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

**AMENDMENT NO. 3  
TO  
FORM 10**

**GENERAL FORM FOR REGISTRATION OF SECURITIES  
PURSUANT TO SECTION 12(b) OR (g) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

CHRYSLER GROUP LLC

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

27-0187394

(I.R.S. Employer  
Identification No.)

1000 Chrysler Drive  
Auburn Hills, Michigan

(Address of principal executive offices)

48326

(Zip Code)

(248) 512-2950

(Registrant's telephone number, including area code)

Securities to be registered pursuant to Section 12(b) of the Act: None

Title of each class  
to be so registered

Name of each exchange on which  
each class is to be registered

Securities to be registered pursuant to Section 12(g) of the Act:

Class B LLC Membership Interests

(Title of class)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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Unless otherwise specified, the terms “we,” “us,” “our,” “Chrysler Group” and the “Company” refer to Chrysler Group LLC and its consolidated subsidiaries, or any one or more of them, as the context may require, “Old Carco” refers to Old Carco LLC f/k/a Chrysler LLC and its consolidated subsidiaries, or any one or more of them, as the context may require, and “Fiat” refers to Fiat S.p.A, a corporation organized under the laws of Italy, and its consolidated subsidiaries, or any one or more of them, as the context may require.

***Forward-Looking Statements***

This Registration Statement contains forward-looking statements that reflect our current views about future events. We use the words “anticipate,” “assume,” “believe,” “estimate,” “expect,” “will,” “intend,” “may,” “plan,” “project,” “should,” “could,” “seek,” “designed,” “potential,” “forecast,” “target,” “objective,” “goal,” or the negatives of such terms or other similar expressions. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include those listed under *Item 1A. Risk Factors*, and elsewhere in this Registration Statement. These factors include, but are not limited to:

- our ability to instill confidence in our long-term viability;
- our ability to realize benefits from our industrial alliance with Fiat;
- our ability to control costs and implement cost reduction and productivity improvement initiatives;
- continued economic weakness and weak vehicle demand, especially in North America;
- our lack of a captive finance company and the continued availability of financing for our dealers and customers;
- our ability to increase vehicle sales outside of North America;
- changes in currency exchange rates and interest rates;
- our ability to rapidly introduce new and significantly refreshed vehicles that appeal to consumers;
- competitive pressures which may limit our ability to reduce sales incentives and achieve better pricing;
- increases in fuel prices that may adversely impact demand for our vehicles;
- changes in consumer preferences which could reduce demand for our product offerings;
- our ability to accurately forecast demand for our vehicles;
- our ability to qualify for U.S. Department of Energy funding of our advanced technology vehicle programs under Section 136 of the Energy Independence and Security Act of 2007;
- our substantial indebtedness and limitations on our liquidity that may limit our ability to execute our business plan;
- disruption of production or delivery of new vehicles due to shortages of materials, labor strikes, or supplier insolvencies;

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- changes in laws, regulations and government policies, particularly those relating to vehicle emissions, fuel economy and safety; and
- the impact of vehicle defects and/or product recalls.

If any of these risks and uncertainties materialize, or if the assumptions underlying any of our forward-looking statements prove incorrect, then our actual results, level of activity, performance or achievements may be materially different from those we express or imply by such statements. We do not intend, or assume any obligation, to update these forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made.

***Further Information about Chrysler Group***

The public may read and copy the materials we file with the Securities and Exchange Commission, or the SEC, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Additionally, the SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers, like us, that file electronically with the SEC. The address of the SEC's website is [www.sec.gov](http://www.sec.gov).

Upon the effectiveness of this Registration Statement, we will become subject to the reporting and information requirements of the Securities and Exchange Act of 1934, as amended, and as a result will file periodic reports and other information with the SEC. These periodic reports and other information will be available for inspection and copying at the SEC's public reference room and the website of the SEC referred to above, as well as on our website, [www.chryslergroupllc.com](http://www.chryslergroupllc.com). This reference to our website is an inactive textual reference only, and is not a hyperlink. The contents of our website are not part of this Registration Statement.

***Purpose for Filing this Registration Statement***

We are filing this Registration Statement in order to be able to file periodic and other reports with the SEC as contemplated by the terms of our Amended and Restated Limited Liability Company Operating Agreement, a copy of which is filed as an exhibit hereto. We have no plans to offer for sale any of the Class B Membership Interests registered hereunder.

[Table of Contents](#)**Item 1. Business*****Chrysler Group Overview***

Chrysler Group designs, engineers, manufactures, distributes and sells vehicles under the brand names Chrysler, Jeep, Dodge, and Ram. Our product lineup includes passenger cars, utility vehicles (which include sport utility vehicles and crossover vehicles), minivans, pick-up trucks, and medium-duty trucks. We also sell automotive service parts and accessories under the Mopar brand name. Our products are sold in more than 120 countries around the world. The majority of our operations, employees, independent dealers and sales are in North America, primarily in the U.S. Approximately 10 percent of our vehicle sales in 2010 were outside North America, primarily in South America, Asia Pacific and Europe.

In connection with the 363 Transaction described below, we entered into an industrial alliance with Fiat pursuant to which Fiat became our principal industrial partner. The Fiat alliance is intended to provide us with a number of long-term benefits, including access to new vehicle platforms and powertrain technologies, particularly in smaller, more fuel-efficient segments where Old Carco was historically underrepresented, as well as global distribution opportunities and procurement benefits. As part of the Fiat alliance, we will also be the exclusive distributor for Fiat and Alfa Romeo brand vehicles and service parts in North America.

***Formation of Chrysler Group***

Chrysler Group is a Delaware limited liability company. It was formed on April 28, 2009 to complete the transactions contemplated by the master transaction agreement dated April 30, 2009 under which Chrysler Group agreed to purchase the principal operating assets of Old Carco and its principal domestic subsidiaries, to assume certain of their liabilities, and to purchase the equity of Old Carco's principal foreign subsidiaries. Old Carco and its principal domestic subsidiaries then filed for bankruptcy protection and sought approval under section 363 of the U.S. Bankruptcy Code of the transaction contemplated by the master transaction agreement, which we refer to as the 363 Transaction. Following bankruptcy court approval, we completed the 363 Transaction on June 10, 2009.

In connection with the closing of the 363 Transaction, we issued membership interests to the UAW Retiree Medical Benefits Trust, or the VEBA Trust, Fiat, the U.S. Department of the Treasury, or the U.S. Treasury, and Canada CH Investment Corporation, or Canada CH, in exchange for capital contributions and in consideration of the transactions contemplated by the master transaction agreement. Canada CH is a wholly-owned subsidiary of Canada Development Investment Corporation. Canada Development Investment Corporation is a Canadian federal Crown Corporation, meaning that it is a business corporation established under the Canada Business Corporations Act, owned by the federal Government of Canada. The VEBA Trust was established to provide for retiree health benefits under an agreement with the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America, or the UAW. We refer in this document to the economic and voting rights associated with our membership interests as ownership interests. The ownership and related rights held by our members, including the right to designate members of our Board of Directors, or the Board, are described in greater detail below in *Item 11. Description of Registrant's Securities to be Registered*.

On April 30, 2010, Old Carco transferred its remaining assets and liabilities to a liquidating trust and was dissolved in accordance with a plan of liquidation approved by the bankruptcy court. Old Carco is treated as our predecessor for financial reporting purposes. For that reason, *Item 13. Financial Statements and Supplementary Data* includes Old Carco's audited consolidated financial statements for periods before June 10, 2009.

***Old Carco's Historical Challenges Leading to the 363 Transaction***

Old Carco was incorporated in 1986 and assumed the name Chrysler Corporation as part of a corporate reorganization that involved a predecessor company originally incorporated in 1925 previously known as Chrysler Corporation. Old Carco changed its name to DaimlerChrysler Corporation in 1998 in connection with a business combination transaction through which it became an indirect wholly-owned subsidiary of

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DaimlerChrysler AG (now Daimler AG, or Daimler). In 2007, Old Carco converted to a limited liability company and changed its name to DaimlerChrysler Company LLC and then to Chrysler LLC in connection with a business combination transaction between Daimler AG and Cerberus Capital Management, L.P., or Cerberus, through which Old Carco became an indirect, wholly-owned subsidiary of a new company, Chrysler Holding LLC, or Chrysler Holding, of which affiliates of Cerberus and Daimler owned 80.1 percent and 19.9 percent, respectively.

In the second half of 2008, the U.S. automotive industry entered a period of dramatic decline in vehicle sales due to a crisis in the global credit markets and a deep recession in the U.S. Vehicle sales in the U.S. fell from 16.5 million vehicles in 2007 to 13.5 million vehicles in 2008, with the seasonally adjusted annualized sales rate, or SAAR, falling to less than ten million vehicles in the first quarter of 2009. As a result of the impact of the global credit crisis and recession in the U.S. on Old Carco's cash flows and liquidity following several years in which Old Carco suffered from decreasing market share, substantial legacy labor costs, underinvestment in product development and excess capacity, Old Carco requested emergency financial assistance from the U.S. government.

In December 2008, Old Carco requested a \$7 billion working capital loan from the U.S. government. In that request, Old Carco reported that its vehicle sales and cash inflows were constrained because retail customers did not have access to competitive financing to purchase or lease its vehicles and its dealers did not have access to the financing they required to order new vehicles. At the same time, Old Carco had substantial periodic cash payment obligations to suppliers, employees, dealers and others.

On January 2, 2009, Old Carco's parent company, Chrysler Holding, received a \$4 billion bridge loan from the U.S. Treasury and contributed the proceeds to Old Carco. The terms of this bridge loan required Old Carco to submit a restructuring plan to the U.S. Treasury that demonstrated Old Carco's ability to achieve and sustain long-term viability, international competitiveness and energy efficiency as a condition to receiving additional support.

On February 17, 2009, Old Carco submitted its restructuring plan, which noted that the availability of automotive financing to dealers and retail customers remained the most significant constraint to Old Carco's viability. Chrysler Financial Services Americas LLC, or Chrysler Financial, then an affiliate of Old Carco, was the primary source of automotive financing for Old Carco's dealers and their retail customers. Old Carco's access to alternative financing sources for its dealers and retail customers was constrained by exclusivity terms in favor of Chrysler Financial. Beginning in mid-2008, Chrysler Financial greatly reduced the level of financing it provided to Old Carco's dealers and retail customers, and in August 2008 entirely discontinued lease financing in the U.S. and Canada as a result of deteriorating credit market conditions.

Old Carco's initial restructuring plan also identified key concessions that would be sought from the following constituents, including:

- *Unions* – agreement to labor modifications (wage and benefit levels and work rules), as well as VEBA Trust modifications and debt restructuring, designed to achieve a workforce cost structure competitive with the U.S. manufacturing operations of competitors whose ultimate parent companies are outside the U.S. (commonly referred to as “transplant automotive manufacturers”).
- *Shareholders* – relinquishment of all shareholder equity in Old Carco.
- *Second Lien Debt Holders* – conversion of all of Old Carco's second lien debt, which was held by its ultimate equity holders, to equity.
- *Suppliers* – attainment of substantial cost reductions that would achieve targeted savings.
- *Dealers* – reduction of dealer margins and reduction of service contract margins to increase cash flows to Old Carco.

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- *Other Creditors* – reduction of outstanding obligations from certain creditor groups by \$5 billion.
- *Executive/Management* – compliance with the restrictions established under section 111 of the Emergency Economic Stabilization Act, or EESA, regarding executive compensation and perquisites, and, in addition, suspension of performance bonuses, merit-based salary increases and corporate contributions to employee benefit plans, and elimination of retiree life insurance benefits.

Finally, Old Carco's restructuring plan indicated that it had signed a non-binding letter of intent with Fiat for an industrial alliance that it believed could greatly improve Old Carco's long-term viability.

On March 30, 2009, President Barack Obama announced that his administration's automotive task force had concluded Old Carco was not viable as a stand-alone company, but that the proposed alliance with Fiat could enable Old Carco to become viable by manufacturing more fuel-efficient vehicles using Fiat's technology and to benefit from Fiat's managerial experience as evidenced by its own industrial recovery. The Obama administration indicated that it would consider providing additional financial support if Old Carco were able to achieve the identified concessions from all constituents and reach an acceptable alliance agreement with Fiat within 30 days.

Old Carco, Fiat and other stakeholders negotiated these arrangements during April 2009. Certain of Old Carco's creditors refused to compromise, and as a result, Old Carco filed for bankruptcy protection and sought bankruptcy court approval of the master transaction agreement. The U.S. and Canadian governments indicated their willingness to fund the 363 Transaction and to provide working capital to fund our operations following the 363 Transaction.

We closed the 363 Transaction on June 10, 2009, and entered into credit agreements with the U.S. Treasury and with Export Development Canada, or EDC, as described below in *Item 2. Financial Information – Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Chrysler Group*. We also entered into the master industrial agreement with Fiat, described below in *Item 7. Certain Relationships and Related Transactions, and Director Independence – Transactions with Fiat*.

### *Chrysler Group Transformation*

Following completion of the 363 Transaction, Chrysler Group established a new management organization, instituted new processes and metrics for evaluating product investment and other decisions regarding allocation of resources, and introduced a new operational process in its manufacturing facilities. These actions were implemented under the direction of our Chief Executive Officer, Sergio Marchionne, who also serves as Chief Executive Officer of Fiat, and were based on the core principles and processes that contributed to Fiat's return to profitability in the fourth quarter of 2005 after several years of losses.

To create our new management organization, we drew experienced leaders from both Old Carco and Fiat. We flattened our management structure so that each functional area of our business reports directly to our Chief Executive Officer. To facilitate collaboration and enhance speed of decision-making, two management committees chaired by our Chief Executive Officer meet regularly to consider significant operational matters. Our Product Committee oversees capital investment, engineering and product development, while our Commercial Committee oversees matters related to sales and marketing. Both committees include the managers of each of our brands, all of whom also have separate functional responsibilities across all the brands, which we believe fosters cooperation and information sharing and further speeds decision-making. For example, the head of the Chrysler brand is also the head of marketing for all our brands, and the head of our Dodge brand is also responsible for product design for all of our brands.

Following completion of the 363 Transaction, our new management team spent several months analyzing our business, products, operations and financial condition in order to develop a business plan with clearly defined financial and operational performance targets. In November 2009, we announced our business plan and related

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performance targets for the 2010 through 2014 period. Our business plan focuses on a number of initiatives designed to bring significant changes to our business, including investing in our brands and new product development, leveraging our alliance with Fiat, improving supply chain management, optimizing our dealer network and building a workforce culture of high performance. Our business plan includes targets for vehicle sales and market share growth, profitability improvements and increased liquidity.

Since November 2009, we have focused on implementing our business plan by:

- continuing to refine our management organization to speed decision-making and to capitalize on the benefits of the Fiat alliance;
- beginning a process of rationalizing our product mix to focus on consumer preferences, and to leverage the use of common platform architectures and technologies where feasible to produce a range of vehicles with improved quality and fuel economy;
- launching for retail sale in the fourth quarter of 2009 the new Ram 2500 and 3500 Heavy Duty pick-up trucks, and continuing in 2010 with the retail launch of the new Jeep Grand Cherokee and the Ram Chassis Cab commercial truck, and the production launch of the Chrysler 300 and Dodge Charger sedans, the Dodge Durango crossover vehicle, the Fiat 500, and 10 other significantly refreshed vehicles, which will all be available for retail sale beginning in 2011;
- focusing on rejuvenating our brands by introducing new and significantly refreshed vehicles with individualized characteristics that are more closely aligned with each brand's identity, separating our advertising and marketing for each brand and enhancing the customer experience at our dealerships;
- beginning the process of transitioning our sales and distribution operations within Europe to Fiat, which will become our general distributor in Europe beginning in June 2011;
- introducing World Class Manufacturing principles utilized by Fiat, which are described below, into our manufacturing plants;
- better systemizing our product development, manufacturing, procurement, quality and supply chain processes;
- continuing to implement the re-negotiated workforce cost structure in the U.S. and Canada, an ongoing process that makes us more competitive with transplant automotive manufacturers over the next several years; and
- re-formulating our supply chain management, which is, among other things, important to our efforts to maintain appropriate levels of dealer inventory and thereby reduce the need for sales incentives to facilitate sales of excess dealer inventory.

