded with loans from the U.S. Treasury and capital contributions from the OEM. This special purpose vehicle purchases eligible automotive receivables from tendering suppliers in exchange for a payment either immediately (at a 3% discount from face value) or at maturity (at a 2% discount from face value).

64. On April 2, 2009, to participate in the Supplier Support Program, Chrysler formed nondebtor Chrysler Receivables SPV, LLC (the "Receivables SPV"), to which entity Chrysler's suppliers could sell their outstanding receivables. In accordance with the terms of the Supplier Support Program, Chrysler contributed \$15 million in capital to the Receivables SPV on April 16, 2009, and have contributed a total of \$50 million thereto as of the Petition Date. Although the Supplier Support Program may be terminated by the U.S. Treasury as a result of Chrysler's chapter 11 case, Chrysler anticipates that the Supplier Support Program will remain open for a period of time postpetition pursuant to the terms of a forbearance agreement (the "Forbearance Agreement") currently being negotiated by the U.S. Treasury and the Receivables SPV.⁹ If the Supplier Support Program continues, Chrysler will be obligated on a prospective basis to make capital contributions to the Receivables SPV so that the aggregate amount of all capital contributions made to the Receivables SPV equal 5% of the sum of (a) all loans outstanding under the financing facility plus (b) exposure for accounts receivable

⁹ It is my understanding that receivables purchased by the Receivables SPV prior to the Petition Date will be honored and paid by the Receivables SPV, regardless of the U.S. Treasury's ultimate decision with respect to the postpetition continuance of the Supplier Support Program.

purchased by the Receivables SPV but not yet paid for (to the extent such amount has not already been funded).

65. The availability of the Supplier Support Program and the ability of Chrysler's suppliers to receive payment from the Receivables SPV promises to mitigate the amounts that Chrysler might otherwise have to pay to their suppliers pursuant to certain relief sought by decreasing the cost to Chrysler of retiring such receivables. Generally, Chrysler would have to fund approximately only 5% of a receivable's discounted face value to have that receivable retired and the corresponding supplier financially supported.¹⁰

66. It is my understanding that Chrysler's participation in the Supplier Support Program, and, specifically, its capital contributions to the Receivables SPV may constitute the payment of prepetition claims. The benefits conferred on Chrysler through participation more than justify the required expenditure.

Goods Received in the Last Twenty Days

67. Chrysler intends to pay sparingly all claims for the value of goods received by it in the ordinary course of its businesses during the 20-day period immediately prior to the Petition Date (the "Twenty-Day Administrative Claims"). Chrysler will proceed with this plan in the interest of preserving its cash prior to the closing of a sale transaction (and in anticipation of a significant percentage of Twenty-Day Administrative Claims ultimately being satisfied in connection with, or as a result of, the assumption and assignment of the underlying purchase orders or contracts to the Purchaser). Chrysler intends to apply a plan similar to that applied to

¹⁰ The availability of the Supplier Support Program, however, does not obviate the need for the other relief requested by Chrysler. For example, many suppliers may be unable to take advantage of the Supplier Support Program for various business and legal reasons (e.g., certain suppliers may be constrained by the terms of financing agreements; currency reasons; an entity's formation outside of the United States). Other suppliers, moreover, may be unwilling or unwilling to accept the discount from face value that accompanies tender of receivables to the Receivables SPV. In any event, the Supplier Support Program is of limited size and, despite the anticipated execution of the Forbearance Agreement, there is no assurance that it will remain available postpetition.

Essential Suppliers when determining whether to make payment to the holder of some or all of a Twenty-Day Administrative Claim.

68. Based on the analysis provided to me, I estimate the aggregate total of Twenty-Day Administrative Claims outstanding as of the Petition Date to be approximately \$800 million, but estimate that Chrysler will pay only a small portion of those claims prior to the consummation of any sale transaction.