In addition, we have worked to improve the availability of competitive financing sources to our dealers and retail customers by implementing a strategic relationship with Ally Financial Inc., or Ally, and developing supplemental sources of financing with other financing providers. The results of these and other actions taken in connection with our business plan are described more fully in *Item 2. Financial Information – Management's Discussion and Analysis of Financial Condition and Results of Operations*.

#### *Alliance with Fiat*

Fiat S.p.A. is the parent company of one of Italy's largest industrial groups and one of the early founders of the European automotive industry. It is a publicly traded company, the shares of which are listed on the *Borsa Italiana* and several other European stock exchanges. Fiat has historically operated a wide range of businesses in



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the automotive, industrial and finance sector. Following a corporate demerger transaction that became effective on January 1, 2011, Fiat's primary business is the design, engineering, manufacture and sale of automobiles and automobile-related components and production systems through its subsidiaries: Fiat Group Automobiles, Ferrari, Maserati, Magneti Marelli, Teksid, Comau and Fiat Powertrain Technologies. Fiat vehicles are sold primarily in Europe and South America, particularly Brazil.

Under the master transaction agreement and related ancillary agreements, Chrysler Group and Fiat have formed an industrial alliance in which the parties collaborate on a number of fronts, including product/platform sharing and development, global distribution, procurement, information technology infrastructure, management services and process improvement. Collaborative initiatives we have commenced with Fiat include:

- *Product and Platform Sharing* – As part of the Fiat alliance, we have access to Fiat's existing vehicle platforms and certain vehicle models. We expect to benefit from Fiat's expertise in mini, small and compact (A-, B- and C-segment) cars, starting with our manufacture and distribution of the fuel-efficient Fiat 500 in North America. The A-segment Fiat 500, which is currently sold in over 80 countries, has received several international awards, including the 2008 European Car of the Year, which is awarded by leading European automotive publishers. Meanwhile, Fiat will utilize our expertise in developing vehicles for the North American markets, and in the mid- to large-size car and truck (D-, E- and F-segment) markets to expand its product offerings, principally for sales in Europe and South America.

Similarly, we are able to build upon Fiat's existing platform architectures. A vehicle's platform architecture refers to the basic structure on which it is built, which defines its general size, strength, body construction, and the proportional relationships (fixed/hard points) between various elements such as frame, floorpan, suspension and drivetrain. Development of a new vehicle platform may cost as much as \$200 million and can take several years to complete. Co-developing and sharing platforms with Fiat provides both technological and financial benefits to us. It allows us to benefit from Fiat's experience and technology, while at the same time decreasing the amount that we would otherwise need to spend on engineering, design and development because the costs incurred in connection with co-developed products will be allocated between us. We believe that co-developing and sharing platforms will allow us to get new products to market more quickly. In addition, our use of platforms developed and currently used by Fiat in markets outside of North America can reduce the technical and market risks associated with the development and introduction of new models.

We are co-developing a new vehicle platform based on Fiat's current C-Evo platform, which we expect to use to produce new vehicle models beginning in 2012. We intend to use this jointly developed platform, known as the Compact U.S. Wide, or CUSW, platform, in all of our future C- and D- segment vehicles, except the body-on-frame Jeep Wrangler. We expect that this will reduce the total number of our passenger car and utility vehicle platforms from 11 in 2010 to seven by the end of 2014, three of which will be shared with Fiat. We will continue to use other platforms for our medium-duty and chassis cab trucks, as well as for the new Dodge Viper that we plan to begin producing in 2012. By deploying fewer platforms across our vehicle lineup, we anticipate that we can increase vehicle production while reducing engineering, tooling, manufacturing and component costs. In 2014, we expect that more than half of the vehicles we sell will be based on platforms we share with Fiat.

By reducing the number of vehicle platforms, we will also improve our manufacturing utilization because we will be able to build different vehicle models on a single assembly line. This will also allow us to adjust our product mix more quickly in response to changes in consumer preferences. By sharing platforms, we and Fiat will also be able to provide contract manufacturing services to one another more easily, potentially further improving manufacturing utilization rates and enabling us to reduce capital investments in new manufacturing plants.

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- *Shared Technology* – Through the Fiat alliance, we have access to certain Fiat automotive technology. Such access permits us to save on the significant investment of capital and time we would otherwise have expended to develop such technology on our own and minimizes the risk that the newly-implemented technology may not be effective. For example, using Fiat's proprietary small engine technologies, we are building an engine based on Fiat's Fully Integrated Robotised Engine (FIRE) that incorporates Fiat's fuel-saving Multi-Air technology. We began producing the 1.4L FIRE engine in our Dundee, Michigan engine facility in November 2010 for use in the Fiat 500 vehicle to be sold in North America, which we began selling in March 2011. We are currently adapting Fiat's Multi-Air technology for use with our existing World Gas Engine in 2012, and we are evaluating its possible use with our Pentastar V-6 engine.

We also have access to Fiat's diesel engines and related technology. We anticipate that this technology, as well as the FIRE engine, can help us to meet stricter emissions requirements throughout the world. At the same time, Fiat will have the opportunity to gain access to our Pentastar V-6 engine for its larger vehicles.

- *Global Distribution* – We plan to increase sales of our vehicles and service parts outside of North America through Fiat's longstanding presence and established distribution networks in Europe and South America. As contemplated by the master industrial agreement, which sets forth the framework for our industrial alliance, Fiat currently is managing our vehicles and service parts distribution in select European countries through our existing dealer network. Starting in June 2011, Fiat will serve as our general distributor in Europe, and will then distribute our vehicles and service parts in that region through a network of newly selected dealers. Specifically, we will produce and sell several of our vehicle models and related service parts to Fiat for significantly expanded distribution throughout Europe, beginning with our Chrysler 300, Chrysler Grand Voyager, Dodge Journey and a range of Jeep models. The Chrysler brand vehicle models will be distributed by Fiat in certain countries in Europe under its Lancia brand. In addition, we are establishing arrangements for one or more of our vehicles to be distributed in Europe through Fiat's dealer network under the Fiat brand. We are also developing strategies by which we can benefit from Fiat's longstanding presence in Brazil, the largest automotive market in South America. In that regard, we are arranging to produce and sell one or more of our vehicle models and related service parts to Fiat for distribution in Brazil under the Fiat brand. We expect to produce the Fiat Freemont, a utility vehicle equipped with a 2.4 liter engine based on the Dodge Journey, under these arrangements starting in June 2011. Further, we are exploring opportunities for the production and expansion of the sale of our vehicles and service parts in growing and emerging markets, such as China and Russia, in connection with Fiat's efforts to establish or expand manufacturing and distribution activities in those markets. At the same time, our extensive manufacturing, distribution, and logistics capabilities in North America provide an opportunity for us to generate additional revenue as a distributor and/or contract manufacturer of Fiat and Alfa Romeo products throughout North America. In Mexico, we assumed responsibility for the distribution of Fiat vehicles and service parts in 2010, and are making plans to reintroduce Alfa Romeo brand vehicles and service parts there in 2011. In 2010, we launched the production of the North American version of the Fiat 500, which we began distributing through select dealers in March 2011. We are also pursuing plans to reintroduce Alfa Romeo brand vehicles and service parts in the U.S. and Canada in 2012, and currently have a right of first refusal to serve as distributor for Lancia brand vehicles in North America.
- *Procurement* – We have established joint purchasing programs with Fiat that are designed to yield preferred pricing and logistics terms, particularly with respect to shared parts and common suppliers. The alliance will provide the opportunity to leverage our combined annual purchasing power with Fiat automobiles (approximately \$60 billion in 2010, based on the average of the daily EUR/USD exchange rate during 2010). We also expect to achieve cost savings as we integrate our procurement activities with Fiat's procurement operations.
- *Implementation of World Class Manufacturing* – In 2010, we invested approximately \$155 million in our manufacturing plants to improve the infrastructure, efficiency and quality of our production systems.

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This investment, which was incremental to the investments we made for the purposes of our 2010 production launches, is part of a larger effort to introduce World Class Manufacturing, or WCM, principles to our manufacturing operations. WCM principles were developed by the WCM Association, a London-based non-profit organization dedicated to developing superior manufacturing standards. Fiat is the only automobile manufacturer that belongs to the WCM Association and Fiat's membership provides us access to WCM processes.

WCM fosters a manufacturing culture that targets improved performance, safety and efficiency as well as the elimination of all types of waste. Unlike some other advanced manufacturing programs, WCM is designed to prioritize issues to focus on those believed likely to yield the most significant savings, and then directs resources at those limited issues. In preparation for our 2010 production launches, we invested \$34 million in state-of-the-art metrology (precision measuring) centers at three of our assembly plants. We also installed a proprietary advanced statistical software system across all of our facilities that identifies emerging variation patterns during the assembly process which can be linked to worn tools or other root causes, thereby leading to prompt resolution of fit and finish discrepancies. In December 2010, we broadened the capability of our plant in Toluca, Mexico to a multi-platform facility. That plant is now capable of manufacturing our Fiat 500 and Dodge Journey models interchangeably. Our progress toward achieving goals under WCM is externally verified by certified WCM consultants, who measure our plants' performance against 20 categories of pre-determined WCM metrics. WCM consultants conducted 9 external reviews in 2010, and 11 additional external reviews are planned for 2011. As a result of our WCM activities overall, we achieved a 25 percent reduction in reported injuries, a 39 percent reduction in lost days due to injury, a 10 percent improvement in manufacturing cost productivity, and a 13 percent improvement in first time quality in our vehicle assembly plant operations.

- *Information and Communication Technology* – We are aligning our information and communication technology systems and related business processes with Fiat's systems and processes throughout our industrial, commercial and corporate administrative functions in order to facilitate our collaboration under the Fiat alliance. As part of this alignment, we are adopting and implementing upgraded engineering software tools, finance and procurement systems which are currently in use at Fiat, which we believe reduces risk to us associated with implementing new information technology systems.

These initiatives, which build upon the parties' respective strengths, are conducted pursuant to various commercial arrangements we have with Fiat as described below in *Item 2. Financial Information – Management's Discussion and Analysis of Financial Condition and Results of Operations*, and in *Item 7. Certain Relationships and Related Transactions, and Director Independence – Transactions with Fiat*.

There is little, if any, competitive product overlap between Chrysler Group and Fiat. We do not offer products that compete in the same vehicle segments in the same geographic markets as Fiat. Although we and Fiat intend to share certain products and platforms in the future as described above, we intend to minimize competitive overlap in those markets in which we are both active through product and brand differentiation; for example, through different styling, powertrain configurations, accessories and marketing themes, as well as by targeting different customer segments and vehicle price points. Notwithstanding the limited competitive overlap and our close industrial alliance, we may have potential conflicts of interest with Fiat in a number of areas, including conflicts that may arise in the performance or renewal of contractual arrangements that implement or extend the alliance. We also may be restricted from pursuing certain business opportunities by virtue of rights granted to Fiat, including the requirement that certain major decisions be approved by a Fiat-appointed director. We also benefit from the significant management experience of Fiat's leadership team, and these individuals may still owe duties to Fiat. For further discussion of these potential conflicts of interest with Fiat, see *Item 1.A. Risk Factors—We may have potential conflicts of interest with Fiat, notwithstanding our close industrial alliance*.

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In addition, as indicated above, our Chief Executive Officer also serves as Chief Executive Officer of Fiat. We believe that this dual role can facilitate the alliance partners' ability to coordinate their respective product and brand development plans and utilize their respective manufacturing capacity and capital resources more efficiently. However, this dual role also could present potential conflicts of interest under our industrial alliance in those areas, and Mr. Marchionne does not receive any compensation from us for serving as our Chief Executive Officer. See *Item 1A. Risk Factors—Our LLC Operating Agreement designates Mr. Marchionne, Fiat's Chief Executive Officer, as our initial Chief Executive Officer, which may create a potential for conflicts of interest.*

Our LLC Operating Agreement includes a number of provisions that provide governance protections to minimize the risks to us from potential conflicts with Fiat. It requires that all related party transactions with Fiat or its affiliates in excess of a designated threshold be approved by a majority of the disinterested members of our Board of Directors, and that certain enumerated major decisions, including variations from the Board-approved business plan, material capital expenditures, and the opening of major production facilities, be approved by a majority of the Board, a majority of whom are independent directors. For a description of these provisions, see *Item 7. Certain Relationships and Related Transactions, and Director Independence—Review Process* and *Item 11. Description of Registrant's Securities to be Registered—Fiat Rights.*

### **Products**

A key component of our strategic plan is to create a compelling portfolio of products that will appeal to a wide range of customers. In order to optimize the mix of products we design, manufacture and sell, we consider a number of factors, including:

- consumer taste, trends and preferences;
- demographic trends, such as age of population and rate of family formation;
- economic factors which affect preferences for luxury, affordability and fuel-efficiency;
- competitive environment, in terms of quantity and quality of competitors' vehicles offered within a particular segment;
- our brand portfolio, as each of our brands target a different group of customers;
- consumer preferences for certain vehicle types based on geographic region; and
- technology, manufacturing capacity and other factors that impact our product development.

We also consider these factors in developing a mix of vehicles within each brand, with an additional focus on ensuring that the vehicles we develop further our brand strategy.

Over time, we seek to balance our portfolio to appeal to a broader, more global customer base. Because efforts to affect our product mix meaningfully can take several years in light of typical industry development timelines and the vehicle life cycle, we have undertaken several short-term steps toward our goal. Since June 2009, we have significantly refreshed or launched new versions of the majority of our existing models to offer improved content and performance at a greater value. We leveraged the Jeep Grand Cherokee platform to develop and launch the seven-passenger Dodge Durango crossover vehicle to better accommodate families. As another example of balancing our product portfolio, we also expanded our reach to include smaller vehicles with the production and retail launch of the eco-friendly Fiat 500.

Our introduction of several new or significantly refreshed vehicles began in 2009 with the launch of the new Ram 2500 and 3500 Heavy Duty pick-up trucks, which were chosen as "2010 Truck of the Year" by *Motor*

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*Trend* magazine. We continued this renewal in 2010 with the retail launch of the new Jeep Grand Cherokee, which was named “Four Wheeler of the Year” by *Four Wheeler Magazine* and was designated a Top Safety Pick by The Insurance Institute for Highway Safety. In 2010, we also launched the retail sale of the Ram Chassis Cab commercial truck and the production of the Chrysler 300 and Dodge Charger sedans, the three-row Dodge Durango crossover vehicle, the Fiat 500, and 10 other significantly refreshed vehicles, most of which have been launched for retail sale in the first quarter of 2011.

Retail sales of the Fiat 500 launched in North America in March 2011. We began manufacturing this vehicle at our Toluca, Mexico plant in December 2010, using licensed Fiat designs adapted for the North American market.

The following table summarizes our production launches and information about the extent of associated product renewal since January 1, 2010:

**Production Launches in 2010<sup>(1)</sup>**

	<b>Start of production</b>	<b>Chassis</b>	<b>Interior</b>	<b>Exterior</b>	<b>Powertrain</b>
<u>New Vehicles<sup>(2)</sup></u>					
Ram Chassis Cab	Q1		—	—	—
Jeep Grand Cherokee	Q2	—	—	—	—
Dodge Durango	Q4	—	—	—	—
Dodge Charger	Q4	—	—	—	—
Chrysler 300	Q4	—	—	—	—
Fiat 500	Q4	—	—	—	—
<u>Significantly Refreshed Vehicles<sup>(2)</sup></u>					
Jeep Liberty	Q1			✓	
Jeep Wrangler	Q3		—		
Jeep Patriot	Q3	✓		✓	
Jeep Compass	Q4	✓		—	
Dodge Challenger	Q3	✓		✓	—
Dodge Journey	Q4	✓	—	✓	—
Dodge Avenger	Q4	✓	—	—	—
Dodge Grand Caravan	Q4	✓	—	—	—
Chrysler Town & Country	Q4	✓	—	—	—
Chrysler 200	Q4	✓	—	—	—
___ Extensive <sup>(3)</sup>	✓ Upgrade <sup>(4)</sup>				

(1) Vehicles are typically available for retail purchase two to three months following production launch.

(2) We characterize a vehicle as “new” if it is manufactured on a platform that is significantly different from the platform used in the prior model year and/or has had a full exterior renewal. We characterize a vehicle as “significantly refreshed” if it is manufactured with a previously existing platform but has changes that are extensive or upgrades from the prior model year.

(3) Extensive refers to easily recognizable changes to appearance and/or several functional attributes to the vehicle.

(4) Upgrade refers to a minor change or a change to one or more functional attributes that are measurable but not easily recognizable.

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The following table provides our model year 2011 vehicle lineup:

**Model Year 2011 Vehicle Lineup**

Segment	Chrysler Brand	Jeep Brand	Dodge Brand	Ram Brand	Fiat Brand
<b>Cars</b>					
Mini					Fiat 500 <sup>(1)</sup> Fiat 500 Cabrio <sup>(1)</sup>
Small			Dodge Caliber		
Mid-size	Chrysler 200		Dodge Avenger		
Full-size	Chrysler 300		Dodge Charger		
Sport	Chrysler 200 Convertible <sup>(1)</sup>		Dodge Challenger		
<b>Other</b>					
Minivans	Chrysler Town & Country		Dodge Grand Caravan		
Utility Vehicles		Jeep Patriot	Dodge Journey		
		Jeep Compass	Dodge Nitro		
		Jeep Wrangler	Dodge Durango		
		Jeep Wrangler Unlimited			
		Jeep Liberty			
		Jeep Grand Cherokee			
Pick-up Trucks				Ram Dakota Ram 1500 Light Duty Ram 2500/3500 Heavy Duty	
Van & Medium-Duty Truck				Ram Chassis Cab	

(1) This vehicle will be sold as a 2012 model year vehicle beginning in 2011.

As part of the process of rationalizing our product mix, we have discontinued production of certain models, including the Chrysler PT Cruiser, the Jeep Commander and the Dodge Viper. We plan to launch production of an all-new version of the Viper in 2012.

Partnering with Fiat, we have also begun to manufacture a diesel version of the Jeep Wrangler for retail sale in Europe that incorporates Fiat's high-efficiency manual transmission as well as its stop/start technology, which is described in *Research, Development and Intellectual Property* below.

In addition, beginning in 2011, we plan to build upon Fiat's established Lancia brand in Europe by producing Lancia versions of our minivan and the Chrysler 300. These products, unlike those currently offered by Lancia, will be sold by Fiat in left-hand drive markets throughout Europe. Also in 2011, we will begin manufacturing a Chrysler 200 convertible and a Fiat 500 Cabrio convertible in North America. In 2012, we anticipate several more vehicle launches, including new versions of the Jeep Liberty and the Dodge Viper, and an all-new Dodge C-class sedan. By the end of 2014, we expect that our entire lineup will consist of vehicles based on new platform architectures since 2009, more than half of which will be platforms shared with Fiat.

In 2012, we plan to produce a fully electrified version of the Fiat 500, which will be driven by a powertrain based on our electrification technology. We plan to design, manufacture and sell this vehicle in North America, and may also manufacture it for Fiat to sell in other areas of the world.

[Table of Contents](#)**Brands***Building Brand Equity*

We believe that we can increase our vehicle sales and reduce our reliance on sales incentives to dealers and retail customers by building the value of our brands. Accordingly, and in tandem with our recent product launches, we began a multi-year campaign to strengthen our Chrysler, Jeep, Dodge and Mopar brands, to develop Ram as a separate brand, and to reintroduce the Fiat brand in the U.S. and Canadian markets. We believe our efforts to reinvigorate our brands present us with a significant opportunity to increase sales by introducing new vehicles with individualized characteristics that are more closely aligned with each brand's identity, as each brand has a strong heritage and enjoys broad recognition among consumers. As part of our efforts to build brand equity, we separated the Ram truck lineup from the Dodge brand and established the new Ram brand in 2009 to develop and market the distinct attributes of the vehicles in each brand's product portfolio more effectively.

To help promote brand equity, each brand is headed by a single individual with responsibility for the brand identity and product portfolio. The head of each brand is responsible for assuring that each vehicle within that brand's product lineup reflects brand attributes such as distinct appearance, capability, performance, content, ride and handling. In addition, we have separated advertising and marketing efforts for each brand to further underscore brand differentiation.

We believe that increased demand for premium versions of our vehicles, such as the Jeep Grand Cherokee Overland and the Ram Laramie Longhorn (winner of the 2010 "Luxury Truck of Texas" award from the Texas Auto Writers Association), demonstrates that our focus on brand equity is already expanding our reach within these vehicle segments and helping to capture luxury buyers.

As with our own brands, our management of the Fiat brand for the North American market is headed by a single individual. We and Fiat are jointly responsible for determining strategies, policies and plans relating to this portfolio and Chrysler Group is responsible for management and implementation of such plans and policies. The Fiat brand in North America will represent a fun and eco-friendly attitude, with cars (such as the Fiat 500) principally in the mini, small and compact vehicle segments. Fiat brand vehicles will be sold through distinct dealerships as described below in *-Distribution*.

**Vehicle Sales**

The U.S. economy is recovering slowly from a recession that began in late 2007 and became increasingly severe with the global credit crisis in 2008 and 2009. The weaker economic conditions led to a substantial industry-wide decline in vehicle sales in the U.S., which fell from 16.5 million vehicles in 2007 to 13.5 million vehicles in 2008, with SAAR falling to less than ten million vehicles in the first quarter of 2009. The impact of this downturn on our market share was particularly pronounced and sustained, partly as a result of constraints Old Carco faced in investments in the development and launch of new and significantly refreshed vehicles while operating as part of Daimler, and later as a Cerberus entity.

Old Carco's market share and vehicle sales declined over the decade prior to the 363 Transaction, in part as a result of reduced investment in product development and the launch of relatively few new or significantly refreshed vehicles. As a part of Daimler, Old Carco did not benefit from extensive collaboration on product development and did not freely share in new product technologies developed by its parent company. The onset of the global credit crisis in 2008, shortly after Cerberus acquired control of Old Carco, exacerbated existing strains on Old Carco's liquidity, interrupting Old Carco's development and launch of new or significantly refreshed vehicles in 2008 and 2009, which has had a continuing adverse effect on our sales and market share. The global credit crisis also significantly constrained the availability of financing to Old Carco's dealers and retail customers, which also contributed to the decline in Old Carco's vehicle sales. In addition, Old Carco's vehicle sales were adversely affected by increased fuel prices beginning in 2008 due to the predominance of larger, less fuel-efficient vehicles in its product portfolio.

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Subsequent to the 363 Transaction, we have taken a number of product development and improvement actions, as described in *–Products*, above, and in *–Research, Development and Intellectual Property*, below.

The following table summarizes our new vehicle sales by geographic market:

	Years Ended December 31,														
	2010 <sup>(1)(2)</sup>			2009 <sup>(1)(2)(3)</sup>			2008 <sup>(1)(2)</sup>			2007 <sup>(1)(2)</sup>			2006 <sup>(1)(2)</sup>		
							(vehicles in thousands)								
	Chrysler Group	Industry	Percentage of Industry	Chrysler Group and Old Carco	Industry	Percentage of Industry	Old Carco	Industry	Percentage of Industry	Old Carco	Industry	Percentage of Industry	Old Carco	Industry	Percentage of Industry
U. S.	1,085	11,770	9.2%	931	10,603	8.8%	1,453	13,497	10.8%	2,077	16,463	12.6%	2,143	17,053	12.6%
Canada	205	1,581	13.0%	163	1,481	11.0%	223	1,672	13.3%	233	1,688	13.8%	221	1,664	13.3%
Mexico	79	846	9.3%	83	776	10.6%	116	1,069	10.9%	128	1,147	11.2%	128	1,179	10.9%
<b>Total North America</b>	<b>1,369</b>	<b>14,197</b>	<b>9.6%</b>	<b>1,177</b>	<b>12,860</b>	<b>9.2%</b>	<b>1,792</b>	<b>16,238</b>	<b>11.0%</b>	<b>2,438</b>	<b>19,298</b>	<b>12.6%</b>	<b>2,492</b>	<b>19,896</b>	<b>12.5%</b>
<b>Rest of World</b>	<b>147</b>	<b>57,697</b>	<b>&lt;1.0%</b>	<b>141</b>	<b>51,044</b>	<b>&lt;1.0%</b>	<b>215</b>	<b>50,139</b>	<b>&lt;1.0%</b>	<b>238</b>	<b>50,627</b>	<b>&lt;1.0%</b>	<b>206</b>	<b>46,922</b>	<b>&lt;1.0%</b>
<b>Total World-wide</b>	<b>1,516</b>	<b>71,894</b>	<b>2.1%</b>	<b>1,318</b>	<b>63,904</b>	<b>2.1%</b>	<b>2,007</b>	<b>66,377</b>	<b>3.0%</b>	<b>2,676</b>	<b>69,925</b>	<b>3.8%</b>	<b>2,698</b>	<b>66,818</b>	<b>4.0%</b>

(1) Certain fleet sales that are accounted for as operating leases are included in vehicle sales.

(2) The Company's estimated industry and market share data presented are based on management's estimates of industry sales data, which use certain data provided by third-party sources, including IHS Global Insight, Ward's Automotive and R.L. Polk Data.

(3) For 2009, we have combined the vehicles sales of Old Carco and Chrysler Group. Vehicle sales in the U.S. were 426 thousand from January 1, 2009 to June 9, 2009 and 505 thousand from June 10, 2009 to December 31, 2009. Vehicle sales in Canada were 71 thousand from January 1, 2009 to June 9, 2009 and 92 thousand from June 10, 2009 to December 31, 2009. Vehicle sales in Mexico were 34 thousand from January 1, 2009 to June 9, 2009 and 49 thousand from June 10, 2009 to December 31, 2009. The balance of the international sales was 62 thousand from January 1, 2009 to June 9, 2009 and 79 thousand from June 10, 2009 to December 31, 2009.

Our vehicle sales in the U.S., our primary market, increased by approximately 154 thousand vehicles, or 16.5 percent, in 2010 from 2009. U.S. automotive industry new vehicle sales in 2010 were approximately 11.8 million vehicles, an increase of 11.0 percent from 2009. Our new vehicle market share in the U.S. for 2010 increased to 9.2 percent from 8.8 percent for 2009. The Chrysler Town & Country minivan was the number one selling minivan in the U.S. in 2010, with over 112 thousand vehicles sold. Together with the Dodge Grand Caravan, we sold approximately 45.3 percent of the new minivans in the U.S. during 2010.

Our vehicle sales in Canada improved by 25.8 percent in 2010 from 2009, while our vehicle sales in Mexico declined by 4.8 percent in 2010 from 2009. Canadian automotive industry new vehicle sales in 2010 were approximately 1.6 million vehicles, an increase of 6.8 percent from 2009 levels. Our combined new vehicle market share in Canada for 2010 increased to 13.0 percent from 11.0 percent for 2009. Industry new vehicle sales in Mexico in 2010 were approximately 846 thousand vehicles, an increase of approximately 70 thousand from 2009. In Mexico, our combined new vehicle market share for 2010 was 9.3 percent, a decrease from 10.6 percent for 2009. The automotive industry in Mexico experienced a shift in demand away from pick-up trucks and utility vehicles toward passenger cars in 2010. Our product lineup was more weighted toward utility vehicles, minivans, trucks and large sedans, which caused our market share in Mexico to decline in 2010 from 2009.

Our vehicle sales in markets outside North America in 2010 were 147 thousand, a 4.3 percent increase compared with 2009. The South America region led 2010 vehicle sales outside North America with 41 thousand vehicles sold.

See Note 20, *Geographic Information* of our accompanying audited consolidated financial statements and Note 20, *Segment Reporting and Geographic Information* of Old Carco's accompanying audited consolidated financial statements for information about our revenues and long-lived assets by geographic area.



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The following table summarizes the total U.S. industry sales of new motor vehicles of domestic and foreign models and our relative competitive position:

	Years Ended December 31,														
	2010 <sup>(1)(2)</sup>			2009 <sup>(1)(2)(3)</sup>			2008 <sup>(1)(2)</sup>			2007 <sup>(1)(2)</sup>			2006 <sup>(1)(2)</sup>		
							(vehicles in thousands)								
	Chrysler Group	Industry	Percentage of Industry	Chrysler Group and Old Carco	Industry	Percentage of Industry	Old Carco	Industry	Percentage of Industry	Old Carco	Industry	Percentage of Industry	Old Carco	Industry	Percentage of Industry
<b>Cars</b>															
Small	45	1,965	2.3%	36	1,957	1.8%	84	2,365	3.6%	101	2,335	4.3%	109	2,211	5.0%
Mid-size	82	2,179	3.8%	61	2,026	3.0%	106	2,506	4.2%	157	2,749	5.7%	102	2,613	3.9%
Full-size	113	857	13.1%	99	775	12.8%	167	1,094	15.2%	270	1,524	17.7%	298	1,878	15.9%
Sport	44	609	7.3%	32	609	5.3%	49	785	6.3%	42	950	4.4%	41	1,054	3.9%
<b>Total Cars</b>	<b>284</b>	<b>5,610</b>	<b>5.1%</b>	<b>228</b>	<b>5,367</b>	<b>4.3%</b>	<b>406</b>	<b>6,750</b>	<b>6.0%</b>	<b>570</b>	<b>7,558</b>	<b>7.5%</b>	<b>550</b>	<b>7,756</b>	<b>7.1%</b>
Minivans	216	476	45.3%	175	434	40.4%	242	614	39.5%	314	807	38.9%	371	988	37.5%
Utility Vehicles	372	3,645	10.2%	333	3,046	10.9%	518	3,619	14.3%	767	4,722	16.2%	760	4,552	16.7%
Pick-up Trucks	207	1,602	12.9%	184	1,384	13.3%	267	1,959	13.6%	408	2,669	15.3%	440	2,846	15.5%
Van & Medium-Duty Truck	6	437	1.3%	11	372	3.1%	20	555	3.6%	18	707	2.5%	22	911	2.4%
<b>Total Vehicles</b>	<b>1,085</b>	<b>11,770</b>	<b>9.2%</b>	<b>931</b>	<b>10,603</b>	<b>8.8%</b>	<b>1,453</b>	<b>13,497</b>	<b>10.8%</b>	<b>2,077</b>	<b>16,463</b>	<b>12.6%</b>	<b>2,143</b>	<b>17,053</b>	<b>12.6%</b>

(1) Certain fleet sales that are accounted for as operating leases are included in vehicle sales.