Vendor Procedures

69. Chrysler also is seeking authority to pay, on a conditional basis, certain claims of vendors who have contractual obligations to Chrysler but that nevertheless may refuse to honor such obligations on a postpetition basis in an effort to extract the payment of prepetition claims by Chrysler (collectively, the "Repudiating Vendors").

70. It is expected that some contract parties—the Repudiating Vendors—may be requested to provide necessary goods or services (e.g., service parts) to Chrysler while their operations are idled, but refuse to perform their contractual obligations unless first paid the amount of their prepetition claims. The payment of such Repudiating Vendors on a conditional basis would be accomplished in light of the impairment of the value of a sale transaction that could be caused by a refusal of payment.

Potential Lienholders

71. Prior to the Petition Date, and in the ordinary course of Chrysler's businesses, certain parties with commercial relationships with Chrysler had the ability to—and did—obtain liens on and interests in property owned by Chrysler, including, in some cases, a right to a lien by virtue of possession of Chrysler's property (collectively, the "Lienholders"). I believe that the failure to pay the claims of these parties (collectively, the "Lienholder Claims") could have a

significant adverse impact on Chrysler's chapter 11 estates and on Chrysler's ability to consummate a sale transaction that would maximize the value of its assets. In particular, the failure to pay these claims could result in a lack of access to both personal property and services necessary to implement a sale transaction and a smooth transition to the Purchaser, as well as undermine Chrysler's ability to, e.g., maintain critical operations at parts depots pending a sale.

72. I refer here to two categories of Lienholder Claims – Tooling Modification Claims and Repair Claims. With respect to each of these categories of Lienholder Claims, Chrysler's inability to obtain either (a) the personal property of Chrysler in a Lienholder's possession, which is to be sold and transferred to the Purchaser or may be needed for the ongoing operation of parts depots or other activities pending a sale; or (b) the necessary services provided by such Lienholders would impair the ability to complete a sale transaction to the ultimate detriment of all stakeholders. As such, I believe that payment of the Lienholders (in Chrysler's sole discretion) is important to preserve the going concern value of Chrysler's brands and assets in anticipation of a sale transaction.

73. To the extent a Lienholder provides Chrysler with goods or services pursuant to a purchase order or contract, it is my understanding that approval of the payment of related Lienholder Claims at this time generally will not alter the ultimate recovery for such Lienholders, but simply will alter the timing of such payments.

Tooling Modification Claims

74. Much of Chrysler's business is capital intensive, and Chrysler has regularly purchased machinery, jigs, dies, gauges, molds, patterns, equipment, tooling and other personal property dedicated and tailored to vehicle production (collectively, "Tooling") from their suppliers that will be located at the supplier's own facility (collectively, the "Tooling Suppliers").

In recent years, Chrysler has purchased approximately \$900 million in Tooling annually.

Because the dynamic nature of the automotive markets required Chrysler to develop new, and modify existing, vehicles on a continuous basis, Chrysler also purchased new, and modified existing Tooling on a regular basis for use in each of their stamping, powertrain and assembly platforms.

75. I believe it is likely that Tooling Suppliers may assert that they have a lien on Tooling either to secure a claim for (a) parts produced by a Tooling Supplier for Chrysler using the Tooling or (b) modifications and improvements made to the Tooling by a Tooling Supplier at Chrysler's request. I have already discussed parts produced by a Tooling Supplier for Chrysler using the Tooling above, *see supra* ¶¶ 47 - 50. Chrysler also needs the authority to pay prepetition claims of Tooling Suppliers secured by liens in the second category; namely, on Chrysler's Tooling for modifications or improvements to existing Tooling made at Chrysler's request (any such claim, a "Tooling Modification Claim"). It is my understanding that these liens can take the form of so-called "moldbuilder's liens," which secure claims for work done *on* tooling (as differentiated from liens for work done *with* tooling). It is my understanding that Tooling Suppliers may assert that Tooling Modification Claims are secured by "moldbuilder's" liens in their favor.

76. Two primary reasons support Chrysler's payment of Tooling Modification Claims. First, payment of the Tooling Modification Claims may be necessary to reach agreement with the Tooling Suppliers to complete pending projects that are time-sensitive (which projects may involve the production of Tooling). Delays by Tooling Suppliers in completing such projects could threaten to impair the going concern value of Chrysler's assets, and in turn undermine a sale transaction, if Chrysler is unable to transfer necessary Tooling to the Purchaser.

77. Second, many of the Tooling Suppliers are small operations that may be unable to survive Chrysler's non-payment of the Tooling Claims. Because these suppliers are often in the midst of producing Tooling for Chrysler on multiple projects, such a business failure would directly and adversely impact multiple vehicle platforms and would impair the going concern value sought to be preserved through a sale transaction.

78. I therefore believe that it is essential that Chrysler be authorized to pay the Tooling Modification Claims in its sole discretion. Based on the analysis provided to me, I estimate that, as of the Petition Date, the aggregate amount of Tooling Modification Claims was at most \$35 million.

Repair Claims

79. When Chrysler's manufacturing and assembly plants are operating, Chrysler often utilizes the services of artisans to repair or modify machinery and equipment, including Tooling, that are no longer fully operational, require routine maintenance or require modification. Although Chrysler's employees can perform a limited amount of routine maintenance or repairs in-house, Chrysler's employees often lack the requisite skill, specialized tooling or experience to repair or perform needed maintenance on, or modify, Chrysler's machinery or equipment. In fact, certain of this machinery and equipment is proprietary and, thus, only the original manufacturer is qualified to repair it. Therefore, when appropriate, the equipment or machinery in need of repair, maintenance or modification is shipped to the facilities of an artisan, where the repairs, maintenance or modifications are performed.

80. On the Petition Date, certain of the artisans that were in possession of Chrysler's machinery and equipment (collectively, the "Artisans") had outstanding prepetition claims (collectively, the "Repair Claims") for labor and materials utilized in repairing or modifying

Chrysler's machinery and equipment. If Chrysler does not pay the Artisans' Repair Claims, I believe that the Artisans will refuse to (a) return machinery and equipment in their possession to Chrysler once necessary repairs or modifications are complete (or may simply refuse to complete such repairs or modifications) and (b) repair or modify other machinery or equipment that Chrysler determine requires the Artisans' services pending the consummation of a sale transaction (e.g., time-sensitive repairs required to restart operations). By limiting Chrysler's access to necessary machinery and equipment, any such refusal would impair the value of any sale transaction on a going concern basis.

81. The Lienholders, including both Tooling Suppliers and Artisans, provide services (and, in the case of Tooling Suppliers, Tooling) essential to Chrysler's ability to restart operations at their manufacturing and assembly facilities in connection with a sale transaction. Any refusal by the Lienholders to provide such essential services and Tooling required by Chrysler would threaten Chrysler's ability to complete a successful sale transaction, to the detriment of Chrysler's stakeholders.

82. Chrysler's management has carefully reviewed the facts and circumstances of the potential claims of the Lienholders to identify Lienholders the payment of whom would benefit Chrysler's chapter 11 estates by promoting the successful consummation of a sale transaction and maximizing the value received by Chrysler in connection with such a transaction. Chrysler intends to require clear prospective commitments from these Lienholders to provide necessary services to both Chrysler and the Purchaser (as applicable) in exchange for, and as a condition to, the payment of the Lienholder Claims, as discussed in detail below.

83. Based on the analysis provided to me, I estimate that, as of the Petition Date, the aggregate amount of Repair Claims was approximately \$5.4 million.

84. It is my understanding that Chrysler is seeking authority to pay the prepetition claims of Lienholders, in its sole discretion, to the extent such payments are permitted by, and consistent with the terms of Chrysler's proposed postpetition financing facility. Given the scope of Chrysler's operations, and the importance of preserving the supplier body to consummate a Sale Transaction on a going concern basis, Chrysler submits that the exercise of such authority would be a reasonable and appropriate expenditure of estate funds.