(2) The Company's estimated industry and market share data presented are based on management's estimates of industry sales data, which use certain data provided by third-party sources, including IHS Global Insight, Ward's Automotive and R.L. Polk Data.

(3) For 2009, we have combined the vehicle sales of Old Carco and Chrysler Group.

#### Fleet Sales and Deliveries

Our vehicle sales and market share data presented in the above tables include fleet sales as well as sales by our dealers to retail customers. Fleet sales consist of sales to rental car companies, commercial fleet customers, leasing companies and government entities.

The following tables summarize our U.S. fleet sales and the amount of those sales as a percentage of our total U.S. vehicle sales annually since 2006 and quarterly during 2010:

	Years Ended December 31,				
	2010 <sup>(1)</sup>	2009 <sup>(1)(2)</sup>	2008 <sup>(1)(2)</sup>	2007 <sup>(1)(2)</sup>	2006 <sup>(1)(2)</sup>
	(vehicles in thousands)				
<b>Rental Car Companies</b>	317	171	315	484	502
<b>Other Fleet Customers</b>	75	70	124	151	140
<b>Total U.S. Fleet</b>	<b>392</b>	<b>241</b>	<b>439</b>	<b>635</b>	<b>642</b>
<b>Percentage of Total U.S. Vehicle Sales</b>	<b>36.1%</b>	<b>25.9%</b>	<b>30.2%</b>	<b>30.6%</b>	<b>30.0%</b>

(1) Certain fleet sales that are accounted for as operating leases are included in sales as of the delivery date although no revenue is recognized on that date.

(2) Chrysler Group began operations on June 10, 2009. The table reflects fleet sales of Old Carco for 2006, 2007 and 2008 and combined fleet sales of Old Carco and Chrysler Group for 2009.

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Total 2010
	(vehicles in thousands)				
<b>Total U.S. Fleet</b>	104	116	98	74	392
<b>Total U.S. Vehicle Sales</b>	234	293	293	265	1,085
<b>Percentage of Total U.S. Vehicle Sales</b>	<b>44.4%</b>	<b>39.5%</b>	<b>33.6%</b>	<b>27.7%</b>	<b>36.1%</b>

Although our vehicle sales to dealers for sale to retail customers are normally more profitable than our fleet sales, our fleet sales are an important source of revenue and can also be an effective means for marketing our vehicles. Further, fleet orders also help normalize our plant production because they typically involve the delivery of a large, pre-determined quantity of vehicles over several months. Fleet sales are also a source of aftermarket service parts revenue for us and service revenue for our dealers.

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In recent years, our fleet customers, particularly our commercial and government fleet customers, have tended to order vehicles that are smaller and are more fuel-efficient. The relative percentage of our fleet sales of minivans and trucks has remained steady since 2006, but over the same period, large passenger cars and large utility vehicles have increasingly been replaced by sales of small passenger cars and small utility vehicles.

**Mopar**

We sell Mopar-branded accessories and collision, repair, maintenance and performance parts for our vehicles primarily to our dealers and distributors. Through our dealer network, we also sell service contracts to retail customers for extended vehicle maintenance and repair. In 2010, our Mopar operations included 46 parts distribution centers, 20 of which were located in North America.

We believe that our customers' future vehicle buying decisions are influenced by their experience with vehicle service parts and service. We market Mopar as a standalone brand to increase the use of our products by, and improve the experience of, car enthusiasts and service providers who purchase replacement service parts and vehicle accessories.

We took several actions in 2010 to improve our customer care experience at our dealers and to enhance revenue opportunities. For example, we asked our U.S. dealers to extend their service hours to include Saturday and evening hours, and to market express oil change or other quick services using Mopar supplies. To support this effort, we began to offer Saturday parts ordering and delivery services. By the end of 2010, approximately 70 percent of our U.S. dealers offered Saturday service hours, and more than 25 percent provided an "express lane" or other quick service program. We also hired several hundred additional technical advisors to support the vehicle maintenance and repair services of our dealers and other aftermarket service providers. In addition, we introduced the Mopar eStore to provide on-line shopping for Mopar service parts and accessories via [www.mopar.com](http://www.mopar.com).

**Competitive Position**

The automotive industry is highly competitive, especially in the U.S., our primary market, with 11 large manufacturers with significant market share offering more than 350 vehicle models. Vehicle manufacturers must continuously engineer improvements in vehicle design, performance and content to meet customer demands for quality, reliability, fuel efficiency, comfort, driving experience, style, and safety. To enhance our competitive position, we are renewing our existing product lineup and introducing smaller, more fuel-efficient vehicles to balance our product lineup, which has been traditionally more weighted toward utility vehicles, minivans, trucks and large sedans.

Historically, U.S. manufacturers, including Old Carco, have relied heavily upon dealer, retail and fleet incentives, including cash rebates, option package discounts, guaranteed depreciation programs, and subsidized, or subvented, financing or leasing programs to compete for vehicle sales. Although we will continue to use such incentives selectively to market particular models in particular geographic regions during specific time periods, we intend to focus more of our efforts on improving vehicle sales primarily by building brand value, balancing our product portfolio, and improving the content, quality and performance of our vehicles. See *—Products and —Brands*, above, for information about our initiatives in those areas and *Item 2. Financial Information—Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends, Uncertainties and Opportunities—Pricing* for additional discussion of incentives.

Our ability to increase or maintain vehicle prices and reduce reliance on incentives is limited by intense price competition resulting from the wide variety of available competitive vehicles in each segment of the new car market and overcapacity in the automotive industry. At the same time, we may not be able to gain a competitive advantage by lowering prices as a means to increase vehicle sales without adversely affecting our profitability, since our ability to reduce costs is limited by commodity price increases, terms with suppliers, evolving regulatory requirements and collective bargaining agreements that limit our ability to reduce labor expenses. Our

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competitors may respond to market conditions by offering, in general or with respect to select vehicles, option package discounts, subsidized financing or leasing programs, price rebates or other sales incentives, or by reducing vehicle prices in certain markets.

The following table provides new vehicle U.S. market share information for Chrysler Group and its principal competitors:

	Years Ended December 31, <sup>(1)</sup>				
	2010	2009	2008	2007	2006
<b>Chrysler Group<sup>(2)</sup></b>	9.2%	8.8%	10.8%	12.6%	12.6%
<b>GM</b>	18.8%	19.6%	21.9%	23.3%	24.0%
<b>Ford</b>	16.4%	15.3%	14.2%	14.6%	16.0%
<b>Toyota</b>	15.0%	16.7%	16.4%	15.9%	14.9%
<b>Honda</b>	10.5%	10.9%	10.6%	9.4%	8.9%
<b>Nissan</b>	7.7%	7.3%	7.0%	6.5%	6.0%
<b>Hyundai/Kia</b>	7.6%	6.9%	5.0%	4.7%	4.4%
<b>Other</b>	14.8%	14.5%	14.1%	13.0%	13.2%
<b>Total</b>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) The Company's estimated market share data presented are based on management's estimates of industry sales data, which use certain data provided by third-party sources, including IHS Global Insight, Ward's Automotive and R.L. Polk Data.

(2) Chrysler Group began operations on June 10, 2009. The table reflects market share of Old Carco for 2008 and earlier periods and combined market share of Old Carco and Chrysler Group for 2009.

### Distribution

We sell our vehicles to independent dealers in North America and to wholly-owned, affiliated, or independent distributors and dealers in various countries outside of North America, for sale to retail and fleet customers. As of December 31, 2010, there were 2,311 dealers in the U.S., 433 dealers in Canada, 111 dealers in Mexico, and 1,411 dealers in over 120 other countries in our dealer network.

The following table summarizes the number of dealers in our dealer network:

	As of December 31,				
	2010	2009	2008	2007	2006
U.S. <sup>(1)</sup>	2,311	2,352	3,298	3,585	3,749
Canada	433	434	453	455	459
Mexico	111	115	117	117	118
Rest of World	1,411	1,532	1,594	1,638	1,528
Total Worldwide <sup>(2)(3)</sup>	<u>4,266</u>	<u>4,433</u>	<u>5,462</u>	<u>5,795</u>	<u>5,854</u>

(1) The reduction in the number of U.S. dealers in 2009 reflects Old Carco's termination of 789 dealers in its bankruptcy proceeding, to optimize the dealer network prior to its assumption by Chrysler Group.

(2) Chrysler Group began operations on June 10, 2009. The table includes Old Carco information for 2008 and earlier periods.

(3) Excludes dealers selected to sell Fiat brand vehicles (beginning in 2011) that were not otherwise Chrysler Group dealers in 2010.

A stable network of profitable dealers is important to our plans to increase vehicle sales. In order to attract customers, dealers need to make significant investments to construct, renovate, and maintain modern sales and service facilities that are equipped with state-of-the-art diagnostic equipment, tools and information management systems, and staffed by well-trained sales and service personnel. We believe significant economies of scale can be achieved by having one strategically located dealer sell all of our brands of vehicles in a particular area rather than having multiple dealers within close proximity selling the same brand of vehicles.

In this regard, Old Carco had initiated a dealer network optimization plan in the U.S. designed to increase vehicle sales by strengthening dealer profitability, in part, through dealer consolidation. This process, which has resulted

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in approximately 90 percent of our dealers now selling all of our brands at one facility, was accelerated through Old Carco's bankruptcy proceeding, during which 789 dealers were terminated. Certain legal matters relating to those terminations are described below in *Item 8. Legal Proceedings*.

Approximately 82 percent of the U.S. dealers in our dealer network reported to us that they were profitable by the end of 2010, despite the continuing weakness in the U.S. economy. Nearly all of the dealers in our dealer network have access to wholesale financing through Ally (as discussed in *Dealer and Customer Financing*, below), or through other lenders. Since we began operations in June 2009, dealers in our network have committed to invest more than \$300 million in new construction and major renovations in their dealerships.

In 2010, we were appointed the exclusive distributor for Fiat and Fiat Professional (light commercial) vehicles and service parts in Mexico, and we will be the exclusive distributor for Fiat brand vehicles and service parts in the U.S. and Canada.

We launched retail sales of the Fiat 500 in March 2011 following its December 2010 production launch at our Toluca, Mexico plant. We will make a greater profit on the manufacture and distribution of the Fiat 500 in North America than we would make if we acted only as a distributor. We began selecting dealers for the sale of Fiat brand vehicles and service parts in the U.S. during the fourth quarter of 2010. As of December 31, 2010, we had selected 122 Fiat brand dealers in the U.S., of which 120 are current Chrysler, Jeep, Dodge and Ram brand dealers. We intend to develop a U.S. network of approximately 165 Fiat brand dealers in approximately 120 metropolitan areas in 37 states, as well as Puerto Rico. We chose these metropolitan areas based on current small-car registration levels and anticipated growth in the local small-car market over the next five years. We also anticipate establishing 67 Fiat dealerships in Canada, of which 58 were selected during 2010.

We also are pursuing plans to reintroduce Alfa Romeo brand vehicles and service parts in Mexico in 2011, and in the U.S. and Canada in 2012. In addition, we have a right of first refusal with respect to the distribution of Fiat's Lancia brand vehicles in those markets.

At the same time, we are preparing for Fiat to serve as the exclusive distributor for our vehicles and service parts in certain markets outside of North America. In 2010, we developed a new business model for the distribution of our vehicles in select European countries, in which we will integrate the activities of our sales companies for each country into Fiat's distribution organization. Fiat now manages distribution of our vehicles and service parts in that region, and will begin to serve as our general distributor in Europe starting in June 2011, selling our products through a network of newly appointed dealers.

In addition, we are establishing arrangements for one or more of our vehicles to be distributed under the Fiat brand in Europe through Fiat's dealer network. We are also developing strategies by which we can benefit from Fiat's longstanding presence in Brazil, the largest automotive market in South America. Further, we are exploring opportunities for the production and expansion of the sale of Chrysler Group products in emerging markets such as China and Russia.

#### *Dealer and Customer Financing*

Because our dealers and retail customers finance the purchase of a significant percentage of the vehicles we sell, the availability and cost of financing is among the most significant factors affecting our vehicle sales volumes. Dealers use wholesale financing arrangements to purchase vehicles from us to maintain inventory adequate to drive retail vehicle sales. Retail customers use a variety of financing and lease programs, including programs in which we offer financial subsidy incentives, capitalized cost reductions or special terms through a financial services company, to acquire new vehicles from our dealers. Historically, like most large automakers, Old Carco relied on an affiliated, or captive, finance company to provide most of this financing. Following the 363 Transaction, we do not have a captive finance company and instead rely upon strategic relationships developed with independent financial service providers, principally Ally, to provide critical financing and support for our dealers and retail customers, as described below.

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In connection with the 2009 restructuring of the U.S. automotive industry, and with the assistance of the U.S. Treasury, we entered into an auto finance relationship with Ally. Ally historically was the captive finance company of General Motors Corporation, or General Motors, one of our principal competitors. Ally provides wholesale and retail financing to our dealers and retail customers in the U.S., Canada and Mexico pursuant to the terms of an Auto Finance Operating Agreement that we signed with Ally on August 6, 2010. This agreement replaces a binding term sheet that we entered into with Ally at the time of the 363 Transaction. Ally is one of the world's largest automotive financial services companies. We do not have an exclusive arrangement with Ally, which has similar agreements with General Motors and Nissan Motor Company and provides wholesale and retail financing to support other vehicle manufacturers.

Pursuant to the Auto Finance Operating Agreement, Ally is required to consider applications for financing made by our dealers and retail customers in accordance with its usual and customary standards, and to make lending decisions in accordance with its business judgment. As a customer incentive, we subsidize interest rates or cash payments required at the inception of the financing arrangement, a practice known as "subvention." Our agreement with Ally is not exclusive. Ally provides consumer and dealer financing to other manufacturers and our dealers and retail customers obtain financing, including some subvented financing from other financing sources. Under the agreement, however, we must offer all subvention programs to Ally, and we are required to ensure that Ally finances a specified minimum percentage of the units we sell in North America under rate subvention programs in which it elects to participate. We also have agreed to repurchase certain Ally-financed inventory upon certain triggering events. Under the Ally agreement, we are required to repurchase Ally-financed inventory, with certain exceptions, in the event of an actual or constructive termination of a dealer's franchise agreement (including in certain circumstances when Ally forecloses on all assets of a dealer securing financing provided by Ally). These obligations exclude vehicles that have been damaged or altered, that are missing equipment or that have excessive mileage or that have an original invoice date that is more than one year prior to the repurchase date. As of December 31, 2010, the maximum potential amount of future payments required to be made to Ally under this guarantee is approximately \$5.2 billion and is based on the aggregate repurchase value of eligible vehicles financed by Ally in our U.S. dealer stock. If vehicles are required to be repurchased under this arrangement, the total exposure would be reduced to the extent the vehicles are able to be resold to another dealer. The fair value of the guarantee was less than \$1 million at December 31, 2010, which considers both the likelihood that the triggering events will occur and the estimated payment that would be made net of the estimated value of inventory that would be reacquired upon the occurrence of such events. This estimate reflects our actual experience. The Ally agreement extends through April 30, 2013, with automatic one-year renewals unless either party elects not to renew.

In an effort to expand the financing options for our U.S. retail customers, in 2010, we also entered into subvention agreements with Santander Consumer USA, Inc. for loans to sub-prime retail customers, and with US Bank, N.A. for lease financing. These supplemental programs are important sources of financing for some of our retail customers as Old Carco historically had relatively high proportions of subprime customers and customers using lease financing to acquire vehicles. Additionally, Chrysler Canada has arrangements with a number of financial institutions to provide a variety of retail financing programs to our Canadian retail customers.