The Importance of Immediate Relief and Waiver of Stay

85. The payment of Essential Supplier Claims, Foreign Vendor Claims, Twenty-Day Administrative Claims, provisional payments to vendors repudiating their contractual obligations, and Lienholder Claims is necessary to prevent the immediate and irreparable damage to Chrysler's brands and going concern value and, thus, to Chrysler's ability to consummate a sale transaction, that would result from Chrysler's inability to preserve their supplier body and obtain indispensable goods and services (e.g., service parts necessary to repair and maintain Chrysler's vehicles) as needed in the initial weeks of these chapter 11 cases.

Chrysler's Efforts to Find Alliance Partners

86. In addition to my supplier-related experience and responsibility, I was engaged in Chrysler's efforts to pursue business alliances during 2008, as Vice President of Global Alliance Operations.

Potential Alliance with Nissan Motor Company

87. My first major alliance-related assignment was heading a team of Chrysler personnel involved in a possible business alliance with Nissan Motor Company, Ltd. The possibility of a broad-based alliance with Nissan grew out of the companies' agreement to build, distribute and sell vehicles designed and initially developed by the other. In 2007, Nissan agreed

to design and build a new, fuel-efficient, compact car, the Dodge Hornet, based on its popular front wheel drive Nissan Cube, while Chrysler agreed to return the favor by designing and building a new, large pick-up truck to replace Nissan's internally-designed, slow-selling Titan. Under this deal, Chrysler agreed to sell the Hornet at its dealerships in North America and Europe while Nissan would sell the Chrysler designed and built Titan truck through its distribution network in North and South America.

88. Chrysler and Nissan expanded discussions beyond the Hornet and Titan to a possible broader alliance in February 2008. My primary task on this project, entitled "Project Go Global," was to deliver a high-quality study of potential synergies to my superiors, including Mr. LaSorda, in a timely fashion. I was responsible for creating the synergy implementation plan and for ensuring that the analyses were being performed and exchanged on a timely basis. To that end, I supervised ten teams, in the areas of (1) purchasing, (2) product portfolio, (3) powertrain, (4) manufacturing footprint, (5) advanced and green technologies, (6) sales finance, (7) sales and marketing, (8) logistics, (9) service and parts, and (10) OEM deals, each of whose objective was to quantify potential synergies resulting from a Chrysler-Nissan alliance. The joint Chrysler-Nissan synergy teams generally included between 7 and 16 high level executives and operational level employees.

89. The companies committed a significant amount of time and manpower to the project. The synergy team co-leaders conducted weekly phone conversations or video teleconferences for three months. Additionally, Robert Nardelli, Chrysler's Chairman and CEO, Mr. LaSorda or I participated in intercompany face-to-face meetings on a number of occasions and phone calls on a nearly weekly basis.

90. In May 2008, after three months of analysis and negotiations, the synergy teams presented their findings. The study showed potential synergies of over \$11.5 billion in cash flow (on a net present value basis) over an eight-year period. Among the areas for collaboration and cost savings identified were platform sharing, volume bundling, development cost-sharing, and making common current engine platforms with next generation technology. Additionally, the companies anticipated benefiting from Chrysler's ability to use Nissan's distribution network in South America (where Chrysler currently has very little presence) and Nissan's ability to utilize Chrysler's NAFTA region production plants (where Nissan has little capacity).

91. Both companies went to great lengths to figure out whether an alliance could make sense and at the end of our analysis in May 2008, I was very optimistic that a deal benefiting both companies could be reached. Shortly after the synergy study was presented to both companies, Chrysler established integration teams to move forward with the alliance process. These integration efforts stopped in August 2008 because the companies could not come to an agreement on final terms for a Chrysler-Nissan alliance.