As of December 31, 2010, Ally was providing wholesale financing to approximately 62 percent of our dealers in the U.S. For the year ended December 31, 2010, we estimate that approximately 78 percent of the vehicles purchased or leased by our retail customers were financed, and approximately 24 percent of such purchases or leases were financed through subvented programs with Ally and other lenders. Approximately 17 percent and 18 percent of the vehicles we and/or Old Carco sold in 2009 and 2008, respectively, were financed through subvention programs.

Finally, as part of the Fiat alliance, we entered into agreements with financial services affiliates of Fiat for the provision of financing to our dealers and customers in China, Argentina, Brazil and certain countries in Europe.

### ***Research, Development and Intellectual Property***

We engage in research and development for new vehicles and technology to improve the performance, safety, fuel efficiency, reliability and customer perception of our vehicles. As of December 31, 2010, we employed over

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4,000 engineers with an average of approximately 15 years of Chrysler experience. Our engineers support our product development efforts and have expertise in a number of disciplines, including mechanical, electrical, material and chemical engineering. We also provide an internal program in which a portion of our engineers receive cross-training in various technical and business functions.

We typically conduct consumer research during the early stages of new product development initiatives in order to identify key feature and vehicle attributes that consumers desire. Although a substantial portion of our research and development work is done in support of specific new vehicles that are in development, we also engage in research and development of new technologies outside of our regular product development cycles that, if successful, can be applied in new products. As is typical in the automotive industry, we often collaborate with our suppliers on research and development.

Our research and development spending is used for a number of activities that support development of new and existing vehicles and powertrain technologies, including building of three-dimensional models, virtual simulations, prototype building and testing (including with respect to the integration of safety and powertrain technologies) and assembly of pre-production pilot models.

In 2010, we significantly expanded our investment in research and development activities and have prioritized development of vehicles with greater fuel efficiency and reduced emissions, as well as enhanced our Uconnect technology.

The following table summarizes our research and development expenses:

	Chrysler Group (Successor)		Old Carco (Predecessor A)	
	Year Ended December 31, 2010	Period from June 10, 2009 through December 31, 2009	Period from January 1, 2009 through June 9, 2009	Year Ended December 31, 2008
	(in millions)		(in millions)	
Research and development expense	\$ 1,500	\$ 626	\$ 452	\$ 1,525

### *Fuel-Efficiency and Reduced Emissions*

We have made the development of more fuel-efficient vehicles a priority to meet retail customer preferences, comply with future regulation and as part of our commitment to sustainability. We are therefore focusing our research efforts on five areas aimed at reducing fuel consumption and emissions: vehicle energy demand, engines, transmissions, axles, and hybrid and fully electrified vehicles.

### *Vehicle Energy Demand*

Our research in reducing vehicle energy demand examines ways to optimize vehicle weight, aerodynamic drag, tire performance, braking drag and driveline losses. For example, we have increased our use of high-strength steel to reduce vehicle weight, and thus fuel consumption, while still meeting standards for vehicle safety. Approximately 70 percent of the body structure in the new CUSW platform, which we intend to introduce in 2012, will be of high-strength composition. Our research also seeks to reduce electrical load through higher efficiency fans and fuel pumps.

We also continue to research vehicle applications for thermal management, which optimizes the way in which energy is utilized, extracted and re-utilized so as to reduce total energy consumption. Thermal management technologies will not only help reduce fuel consumption, but will also be a critical factor in extending battery range for hybrid electric and all-electric vehicle models in the future. Our current research efforts include various strategies to warm engines and transmissions faster, to have our vehicles run at an ideal set point, and to recapture waste heat.

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To further reduce fuel consumption, we will incorporate the Fiat stop/start technology into our product line in 2011, beginning with the Jeep Wrangler diesel to be sold in Europe. Stop/start technology turns off the engine and fuel flow at full stops, and re-starts them automatically upon acceleration. We plan to initiate fleet-wide integration of our own fuel-saving start/stop technology on a global basis. We expect to incorporate this technology into 90 percent of our models in North America by 2017.

### *Powertrain Technologies*

*Engines.* We introduced our new Pentastar V-6 engine in 2010. This engine features a lighter weight aluminum block with variable valve timing that, on average, improved fuel efficiency by 7 percent over predecessor engines in the nine models we tested. In December 2010, *Wards' Automotive* recognized the Pentastar engine as one of the "10 Best Engines for 2011" for its refinement, power, fuel-efficiency and low emissions.

We introduced the Pentastar V-6 engine in the 2011 Jeep Grand Cherokee and in the production launches of nine other vehicles. Because this engine was designed with flexible architecture, we have the ability to use the engine in a range of models, and to use it together with a variety of advanced technologies, such as Fiat Multi-Air (described below), direct injection or turbo charging. Engineering efforts are currently underway to adapt this engine for use in additional Chrysler Group and Fiat vehicles, beginning with two additional vehicles in 2011. We manufacture the Pentastar V-6 engine at our facilities in Trenton, Michigan, and Saltillo, Mexico.

In connection with the production launch of the Fiat 500 in December 2010, we also began manufacturing the 1.4L 4-cylinder Fiat FIRE engine which incorporates Fiat's Multi-Air technology. This added a fuel-efficient small engine to our portfolio. Fiat's Multi-Air technology involves proprietary hardware and combustion strategies and controls resulting in the full control, lift and timing of engine valves, and delivers up to a 7.5 percent improvement in fuel efficiency and CO<sub>2</sub> emissions, while enhancing performance. We are now adapting this technology to our 2.4L World Gas Engine, which will be used in future C- and D-segment vehicles in our product lineup, starting in 2012.

*Transmissions.* We are adapting Fiat's dual dry clutch transmission, or DDCT, for a select group of our vehicles. The DDCT combines the basic mechanical system of a conventional manual transmission assembly with an electronically controlled shifting system that the driver operates like an automatic transmission. The DDCT achieves improved fuel economy over a conventional automatic transmission when used in small- to medium-sized vehicles. DDCT technology will be introduced in the U.S. market in the second quarter of 2011 in the Chrysler 200 and the Dodge Avenger, as well as in future C-sedans.

In 2010, we entered into two commercial agreements with one of our key suppliers, ZF Getriebe GmbH, or ZF, for the design, engineering and manufacture of new automatic transmissions that deliver reduced fuel consumption with improved driving performance. The first agreement covers a rear-wheel drive 8-speed transmission for light- and medium-duty applications that is planned for use in vehicles starting in mid-2011. This transmission is expected to reduce fuel consumption by up to 12 percent over our current 5-speed transmissions. We ultimately plan to use this transmission in all of our rear-wheel drive vehicles except the heavy-duty versions of the Ram truck.

The second agreement with ZF covers an all-new 9-speed front-wheel drive transmission for medium-duty applications. ZF's 9-speed transmission is not yet in production anywhere in the world, and will be made available in a Chrysler Group vehicle before being offered by any other vehicle manufacturer. This transmission is expected to reduce fuel consumption by up to 11 percent over our current 6-speed transmissions. We plan to use this transmission in many of our next generation C- and D-segment front-wheel drive vehicles starting in 2013. This transmission complements the DDCT, which is better suited to smaller, lower torque applications. We intend to manufacture the majority of our volume requirements for both the 8- and 9-speed ZF transmissions at our own facilities in Kokomo, Indiana under licenses from ZF, and to purchase the remainder of our volume requirements from ZF.

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*Axles.* We have a commercial agreement with an affiliate of ZF in which they will produce lightweight axles at one of our new facilities. This relationship affords us access to advanced axle technologies we could not develop on our own without investing significant time and capital. The proprietary ZF axles weigh up to 34 percent less than, and improve fuel efficiency by 2 percent relative to, comparable axles. We began to incorporate the ZF axles in the Jeep Grand Cherokee and Dodge Durango in 2010 and will use it in the Ram pick-up truck starting in 2011.

### *Hybrid and Fully Electrified Vehicles*

Our research activities include the development of technology that can be used in a range of electrified vehicles, including conventional hybrids, plug-in hybrids, fully electrified and range-extended electric vehicles. A conventional hybrid vehicle includes both an internal combustion engine and an electric motor, while a plug-in hybrid vehicle also has rechargeable batteries that can be charged through an external power cord. A fully electrified vehicle contains only an electric motor, and a range-extended vehicle is a fully electrified vehicle that also contains a generator to power the vehicle when the batteries run low. Much of our effort is focused on optimizing combustion engine technology so that it will be compatible with hybrid electric vehicle technology, and addressing cost reduction strategies to ensure the affordability of such vehicles in the future.

Currently, we are developing in the U.S. a fully electrified version of the Fiat 500, using battery technology developed by Chrysler Group. The Fiat 500 is particularly well-suited for electric technology due to its light weight and small size. We plan to design, manufacture and sell this version of the Fiat 500 in North America. Production is currently scheduled to launch in 2012.

In 2010, we began a three-year demonstration project for a Ram truck plug-in hybrid. This rear-wheel drive vehicle is equipped with a lithium ion battery and has a 20 mile range of zero-emission, pure electric operation. For this demonstration project, we plan to build 140 trucks to be tested in various climates. We are also currently conducting a similar front-wheel drive vehicle demonstration project for a minivan.

Finally, we are exploring the development of non-electrified hybrid vehicles. We recently partnered with the U.S. Environmental Protection Agency, or the EPA, to develop and study a hybrid powertrain that will operate using hydraulic power or fuel. This hybrid hydraulic powertrain study will be aimed at light-duty vehicle applications.

### *Uconnect Technology*

Our Uconnect radio products currently provide our retail customers access to broadcast media, including satellite broadcasts, personal content and rear seat entertainment, navigation services, traffic and travel data, and hands-free communication. We recently began installing our second generation of Uconnect radios with a new touch-screen, simplified steering wheel controls and hands-free voice commands. We are currently developing a third-generation, flexible Uconnect radio platform that can be personalized to serve the needs of retail customers with varying degrees of skill and comfort with technology. We expect this new platform to include the option to load user-selected applications, similar to smartphones and tablets, as well as accommodate connectivity with our retail customers' own smartphones. Vehicles will be connected using cellular technology, Bluetooth and WiFi capabilities to provide navigational services, vehicle diagnostic services, automated emergency notification services, on-demand radio content and other connected services. As currently contemplated, this new platform will provide users with the option to control the radio with a hands-free system that recognizes natural speech. This platform will be designed so that it can be leveraged across our entire vehicle lineup, and can be easily modified in the future as this area of technology continues to evolve. We plan to begin producing vehicles with this new Uconnect technology starting in 2012.

### *Intellectual Property*

We hold numerous patents for use in our business. We also jointly own or hold licenses to intellectual property in certain technologies with Fiat and other third parties pursuant to various commercial agreements. No single



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patent is material to our business as a whole. We also own a number of trademarks and service marks that are critical to the recognition of our products by consumers, including, in particular, the Chrysler, Jeep, Dodge, Ram and Mopar marks, described in *Brands*.

Our intellectual property portfolio is supplemented by our license of certain Fiat intellectual property obtained in the 363 Transaction. The license is exclusive in North America and non-exclusive for other parts of the world.

***Raw Materials, Services and Supplies***

We procure a variety of raw materials, parts, supplies, utilities, transportation and other services from numerous suppliers to manufacture our vehicles, parts and accessories, primarily on a purchase order basis. Raw materials we use typically consist of steel, aluminum, resin, copper, lead, and precious metals including platinum, palladium and rhodium. In recent years, prices for many of these raw materials have fluctuated significantly and related freight charges have also increased. Prices for aluminum and copper increased significantly in the fourth quarter of 2010, which we expect to impact our costs for those materials starting in 2011. Our exposure to significant increases in steel prices in 2010 was limited because we purchased approximately two-thirds of our steel pursuant to fixed-price contracts. These contracts are scheduled to expire beginning in mid-2011.

Although we have not experienced any significant loss of production as a result of material or parts shortages, we, like our competitors, regularly source systems, components, parts, equipment and tooling from a sole provider or limited number of providers. Therefore, we are at risk of production delays and losses should any supplier fail to deliver goods and services on time. For example, in early 2011, we were forced to idle our minivan manufacturing plant in Windsor, Ontario for approximately one week as a result of a supply disruption.

In addition, in 2010, there was an industry-wide shortage of computer chips that we use for the electrical systems in our vehicles. There was also an industry-wide shortage of tires in 2010, as tire manufacturers that cut back capacity during the 2007-09 recession have not increased capacity at a rate sufficient to meet increasing industry demand. In both instances, we were nevertheless able to procure adequate supply to meet our 2010 targeted production of 1.6 million vehicles. We expect that these shortages will continue into 2011, but with less severity.

We work with our suppliers on an ongoing basis to reduce our supply costs whenever possible. When one of our suppliers proposes a program or method that results in a cost saving to us, we share that cost saving equally with the supplier for a one-year period after such program or method is implemented, which we believe encourages our suppliers to actively pursue efforts that will reduce our supply costs.

Supply of raw materials, parts and components may also be disrupted or interrupted by natural disasters such as the recent earthquake and tsunami affecting Japan, the effect of which we are continuing to proactively assess. Based on our ongoing discussions with our suppliers as a result of those events in Japan, we are aware of a limited number of shortages of materials and parts, and we are taking steps to mitigate the impact of these shortages, including by accessing alternative sources of supply and managing our production schedules. We will continue to work with our suppliers to monitor potential shortages and to mitigate the effects of any emerging shortages on our production volumes and revenues.

***Environmental and Regulatory Matters***

The automotive industry is subject to extensive government regulation. Chief among these are vehicle and engine requirements governing safety, emissions and fuel economy and the environmental impacts of our manufacturing operations. As described below, regulations in the U.S. and other countries impose substantial testing and certification requirements with respect to vehicle emissions, fuel economy, noise and safety, and with respect to the emissions and operations of automotive plants. The cost of complying with these requirements can be significant, and violations or liabilities with respect to these requirements can result in fines, penalties, vehicle recalls, cleanup costs and claims for personal injury or property damage.

[Table of Contents](#)*Vehicle Emissions*

*U.S. Standards.* Regulations issued by the EPA under the Clean Air Act and by California and other states impose emission limits on new motor vehicles and engines. The Clean Air Act Tier 2 standards apply to passenger cars, light trucks (which for this purpose includes our minivans, sport utility vehicles and pick-up trucks other than the Ram 2500/3500 Heavy Duty), and the heavy-duty emissions standards phased in beginning in 2007 that apply to heavy-duty vehicles (our medium-duty and chassis cab trucks) sold in the U.S. These standards require us to conduct both pre-and post-production vehicle testing to demonstrate compliance with these emissions limits.

Compliance certification is required from the EPA before a vehicle can be sold in the U.S. and from the California Air Resources Board, or the CARB, before it can be sold in California and other states that have adopted the California emissions requirements (discussed below). The Clean Air Act Tier 2 standards apply for the estimated useful life of a vehicle, and testing can be required for up to eleven years or 120,000 miles or longer depending on the compliance category. We are required to monitor and report issues with the emissions performance or the estimated useful life of our vehicles and can be required to recall, repair, or stop delivery of non-conforming vehicles.

In addition, the EPA and CARB regulations require that a vehicle's emissions performance be monitored with onboard diagnostic, or OBD, systems. We have implemented hardware and software systems to comply with the OBD requirements. Conditions identified through OBD systems could lead to vehicle recalls with significant costs for related inspections, repairs, or per-vehicle penalties.

Compliance with emission standards applicable to vehicles with heavy-duty diesel engines requires the use of additional emissions controls, which are costly and require periodic customer maintenance. We are phasing in use of one such control, selective catalyst reduction, or SCR, technology, in our heavy-duty trucks. The EPA and CARB recently settled litigation challenging the EPA's 2010 model year heavy-duty standards and related SCR guidance. As part of the settlement, the EPA agreed to reexamine its policies regarding SCR-equipped engines for 2011 and later model years. A future decision that constrains the use of SCR technology could interfere with our ability to sell heavy-duty vehicles.

*California Standards.* California sets its own, more stringent, emissions standards pursuant to a waiver from the EPA under the Clean Air Act. CARB has adopted requirements relating to vehicle certification, OBD, and tailpipe emissions limitations known as the Low Emission Vehicle II, or LEV II, standards. CARB is also developing stricter LEV III standards which we expect to apply beginning with 2014 model year vehicles. CARB regulations also require that a specified percentage of cars and certain light-duty trucks sold in California must be zero emission vehicles, or ZEV, such as electric vehicles or hydrogen fuel cell vehicles. A manufacturer can earn credits toward this requirement through the sale of advanced-technology vehicles such as hybrid electric vehicles or natural gas vehicles with extremely low tailpipe emissions that generate ZEV credits. The rules also provide some ZEV credits for partial zero-emission vehicles, or PZEVs, which can be internal combustion engine vehicles certified to very low tailpipe emissions and zero evaporative emissions. The ZEV regulations, which CARB revised most recently in February 2009 with respect to 2012 and subsequent model years, require increasing volumes of battery electric and other advanced technology vehicles with each model year. We currently comply with the ZEV requirements using a variety of vehicles, including PZEVs, hybrid ZEVs, and neighborhood electric vehicles.

The Clean Air Act permits other states to adopt California's stricter emission standards. Eleven other states (New York, Massachusetts, Maine, Vermont, Connecticut, Pennsylvania, Rhode Island, New Jersey, Oregon, Washington and Maryland, as well as the Province of Quebec), currently use California's emission standards in lieu of the federal EPA standards and ten states have also adopted the California ZEV requirements. Arizona has adopted the California standards beginning with the 2012 model year.

The introduction of the Fiat 500 in the U.S. market in 2011 has enhanced our ability to comply with federal EPA and California emissions standards since compliance is based on a fleet-wide sales weighted average and we

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expect to combine Fiat and Chrysler Group fleets. In addition, the battery electric version of the Fiat 500, which is scheduled to be introduced for sale in the U.S. in 2012, will assist our efforts to comply with the ZEV mandate.

California also has greenhouse gas, or GHG, emissions limitations, which are discussed below in *Vehicle Fuel Economy & GHG Regulations*.

*European Standards.* The European Union, or EU, regulates emissions for vehicles sold in its member states. Similar regulations from the United Nations Economic Commission for Europe have been adopted by other European countries. European regulations, like those in the U.S., require certification by regulatory authorities of the emissions performance of our new vehicles before they can be sold. The current Euro-5 EU emission standard was adopted in 2009. The more stringent Euro-6 EU standard will apply to 2014 and later model year vehicles. The new standards will require the development of additional diesel engine technology, which is likely to increase the cost of diesel engines and reduce their fuel economy. The EU also requires such programs as OBD and pre- and post-production testing. We expect a combined Chrysler and Fiat vehicle fleet to meet the requirements of both the Euro-5 and Euro-6 standards as applicable.

*Other Regions.* Vehicles sold in Asia, South America and other parts of the world are also subject to local emissions and evaporative standards and OBD requirements. We expect to comply with such requirements, which are generally based on the EU standards, California standards, or a hybrid standard based on those established programs.

### *Vehicle Fuel Economy & GHG Regulation*

*U.S. Requirements.* Since enactment of the 1975 Energy Policy and Conservation Act, or EPCA, the National Highway Traffic Safety Administration, or NHTSA, has established minimum average fuel economy requirements, known as Corporate Average Fuel Economy, or CAFE, standards, for fleets of new passenger cars and light-duty trucks sold in the U.S. A manufacturer is subject to civil penalties if it fails to meet the CAFE standard in any model year, after taking into account all available credits for performance in the last three model years or expected performance in the next five model years. Passenger cars imported into the U.S. are averaged separately from those manufactured in the U.S., but all light trucks are averaged together.

The CAFE standard applicable to 2010 model year domestic and imported passenger car fleets is 27.5 miles per gallon. The standard applicable to our 2010 model year light-duty truck fleet is 23.5 miles per gallon. Our 2010 model year fleets complied with the standards.

The 2007 Energy Independence and Security Act revised the CAFE program and required the NHTSA to establish more stringent CAFE standards beginning with the 2011 model year. Among other things, although there will continue to be separate standards for cars and light trucks, standards must be set such that they increase year over year to achieve a 35.0 mile per gallon combined car and truck fleet industry average by model year 2020. In March 2009, the NHTSA established the industry-wide combined average of 27.3 miles per gallon as the CAFE standard for the 2011 model year but did not then establish standards for future model years. We expect that our 2011 model year fleets will comply with this standard.

In addition, there has been significant interest among vehicle manufacturers, governmental authorities, environmental groups, and consumers regarding the effect of GHG vehicle emissions, primarily carbon dioxide (CO<sub>2</sub>), on the global climate. There has also been significant regulatory uncertainty in this area since regulating GHG vehicle emissions also has the effect of regulating fuel economy.

In May 2009, President Obama announced an agreement in principle among the EPA and other federal agencies, the State of California and the automotive industry to establish a coordinated national program to reduce GHGs under the Clean Air Act and improve fuel economy. The EPA and the NHTSA subsequently issued a joint final rule under the EPCA and the CAFE standards to implement a coordinated national GHG and fuel economy program for light-duty vehicles (passenger cars, light-duty trucks, and medium-duty passenger vehicles) establishing standards for model years 2012 through 2016. Those agencies are expected to issue a proposed rule for standards for model year

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2017 through 2025 light-duty vehicles by September 1, 2011. They also expect to issue a joint final rule in 2011 that will establish a similar national program applicable to heavy-duty vehicles beginning with model year 2014 for binding GHG standards, and model year 2016 for binding fuel economy standards.

These national programs are intended to avoid conflicting requirements through regulatory convergence of the GHG and fuel economy standards established by U.S. federal and various state governmental authorities, including CARB. In September 2010, the EPA, the NHTSA and CARB issued a joint technical assessment based on information obtained from various parties, including vehicle manufacturers, regarding the potential cost, effectiveness of, and lead-time requirements for numerous technologies, in order to inform future rulemaking.

The agreement in principle announced by President Obama in May 2009 provided that California would enforce its own GHG standards for the 2009 through 2011 model years, and defer to federal standards for the 2012 through 2016 model years. It also provided for a stay of the litigation brought by the automotive industry challenging the rights of states to regulate vehicle GHG emissions, such as the GHG standards previously established by CARB pursuant to California law, which we refer to as AB 1493, and the waiver of preemption provided by the EPA allowing states to regulate vehicle GHG emissions. Parallel proceedings brought against the states of Vermont and Rhode Island, which have adopted California's GHG standards, were also stayed. Each of these litigation matters was dismissed following issuance of the joint final rule in 2010 described above that established standards for model years 2012 through 2016.

Although the standards are challenging, we believe that the vehicles in our current product plan will meet the applicable federal and California standards established through the model year 2016. Since there is no uniform national program in effect for model years after 2016, it is possible that future conflicting governmental regulations regarding GHG emissions and fuel economy could require us to take costly actions or limit the sale of our vehicles in certain states. We could also be adversely affected if pending litigation by third parties outside of the automotive industry challenging the EPA's regulatory authority with respect to GHGs is successful, and, as a result, CARB were to enforce its GHG standards under AB 1493.

*European Requirements.* The EU promulgated passenger car carbon dioxide emissions regulations, beginning in 2012 and phasing in compliance through 2015. These regulations target vehicle weight, calculated as an average across the manufacturer's fleet. The law also provides certain flexibilities, such as credits for "eco-innovations," alternative fuel use, and vehicles with very low carbon dioxide emissions. We are developing a compliance plan based on our predicted fleets and vehicle CO<sub>2</sub> emissions averages of Chrysler and Fiat vehicles. The EU also adopted CO<sub>2</sub> emissions standards for light commercial vehicles, a program similar to the passenger car program.

Another set of regulations, called the "complementary measures" laws, will or may require low-rolling resistance tires, tire-pressure monitors, gear shift indicators, fuel economy indicators and more efficient air conditioners. Some EU members have adopted or are considering CO<sub>2</sub>-based tax incentives.

*Canadian Requirements.* Canadian federal emissions regulations are substantially similar to the U.S. regulations described above, including compliance certification requirements.

*Requirements in Other Regions.* China, Korea, India and South American countries have proposed or are considering establishing fuel economy/GHG emissions requirements that would pose additional compliance obligations, and will affect the cost of our vehicles as a result.

### *Vehicle Fuel Content*

For years EPA regulations have allowed conventional gasoline to contain up to 10 volume percent ethanol, or E10, and we and other vehicle manufacturers designed vehicles to accommodate E10. Ethanol is an alcohol-based fuel generally made with starch crops, such as corn. Proponents of ethanol maintain that its use can reduce greenhouse gas emissions and dependence on oil.

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In response to an application for waiver filed by ethanol manufacturers, the EPA recently granted waivers under the Clean Air Act that allow fuel manufacturers to introduce into commerce gasoline containing up to 15 volume percent ethanol, or E15, for use in certain light-duty vehicles (including passenger cars, light-duty trucks and sport utility vehicles). The first waiver, granted in October 2010, allows such use in model year 2007 and newer vehicles, and the second waiver, granted in January 2011, allows such use in model year 2001 through 2006 vehicles.

The automotive industry had expressed concern to the EPA in connection with the E15 waiver application that the use of E15 in prior model year vehicles designed for E10 could result in fuel system failures, OBD system warnings, customer dissatisfaction and increased warranty claims since ethanol is more corrosive than gasoline. The EPA imposed conditions on the waivers that it believes will assure the quality of E15 and reduce the potential for misfueling of older model year vehicles. Lawsuits challenging the October waiver were brought by representatives of the automotive industry and other groups and are pending. Similar legal challenges to the January waiver are likely.

Certain of our vehicles are specially designed as flexible fuel vehicles capable of using up to 85 volume percent ethanol, or E85, or conventional gasoline, or any mixture of those two fuels. By 2013, we expect that all of our engines will be designed to be flexible fuel capable, and we expect that approximately 50 percent of our fleet will be flexible fuel vehicles.

### *Vehicle Safety*

*U.S. Requirements.* Under federal law, all vehicles sold in the U.S. must comply with all applicable Federal Motor Vehicle Safety Standards, or FMVSS, promulgated by the NHTSA, and they also must be certified by their manufacturer as being in compliance with those standards. In addition, if a vehicle contains a defect that is related to motor vehicle safety or does not comply with an applicable FMVSS, the manufacturer must notify vehicle owners and provide a remedy. Moreover, the Transportation Recall Enhancement, Accountability, and Documentation Act, or TREAD Act, requires us to report certain information related to certain claims and lawsuits involving fatalities and injuries in the U.S. if alleged to be caused by our vehicles, and other information related to customer complaints, warranty claims, and field reports in the U.S., as well as information about and fatalities and recalls outside the U.S.

Several new or amended FMVSS's will take effect during the next few years (sometimes under phase-in schedules that require only a portion of a manufacturer's fleet to comply in the early years of the phase-in). These include an amendment to the side impact protection requirements that added several new tests and performance requirements (FMVSS No. 214), an amendment to the roof crush resistance requirements (FMVSS No. 216), and an amendment to the head restraint requirements (2FMVSS No. 202a). In addition, the NHTSA recently proposed to adopt a new FMVSS that would require all light vehicles to be equipped with a rear-mounted video camera and an in-vehicle visual display. Compliance with these new requirements, as well as other possible prospective NHTSA requirements, is likely to be difficult and/or costly.

*Requirements in Other Regions.* We are subject to certain safety standards and recall regulations in the markets outside the U.S. in which we operate. Foreign safety standards often have the same purpose as the U.S. standards, but they may differ in their requirements and test procedures. From time to time, other countries adopt safety requirements that are more stringent than U.S. standards. The EU and many other countries require "type approval" by a government agency before a vehicle can be sold, while the U.S. and Canada require "self-certification" by the manufacturer.

### *Environmental Regulation of Manufacturing Operations*

We operate manufacturing facilities and other facilities, primarily in the U.S., Canada and Mexico, that are subject to a multitude of federal, state and local environmental protection laws, including those that govern air emissions, water discharges, hazardous substance handling, storage and use, waste generation, management and disposal, remediation of site contamination and that impose various operating permit, data collection and reporting requirements.

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A variety of air, water and waste regulations are proposed for modification by the EPA or state agencies. Proposed changes include modifications to the particulate National Ambient Air Quality Standard, nitrogen oxide rules, the “boiler MACT” (maximum achievable control technology), the “RICE (reciprocating internal combustion engine) Rule,” and others.

The EPA issued a national GHG reporting rule that requires annually reporting of the level of GHG emissions from facilities that have boilers or industrial heaters that burn fossil fuel emitting 25,000 tons per year of GHGs or that have processes that fall within specified industrial source categories, including motor vehicle and engine manufacturers. Our first report is due in March 2011.

In May 2010, the EPA issued a rule that phases in new requirements for operating permits beginning in 2011 for facilities based on annual emissions of GHGs, which are now deemed to be pollutants subject to regulation under the Clean Air Act. The rule tailors the application of two operating permit programs, the PSD (prevention of significant deterioration) program and the Title V program, to facilities based on their emissions level, industrial category, and current permit status. The EPA is expected to issue further rulemaking and guidance on the requirement to use the best available control technology and other matters. We anticipate that these new requirements will apply to most of our U.S. manufacturing facilities and may require us to install additional pollution control equipment and/or change operating processes.

We expect to spend an aggregate of approximately \$18 million in the 2011–2012 period for pollution control equipment and other capital expenditures at our North American facilities in connection with stationary source standards for controlling air and water pollution and hazardous waste. We expect environmental requirements applicable to our industry to become more stringent over time, and potentially significant expenditures could be required to comply with environmental requirements that may be adopted or imposed in the future.

On June 10, 2009, we purchased certain facilities (land and buildings) from Old Carco in the 363 Transaction. Old Carco retained all liabilities arising under the federal Comprehensive Environmental Response, Compensation and Liability Act, or under any analogous state law, with respect to those facilities. In addition, we were licensed by Old Carco to use some of its facilities that we did not purchase, including certain manufacturing plants, for limited periods ending no later than April 2011. We did not assume pre-bankruptcy environmental liabilities with respect to those licensed facilities, but we are responsible for our own activities at those facilities and are required to remove any excess materials and waste generated by our operations and to deactivate them at the end of the license period in accordance with the terms of our license.

### **Employees**

At December 31, 2010, we had 51,623 employees, of whom 37,917 (73 percent) were hourly employees and 13,706 (27 percent) were salaried employees. The following table summarizes the number of our salaried and hourly employees:

<b>Employees</b>	<b>As of December 31,</b>				
	<b>2010<sup>(1)</sup></b>	<b>2009<sup>(1)</sup></b>	<b>2008<sup>(1)(2)</sup></b>	<b>2007<sup>(1)(2)</sup></b>	<b>2006<sup>(1)</sup></b>
Salaried.	13,706	12,405	12,951	19,096	21,507
Hourly	37,917	34,921	39,240	54,190	58,760
Total	51,623	47,326	52,191	73,286	80,267

(1) Chrysler Group began operations on June 10, 2009. The table includes employees of Old Carco at December 31, 2008, 2007 and 2006.