92. On September 10, 2008, principals for both companies, including Mr. LaSorda and myself for Chrysler and Mr. Tavares and Mr. Sakagami for Nissan met in Paris to resume discussions. At this meeting, the parties' synergy study was discussed, despite the recognition that some of the synergies identified earlier in the year might have been lost. Mr. LaSorda, Mr. Tavares and the other executives attempted to identify new, more aggressive synergies to compensate for what had been lost. Despite intense, determined follow-up activity on the initiatives identified in Paris, however, a mutually acceptable agreement could not be reached.

Potential Alliance with General Motors Corporation

93. At the same time Chrysler was pursuing an alliance with Nissan we initiated discussions with General Motors ("GM") along the same general lines. Discussions with GM, alternatively referred to as "Project Denali" or "Project America," commenced in June 2008 and formally kicked off on August 8, 2008.

94. Again, my role in the discussions with GM was to facilitate efforts to develop and quantify potential synergies of the contemplated Chrysler-GM alliance. My Project America GM counterpart was Clay Phillips, Director, GM Intelligence—R&D and Strategic Planning. Chrysler and GM quickly assembled teams in early August to assess synergies for the two companies under a combined structure across eight different areas: (1) purchasing, (2) product portfolio and platforms, (3) powertrain, (4) manufacturing footprint, (5) engineering and advanced green technology, (6) sales and marketing footprint, (7) logistics, service, parts and accessories, and (8) related distribution. Each team, consisting of executives and operational level personnel, met at least once or twice a week over the 30-day study, and at the end of each week, contributed to the joint management status update. On August 28, 2008, the teams presented a report indicating that an alliance between Chrysler and GM could generate a range of total enterprise synergies of between \$26.3 billion and \$37.8 billion in gross cash flow over a six-year period (without one-time charges).

95. I believe both Chrysler and GM were optimistic that a deal could be struck because of the sizable synergies identified in the report. Both Mr. Phillips and Fritz Henderson, then-GM's President and Chief Operating Officer, expressed enthusiasm to me about a Chrysler-GM alliance and I personally was enthusiastic about a Chrysler-GM deal.

96. Due diligence on Project America eventually started on October 29, 2008 but was terminated shortly thereafter, on November 3, 2008. Despite early progress, as economic

conditions worsened and merger financing looked increasingly problematic due to the strained credit markets, GM suspended merger negotiations with Chrysler.

Other Potential Alliances

97. I managed alliance efforts with additional companies during my tenure as Vice President of Global Alliance Operations, including GAZ Group, Magna International, and Hyundai-Kia.

98. In early 2008, Chrysler participated in three-way discussions with GAZ, a Russian auto manufacturer, and Magna, a large Canadian parts supplier, regarding the possibility of producing the Dodge Caliber and Jeep Patriot at a GAZ factory in Russia for sale in the Russian market. In addition to that specific line of cars, there was also discussion between the three companies concerning a potential joint venture that would have resulted in a number of Chrysler models being produced in Russia.

99. Throughout the summer of 2008, I, along with Mr. LaSorda, had a number of face-to-face meetings with Andrzej Kasperek, GAZ's Director of Corporate Business Development and M&A, Manfred Eiback, Executive VP of Magna Europe, and Burkhard Goeschel, Magna's Chief Technical Officer of Vehicles and Powertrain to discuss the potential deals. In addition to these face-to-face meetings, my staff or I had a series of meetings or conference calls between June and October with GAZ and Magna representatives regarding a potential alliance.

100. In August, the conversation focused on establishing a new car company in Russia with GAZ, Magna and Chrysler as equity partners. The joint venture would have allowed for a wide distribution of Chrysler vehicles in Russia using GAZ's Russian and Ukrainian dealership network. The three companies signed a memorandum of understanding to that effect

in September 2008, but due to the worsening global economy, we were not able to consummate a deal.

101. In June 2008, Chrysler initiated discussions with Hyundai-Kia Motors, about developing a strategic alliance based on the manufacturer and supply of compact/small cars. I traveled to Seoul, South Korea in July 2008 and August 2008 to meet with Seung Tack Kim, Kia Global Strategy Group's Senior Vice President, to discuss developing a variant of the Kia Rio sedan and hatchback for Chrysler. During my trip in August 2008, I was able to obtain a tentative agreement from Kia on the Rio's pricing, but in subsequent negotiations Chrysler and Hyundai could not agree on the terms of a deal. At the end of September 2008, I received a letter from Mr. Kim declining Chrysler's alliance offer due to manufacturing compatibility issues.

Alliance Negotiations with Fiat Automotive Group, S.p.A.

102. After Mr. LaSorda asked me to head Chrysler's Global Alliance Operations in January 2008, I came to learn that Chrysler had previously communicated with the Italian automobile manufacturer Fiat Group S.p.A. about a potential alliance. That effort, called "Project Capitol," had begun in September 2007 and focused on the manufacture and sale of Fiat's F500 compact car, a potential joint venture to sell Alfa Romeo vehicles through Chrysler dealers, and other potential vehicle-sharing agreements.

103. My personal involvement in Project Capitol began in June 2008. At that time, I received a call from Mr. LaSorda, who expressed optimism about a potential collaboration with Fiat on the F500, and asked that I start participating in the discussions. Fiat thought there was merit to the potential collaboration, but was content to wait a year before proceeding. Mr. LaSorda pushed Fiat to agree to a deal. As part of that effort, we offered Fiat the possibility of acquiring the rights to the Dodge Dakota, along with the proper Chrysler tools and machinery, to

build the Dakota in Brazil. Indeed, a variety of different topics were being explored, including: (1) distribution opportunities for Fiat in the NAFTA region and for Chrysler in Russia and China, (2) platform and vehicle sharing between the two companies, (3) investigation of a two-cylinder, advanced technology hybrid engine, (4) Fiat's sharing of its dual-clutch transmission, and (5) various manufacturing opportunities.

104. In October 2008, Mr. LaSorda and I met with Silvia Verneti, Manager of Business Development and Alliances Management and Alfredo Altavilla, CEO of Fiat Powertrain Technologies in Turin, Italy to discuss the F500/Dodge Dakota collaboration. At the Turin meeting, we discussed supplier procurement plans, potential sales volumes for the cars in U.S., Latin American and European markets as well as details for future steps and meetings to accomplish the deal.

105. Shortly thereafter, Messrs. Nardelli and LaSorda had a follow-up meeting with Fiat personnel. When they returned, they instructed me to put together an alliance study. On November 21, 2008, Project Capitol synergy teams reported their findings that there were a number of potential synergies in a Fiat-Chrysler alliance. The companies would benefit from products and platform sharing for a number vehicles, including larger vehicles from Chrysler and smaller, fuel-efficient vehicles for Fiat. The companies would also save substantial amounts by combining their purchasing power. Moreover, the two companies would gain significant savings through manufacturing capacity optimization and powertrain collaboration. Finally, Chrysler would gain access to Russian and Latin American markets through Fiat's network. Altogether, the studies showed operational synergies of over \$3.7 billion in cash flow (on a net present value basis) over an eight-year period.

106. Shortly after the Project Capitol synergy reports were delivered, I accepted the position as Senior Vice President and Chief Procurement Officer, and thus my involvement in the Fiat negotiations ended.

107. My year of working on alliances for Chrysler revealed to me the difficulty of coming to find resolution on any deal—even when apparent and significant synergies were identified. The synergies we have found with Fiat are significant and would give Chrysler a chance to succeed and grow as a player on the global automotive market.

I declare under penalty of perjury that the foregoing statements are true and correct.

Executed on: April 30, 2009

By: /s/ Scott R. Garberding
Scott R. Garberding