(2) Old Carco reduced its workforce in 2008 by approximately 29 percent, primarily through voluntary separations and early retirement programs.

In the U.S. and Canada, most of our hourly employees and approximately one-quarter of our salaried employees are represented by unions under collective bargaining agreements. The UAW and the Canadian Auto Workers, or CAW, represent substantially all of these employees in the U.S. and Canada, respectively.

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The collective bargaining agreements with the UAW and the CAW were amended in 2009 in connection with the 363 Transaction in order to achieve hourly employee labor costs comparable to those of transplant automotive manufacturers (specifically, employees of Nissan Motor Company, Toyota Motor Corporation, or American Honda Motor Company employed in the U.S.) through:

- Compensation Reductions – including wages and benefits, so that the average total amount of compensation, per hour and per person, paid to our employees is an amount that is competitive with the average total amount of such compensation paid per hour and per person by the transplant automotive manufacturers to their employees.
- Severance rationalization – eliminating the payment of any compensation or benefits to UAW-represented employees who have been fired, laid-off, furloughed, or idled, other than customary severance pay, including the elimination of the employment security system commonly known as the “Jobs Bank.”
- Work Rules – Application of work rules in a manner that is competitive with the work rules for employees of the transplant automotive manufacturers.

Our collective bargaining agreements with the UAW and the CAW expire in September 2011 and September 2012, respectively. Our UAW collective bargaining agreement includes a “no-strike” provision through 2015. In connection with the renewal of our agreement with the UAW, we are subject to binding arbitration. Under the arbitration process, if we do not reach agreement with the UAW by September 14, 2011, the arbitrator will set hourly wages and benefits that are at a level comparable to those paid by other manufacturers in the U.S., including transplant automotive manufacturers. See *Item 1A. Risk Factors—Our collective bargaining agreements limit our ability to modify our operations and reduce costs in response to market conditions. In addition, we may be required to modify the terms of our collective bargaining agreement with the UAW in connection with its renewal this year in a manner that may be disadvantageous to us.*

***Cyclical Nature of Business***

As is typical in the automobile industry, our vehicle sales are highly sensitive to general economic conditions, availability of financing for dealers and retail customers and other external factors, including fuel prices, and as a result may vary substantially from year to year. Retail customers tend to delay the purchase of a new vehicle when disposable income and consumer confidence are low. These economic indicators were significantly depressed during 2008 and 2009, and showed only a modest recovery during 2010. In addition, our vehicle production volume and related revenues may vary from month to month, sometimes due to plant shutdowns, which may occur for several reasons, including production changes from one model year to the next. These model year changeovers were once concentrated in the summer of each year, but now tend to occur throughout the year. Plant shutdowns, whether associated with model year changeovers or other factors, can have an impact on our revenues and a negative impact on our working capital as we continue to pay suppliers under standard contract terms while we do not receive proceeds from vehicle sales.

\* \* \*

Financial information about our revenue, income, assets and other items can be found below in *Item 2. Financial Information* and *Item 13. Financial Statements and Supplementary Data*.

**Item 1A. Risk Factors**

*Our business is subject to various risks and uncertainties. Any of the risks described below could materially adversely affect our business, financial condition, and results of operations.*

[Table of Contents](#)***We may not be able to instill and maintain widespread confidence in our long-term viability, which may impair our ability to become a profitable company.***

If we are unable to instill and maintain confidence in our business prospects among consumers, suppliers and others within our industry, then our financial condition, results of operations and business prospects will likely suffer. Motor vehicles require maintenance and support, typically over a very long period. If consumers become concerned that we may not continue operations into the indefinite future, they may become concerned about difficulties they may face in maintaining their vehicles if parts and technical support became more difficult to obtain. They may also be concerned that we could be unable to provide long-term warranty service, perform obligations under our services agreements or execute a recall if one becomes necessary. As a result, consumers may be less likely to purchase our vehicles. We experienced this in 2009, as automakers that did not participate in the government-sponsored restructuring of the U.S. automotive industry garnered an increasing share of sales volumes as compared to our company and General Motors. Passenger vehicle sales in the U.S. declined from 16.5 million vehicles in 2007, to a SAAR of less than ten million vehicles in the first quarter of 2009, and have recovered only modestly since. Annual U.S. vehicle sales of Chrysler Group vehicles declined from 2.1 million in 2007 to 0.9 million in 2009, before recovering to 1.1 million in 2010.

In addition to the impact on vehicle sales, our suppliers and other third parties may be reluctant to invest in developing or maintaining business relationships with us if they are concerned that we will not remain viable over the long term or continue operations for the indefinite future. For example, during the economic downturn of 2008-09, Old Carco experienced difficulties maintaining certain supply relationships, which was due in part to suppliers' concerns over Old Carco's viability and creditworthiness.

Accordingly, in order to build and maintain our business, we must instill confidence among consumers, suppliers and other parties in our long-term business prospects and liquidity. In contrast to many other automobile manufacturers, our ability to build and maintain such confidence may be complicated by a number of factors, including the following:

- our participation with Old Carco in the U.S. government's 2009 restructuring of the automobile industry and the Old Carco bankruptcy proceedings;
- our status as a Troubled Asset Relief Program, or TARP, recipient;
- uncertainty about the long-term marketplace acceptance of our vehicles in light of the extended period in which Chrysler Group vehicles have lost market share;
- our concentration in and dependence on, vehicle sales in North America, which have accounted for approximately 90 percent of our unit volumes in 2009 and 2010;
- our current product lineup, which is weighted toward larger vehicles, the demand for which could suffer if fuel prices increase;
- our dependence on the Fiat alliance, and consumer acceptance of the Fiat 500, the first Fiat product we will bring to market under the Fiat alliance;
- our limited liquidity and lack of access to additional funding on terms acceptable to us or at all, particularly as compared to many of our principal competitors; and
- the competitive pressure from other automobile manufacturers, many of which are larger and better capitalized than we are, and offer a broader product portfolio across a larger geographic footprint than we do.



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Many of these factors are largely outside of our control, and any negative perceptions about our long-term business prospects or liquidity, even if exaggerated or unfounded, would likely harm our business and make it more difficult for us to raise additional funds if and when needed which could have a material adverse effect on our financial condition and results of operations.

***We depend on the Fiat alliance to provide new vehicle platforms and powertrain technologies, additional scale, and management resources that are critical to our viability and success.***

In connection with the 363 Transaction, we entered into an alliance with Fiat in which Fiat became our principal industrial partner. The Fiat alliance is intended to provide us with a number of long-term benefits, including access to new vehicle platforms and powertrain technologies, particularly in smaller, more fuel-efficient segments where Old Carco was historically underrepresented, as well as procurement benefits, management services and global distribution opportunities. The Fiat alliance is also intended to facilitate our penetration in many international markets where we believe our products would be attractive to consumers, but where Old Carco historically had not had a significant presence.

The U.S. Treasury's automotive task force concluded that our ability to realize the benefits of the Fiat alliance was critical to our continued viability as an automaker. Our ability to realize the benefits we expect from the alliance, however, remains unproven and if we are unable to convert the opportunities presented by the alliance into long-term commercial benefits, either by improving sales of our vehicles and service parts, reducing costs or both, our financial condition and results of operations will be materially adversely affected.

Because of our dependence on the Fiat alliance, any adverse development in the Fiat alliance could have a material adverse effect on our business prospects, financial condition and results of operations. Therefore, if the Fiat alliance does not bring us its intended benefits, or if there is any adverse change in the Fiat alliance due to disagreements between the parties, changes in circumstances at Fiat or at our Company, there may be a material adverse effect on our business prospects, financial condition and results of operations.

In addition, our dependence on the Fiat alliance may subject us to risks associated with Fiat's own business and financial condition. Although Fiat has executed its own significant industrial restructuring and financial turnaround over the past several years, it remains smaller and less well-capitalized than many of its principal competitors in Europe and globally, and Fiat has historically operated with more limited capital than many other global automakers. If Fiat could not fulfill all of its obligations under the Fiat alliance, we may not realize the benefits we have anticipated from the Fiat alliance, which may adversely affect our financial condition and results of operations.

Fiat may terminate the master industrial agreement and related ancillary agreements on 120 days' prior written notice any time after June 10, 2011, although each party will be required to continue to provide certain distribution services and technology rights and other items provided under the agreement for certain transition periods as described below under *Item 7. Certain Relationships and Related Transactions, and Director Independence—Transactions with Fiat*. In addition, either we or Fiat may terminate the master industrial agreement and related ancillary agreements if the other party either commits a breach that is material, considering all ancillary agreements taken as a whole, or in the event of certain bankruptcy, liquidation or reorganization proceedings. Upon a termination for breach or bankruptcy event, the terminating party will be entitled to receive continued distribution services and technology rights and other items from the other party as noted above. A termination of the Fiat alliance could have a material adverse effect on our business prospects, financial condition and results of operations.

[Table of Contents](#)***We may have potential conflicts of interest with Fiat, notwithstanding our close industrial alliance.***

Actual or perceived conflicts of interest may arise between us and Fiat in a number of areas relating to our industrial alliance. These may include:

**Management.** We benefit from the significant management experience of Fiat's leadership team, which was gained in part through Fiat's own industrial turnaround, including the services of our Chief Executive Officer who also serves as Fiat's Chief Executive Officer. These individuals may still owe duties to Fiat and therefore may have conflicts of interest with respect to matters involving both companies. Although we have implemented procedures to address any such potential conflicts, there can be no assurance that these potential conflicts will not affect us.

**Industrial alliance.** We have entered into a number of agreements with Fiat to implement and extend our industrial alliance pursuant to which each party has provided and agreed to provide the other with goods, services and other resources. Although we believe that these arrangements bolster a sense of cooperation and mutual dependence between the two companies, conflicts may arise in the performance of the parties' obligations under these agreements or in the interpretation, renewal or renegotiation of these arrangements.

**Business Opportunities.** We believe that our operational strengths complement those of Fiat, which limits the scope for business conflicts. Nevertheless, there may be areas in which the companies will compete with one another, including with respect to business opportunities that may be of interest to one or both parties. In certain circumstances, we may be restricted from pursuing such opportunities by virtue of rights granted to Fiat, including the requirement that certain major decisions, which would include potential industrial alliances with other manufacturers as well as significant capital expenditures, must be approved by a Fiat-appointed director. There can be no assurance that these provisions would not make it more difficult for us to pursue certain potentially attractive opportunities that may conflict with Fiat.

***Members holding a majority of the membership interests in us may have limited ability to influence our management and operations.***

Our LLC Operating Agreement accords significant management oversight and governance rights to our independent directors and to Fiat as the holder of our Class B Membership Interests. A majority of those independent directors in turn are not subject to election directly by any of our members, and therefore may not be as responsive to the concerns of the members as if they were elected by the members directly. Currently, Fiat is entitled to appoint three directors, the VEBA Trust is entitled to elect one director (subject to approval of the UAW) and Canada CH is entitled to elect one director. Each of these directors was appointed for an initial three-year term. The remaining four directors were initially appointed directly or indirectly by the U.S. Treasury. These four directors currently are subject to annual election by the Company's independent directors, subject to the reasonable approval of the U.S. Treasury (but this approval right expires in December 2011 or earlier upon completion of an initial public offering of the Company's equity interests or repayment of the U.S. Treasury loans).

Only a limited number of matters are subject to a vote of our members. These include redemption of membership interests; authorization of new membership interests; adoption of an equity compensation plan or issuance of shares to directors and employees; a change in our independent auditors or material change in our accounting policies. All other matters, including amendments to our LLC Operating Agreement as well as certain other "major decisions" that in addition require the approval of a Fiat-appointed director, are subject to the approval of our Board. Four of the nine members of our Board were initially appointed by the U.S. Treasury. The U.S. Treasury, as our largest lender and a government entity, may have interests that differ from our other stakeholders and those interests may to some extent influence decisions made by members of our Board who were initially appointed by the U.S. Treasury. For example, despite its ownership interest in us, the U.S. Treasury may wish to promote U.S. economic growth and employment rates rather than maximize returns for our

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members. The terms of our credit agreement with the U.S. Treasury, for example, include a “vitality covenant” that requires us to maintain certain production volumes or ratios in the U.S., regardless of whether these manufacturing facilities are the most efficient and cost-effective option available to us.

Even as to matters that are subject to a vote of members, the independent directors substantially control the results of the vote. Under our shareholders agreement, the membership interests held by the VEBA Trust are required to be voted in accordance with the recommendations of the independent directors. Therefore, holders of our membership interests may have limited influence over our management and operations. Over time, control over our management and operations may shift to Fiat, which, pursuant to our LLC Operating Agreement, has the right to increase the ownership interests represented by its Class B Membership Interests to 35% in the event all three of the Class B Events occur. It also has the right, subject to certain conditions, to acquire membership interests in us that amount to a majority of our outstanding membership interests, at which time it would have the right to appoint a majority of the Board and have the ability to control our management and operations, subject only to a requirement that the Company may not take any major decision that disproportionately affects a non-Fiat member without the non-Fiat member’s consent. For a further discussion of these management arrangements and the rights of our members, See *Item 11. Description of Registrant’s Securities to be Registered*. There can be no assurance that these provisions will not enable the independent directors or Fiat to take actions or cause the Company to take actions that are not in the best interests of an individual holder of our membership interests or other stakeholder in the Company.

***Our future competitiveness and ability to achieve long-term profitability depend on our ability to control our costs, which requires us to successfully implement cost reduction and productivity improvement initiatives throughout our automotive operations.***

We are continuing to implement a number of cost reduction and productivity improvement initiatives in our automotive operations, through the Fiat alliance and otherwise, including, for example, increasing the percentage of our vehicles that are based on a common platform, reducing our dependence on sales incentives offered to dealers and retail customers, leveraging our purchasing capacity with Fiat’s and implementing World Class Manufacturing, or WCM, principles. Our future competitiveness depends upon our continued success in implementing these initiatives throughout our operations. In addition, while some of the elements of cost reduction and productivity improvement are within our control, others, such as interest rates and commodity prices, depend more on external factors. These external factors may materially adversely affect our ability to reduce our costs. Furthermore, reducing costs may prove difficult due to our focus on introducing new and improved products in order to meet customer expectations.

***Recent economic weakness, particularly in North America, has adversely affected our business, and if economic conditions do not improve, our results of operations could continue to be negatively affected.***

Our business, financial condition and results of operations have been, and may continue to be, adversely affected by worldwide economic conditions. Overall demand for our vehicles as well as our profit margins could decline as a result of many factors outside our control, including economic recessions, changes in consumer preferences, increases in commodity prices, changes in laws and regulations affecting the automotive industry and the manner in which they are enforced, inflation, fluctuations in interest and currency exchange rates and changes in the fiscal or monetary policies of governments in the areas in which we operate, the effect of each of which may be exacerbated during periods of general economic weakness. Depressed demand for vehicles affects our suppliers as well. Any decline in vehicle sales we experience may, in turn, adversely affect our suppliers’ ability to fulfill their obligations to us, which could result in production delays, defaults and inventory management challenges. These supplier events could further impair our ability to sell vehicles.

Current financial conditions and, in particular, unemployment levels, limited availability of dealer and consumer financing and lower consumer confidence levels, continue to place significant economic pressures on our customers and dealer network and have negatively impacted our vehicle sales. Any significant further deterioration in the economic conditions may further impair the demand for our products and our results of operations, financial position and cash flows could be materially and adversely affected.

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***Availability of adequate financing on competitive terms for our dealers and retail customers is critical to our success. In lieu of a captive finance company, we depend on our relationship with Ally to supply a significant percentage of this financing.***

Our dealers enter into wholesale financing arrangements to purchase vehicles from us to hold in inventory to facilitate vehicle sales, and our retail customers use a variety of finance and lease programs to acquire vehicles. Insufficient availability of financing to Old Carco's dealers and retail customers contributed to sharp declines in Old Carco's vehicle sales and lease volumes, and in turn, its cash inflows, during 2008, and was one of the key factors leading to Old Carco's bankruptcy filing. Our results of operations therefore depend on establishing and maintaining appropriate sources of finance for our dealers and retail customers.

Historically, most large automakers have relied on a captive finance company to provide the majority of dealer and customer financing and to develop and implement financing programs designed principally to maximize vehicle sales in a manner that optimized profitability for them and their captive finance company on an aggregate basis. We do not have a captive finance company and are not affiliated with Old Carco's former captive finance company, Chrysler Financial. Our lack of a captive finance company may increase the risk that our dealers and retail customers will not have access to sufficient financing on acceptable terms and may adversely affect our vehicle sales in the future.

In connection with the 2009 restructuring of the U.S. automotive industry, and with the assistance of the U.S. Treasury, we entered into an auto finance relationship with Ally, which historically was the captive finance company of General Motors, one of our principal competitors. Following its own participation in the 2009 restructuring of the U.S. automotive industry, Ally has been majority owned by the U.S. Department of Treasury, although General Motors and Ally's former majority owner, Cerberus, each retain partial ownership. As of December 31, 2010, Ally was financing approximately 62 percent of our dealers in the U.S.

Pursuant to our agreement with Ally, Ally will consider applications for financing made by our dealers and their retail customers in accordance with Ally's usual and customary standards, and will make lending decisions in accordance with its business judgment. Nevertheless, Ally is not obligated to provide financing to our dealers, nor is Ally required to fund a certain number of vehicle sales or leases for our customers. On the other hand, we must offer all subvention programs to Ally, and we are required to ensure that Ally finances a specified minimum percentage of the units we sell in North America under rate subvention programs in which it elects to participate.

We expect Ally to provide us services comparable to those Ally provides to its other strategic business partners, including General Motors. Nevertheless, our ability to fully realize the value of our relationship with Ally may be adversely affected by a number of factors, including General Motors' historic and ongoing relationship with Ally, General Motors' current equity ownership in Ally as well as its possible desire to expand its ownership interest in Ally and potentially re-establish Ally's status as a captive finance company, and General Motors' ownership of a competing captive finance company.

In addition, Ally, as a bank-holding company is subject to extensive federal regulation (including risk-based and leverage capital requirements, as well as various financial safety and soundness standards). As a regulated financial institution, Ally may be subject to more stringent underwriting and other lending criteria as compared to captive finance companies of our competitors. In addition, Ally may face other demands on its capital, including the need or desire to satisfy funding requirements for dealers or customers of our competitors as well as liquidity issues relating to investments in non-automotive financial assets, including sub-prime real estate mortgages. Therefore, Ally may not have the capital and liquidity necessary to support our vehicle sales, and even with sufficient capital and liquidity, Ally may apply lending criteria in a manner that will adversely affect our vehicle sales. In addition, Ally may suspend its performance under the agreement, after notice to us, in the event that Ally's unsecured financial exposure (as defined in the agreement) exceeds a specified amount. Our agreement with Ally extends through April 20, 2013, with automatic one year renewals unless either party elects not to renew.

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In addition, retail customer leasing arrangements historically accounted for a significant percentage of Old Carco's sales. For example, lease arrangements accounted for 13.7 percent of sales in 2007 and 15.9 percent of sales in 2006. During the recent credit crisis, market availability of leasing fell substantially and Chrysler Financial entirely discontinued lease financing in the U.S. and Canada in August 2008. Our leasing volumes remain significantly below historical levels, which may negatively impact our vehicle sales volumes and market share.

To the extent that Ally is unable or unwilling to provide sufficient financing at competitive rates to our dealers and retail customers, and our dealers and retail customers do not otherwise have sufficient access to such financing, our vehicle sales and market share will suffer, which would adversely affect our financial condition and results of operations.

***Our lack of a captive finance company could place us at a competitive disadvantage to competitors that have a captive finance company and that therefore may be able to offer consumers and dealers financing and leasing on better terms than our customers and dealers are able to obtain.***

Most of our competitors operate and control their own captive finance companies. As a result, they may be better able to implement financing programs designed principally to maximize vehicle sales in a manner that optimizes profitability for them and their captive finance companies on an aggregate basis, including with respect to the amount and terms of the financing provided. If those competitors with a captive finance company offer retail customers and dealers financing and leasing on better terms than our customers and dealers are able to obtain, consumers may be more inclined to purchase our competitors' vehicles and our competitors' dealers may be better able to stock our competitors' products each of which could adversely affect our results of operation. In addition, unless financing arrangements other than for retail purchase continue to be developed and offered by banks to our retail customers in Canada, our lack of a captive finance company could present a competitive disadvantage in Canada, since banks are restricted by law from providing retail lease financing in Canada.

***Our profitability depends on reaching certain minimum vehicle sales volumes. If vehicle sales do not continue to recover further from 2009 levels, or if they deteriorate further, our results of operations will suffer.***

Our business and results of operations depend upon our ability to achieve certain minimum vehicle sales volumes. As is typical for an automobile manufacturer, we have significant fixed costs and therefore, changes in our vehicle sales volume can have a disproportionately large effect on profitability. In addition, we generally receive payments from vehicle sales to dealers in North America within a few days of shipment from our assembly plants, whereas there is a lag between the time we receive parts and materials from our suppliers and the time we are required to pay for them. As a result, we tend to operate with working capital supported by these terms with our suppliers, and periods of vehicle sales declines therefore have a significant negative impact on our cash flow and liquidity as we continue to pay suppliers during a period in which we receive no proceeds from vehicle sales. If our vehicle sales do not recover further from 2009 levels or if they were to decline to levels significantly below our assumptions, due to financial crisis, renewed recessionary conditions, changes in consumer confidence, geopolitical events, limited access to financing or other factors, our financial condition and results of operations would be substantially adversely affected.

***The substantial majority of our vehicle sales are in North America, and weak demand in the North American markets may continue or worsen, which would have a disproportionately large negative impact on our vehicle sales and profitability relative to our principal competitors.***

Substantially all of our vehicle sales occur in North America, particularly in the U.S. and Canada. In 2010, over 85 percent of our vehicle sales were to customers in the U.S. and Canada. In the U.S., where we sell most of the vehicles we manufacture, industry-wide vehicle sales declined from 16.5 million vehicles in 2007 to 10.6 million vehicles in 2009. Old Carco's U.S. vehicle sales were 2.1 million vehicles in 2007 versus combined U.S. vehicle sales for Old Carco and Chrysler Group of 0.9 million vehicles in 2009.

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As vehicle sales declined in 2008 and 2009, Old Carco recorded significant losses, culminating in requests for government support beginning in late 2008 and, on April 30, 2009, a filing for bankruptcy protection. Although vehicle sales in North America recovered somewhat in 2010, the recovery has been slower and shallower than many industry analysts predicted. This limited recovery in vehicle sales may not be sustained. For instance, continued weakness in the U.S. new home construction market would likely depress sales of pick-up trucks, one of our strongest selling products. As a result, we may experience further significant declines in vehicle sales in the future, which would materially and adversely affect our financial condition and results of operations.

Although we are seeking to increase the proportion of our vehicle sales outside of North America, we anticipate that our results of operation will continue to depend substantially on vehicle sales in the principal North American markets. Our vehicle sales in North America will therefore continue to be critical to our plans to return to profitability. Our principal competitors, including General Motors and Ford, however, are more geographically diversified and are less dependent on sales in North America. As a result, any further significant decline in demand in the North American market would have a disproportionately large negative effect on our vehicle sales and profitability relative to our principal competitors, whose vehicle sales are not similarly concentrated.

***We may not be successful in increasing our vehicle sales outside of North America, and if we do increase our vehicle sales outside of North America we will be exposed to additional risks of operating in different regions and countries.***

We currently generate a small proportion of our vehicle sales outside of North America. As part of our business plan and to capitalize on opportunities presented by our industrial alliance with Fiat, we intend to actively pursue growth opportunities in a number of markets outside North America. Expanding our operations and vehicle sales internationally may subject us to additional regulatory requirements and cultural, political and economic challenges, including the following:

- securing relationships to help establish our presence in local markets, including distribution and vehicle finance relationships;
- hiring and training personnel capable of marketing our vehicles, supporting dealers and retail customers, and managing operations in local jurisdictions;
- identifying and training qualified service technicians to maintain our vehicles, and ensuring that they have timely access to diagnostic tools and parts;
- localizing our vehicles to target the specific needs and preferences of local customers, including with respect to vehicle safety, fuel economy and emissions, which may differ from our traditional customer base in North America;
- implementing new systems, procedures and controls to monitor our operations in new markets;
- multiple, changing and often inconsistent enforcement of laws and regulations;
- satisfying local regulatory requirements, including those for vehicle safety, fuel economy or emissions;
- competition from existing market participants that may have a longer history in, and greater familiarity with, the local markets we enter;
- differing labor regulations and union relationships;
- consequences from changes in tax laws;
- tariffs and trade barriers;

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- laws and business practices that favor local competitors;
- fluctuations in currency exchange rates;
- extended payment terms and the ability to collect accounts receivable;
- imposition of limitations or conversion of foreign currencies into U.S. dollars or remittance of dividends and other payments by foreign subsidiaries; and
- changes in a specific country's or region's political or economic conditions.

If we fail to address these challenges and risks associated with international expansion, we may encounter difficulties implementing our strategy, which could impede our growth or harm our operating results.

***Our substantial indebtedness could adversely affect our results of operations and financial condition, which may prevent us from fulfilling our obligations under our indebtedness.***

We have a significant amount of indebtedness as described in more detail in *Item 2. Financial Information – Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Chrysler Group*. Our existing indebtedness restricts our ability to raise capital, including to incur additional indebtedness. Also, this indebtedness obligates us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund vehicle design and engineering, manufacturing improvements, other capital expenditures and other general corporate uses.

Our substantial indebtedness could have other important consequences to our business, including increased vulnerability to general adverse economic and industry conditions and limitations on our flexibility in planning for, or reacting to, changes in our business and the automotive industry generally. The occurrence of either one of these events could have a material adverse effect on our business, financial condition and results of operations.

Our existing debt could also place us at a competitive disadvantage. Some of our competitors have less debt than we do, or have more favorable terms governing their debt. These competitors may therefore be better positioned to invest their funds in design, engineering and manufacturing improvements, among other expenses, and our market share and profitability may suffer as a result.

***Our credit agreements and the indenture governing the VEBA Trust Note restrict certain actions that may be in our interest. If we are unable to comply with the covenants in these instruments, we may be in default, which could result in the acceleration of our outstanding indebtedness and materially adversely affect our liquidity.***

Our credit agreements with the U.S. Treasury and EDC include covenants that restrict our ability to make certain distributions, prepay other debt, encumber assets, incur additional indebtedness, engage in certain business combinations, or undertake various other business activities. The indenture governing the VEBA Trust Note limits the ability of our subsidiaries to incur debt. In addition, these credit agreements also include several "vitality covenants" that require us to maintain certain production volumes or ratios in the U.S. and Canada. The vitality covenants will survive until the later of full repayment of the loans and June 10, 2014, in the case of the U.S. Treasury credit agreement, and until the later of the full repayment of the loans and December 31, 2014, in the case of the EDC credit agreement. See *Item 2. Financial Information—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Chrysler Group* for a more detailed description of the restrictive and financial covenants and other terms of the credit facility borrowings. We are also pursuing additional financing, including from the U.S. Department of Energy, or DOE, under its program to promote advanced technology vehicle programs, as well as from market sources. Any new financing may include

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additional, and potentially more burdensome, covenants and restrictions on our operations and financial flexibility. If we are unable to comply with all of these covenants, we may be in default, which could result in the acceleration of our outstanding indebtedness and foreclosure on our mortgaged properties. If acceleration occurred, we would not be able to repay our debt and it is unlikely that we would be able to borrow sufficient additional funds to refinance our debt. If our outstanding indebtedness were to be accelerated because declining volumes prevent us from fulfilling the vitality covenants, this negative outcome would be exacerbated because of the combination of the debt acceleration and a declining revenue environment. Even if new financing is made available to us in such circumstances, it may not be available on acceptable terms.

In addition, compliance with certain of these covenants could restrict our ability to take certain actions that our Board and management believe are in our best long-term interests. Furthermore, to the extent we fail to comply with any of the covenants in the U.S. Treasury or EDC credit agreements, the U.S. Treasury or the EDC, as applicable, is entitled to seek specific performance. Compliance with the vitality covenants could require us to increase production volumes in our U.S. and/or Canadian plants, shift production from lower-cost locations to the U.S. and/or Canada or refrain from shifting production from U.S. and/or Canadian plants to lower-cost locations. If we are unable to undertake strategic initiatives due to the covenants in these instruments, our business prospects, financial condition and results of operations could be harmed. In addition, we devote substantial management time, attention and resources to monitoring and certifying compliance with these covenants, which puts us at a competitive disadvantage as compared to competitors of ours who are able to borrow money under less restrictive terms.

***Limitations on our liquidity and access to funding may limit our ability to execute our business plan and improve our business, financial condition and results of operations.***

Our business is capital intensive and we require significant liquidity to support our business plan and meet other funding requirements. See *Item 2. Financial Information—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Chrysler Group* for a more detailed discussion of our liquidity and capital requirements. In addition, during periods of vehicle sales decreases, we expect our cash flow and liquidity to be significantly negatively impacted because we typically receive revenues from vehicle sales before we are required to pay our suppliers. Any limitations on our liquidity, due to decreases in vehicle sales, the amount of or restrictions in our existing indebtedness, conditions in the credit markets, general economic conditions or otherwise, may adversely impact our ability to execute our business plan and improve our business prospects, financial condition and results of operations. In addition, any actual or perceived limitations of our liquidity may limit the ability or willingness of counterparties, including dealers, customers, suppliers and financial service providers, to do business with us, which may adversely affect our business, financial condition and results of operations. See *—We may not be able to instill and maintain widespread confidence in our long-term viability, which may impair our ability to become a profitable company.*

***Our defined benefit pension plans are currently underfunded, and our pension funding obligations could increase significantly due to a reduction in funded status as a result of a variety of factors, including weak performance of financial markets, declining interest rates, investment decisions that do not achieve adequate return, and investment risk inherent in our investment portfolio, which could have a material adverse effect on our business, financial condition or results of operations.***

Our defined benefit pension plans are currently underfunded, and our pension funding obligations may increase significantly if investment performance of plan assets does not keep pace with increases in obligations. See *Item 2. Financial Information—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Chrysler Group—Defined Benefit Plan and OPEB Contributions—OPEB Plan—Funded Status*. These funding obligations may increase based upon the future returns on the assets placed in trusts for these plans, the level of interest rates used to determine funding levels, the level of benefits provided for by the plans, investment decisions that do not achieve adequate return and any changes in applicable law related to funding requirements. Our defined benefit pension plans currently hold a



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significant amount of equity and fixed income securities as well as investments in less liquid instruments such as private equity, real estate and hedge funds. Due to the complexity and magnitude of certain of our investments, additional risks may exist, including significant changes in investment policy, insufficient market capacity to complete a particular investment strategy, and an inherent divergence in objectives between the ability to manage risk in the short term and inability to quickly rebalance illiquid and long-term investments.

To determine the appropriate level of funding and contributions to our defined benefit pension plans, as well as the investment strategy for the plans, we are required to make various assumptions, including an expected rate of return on plan assets and a discount rate used to measure the obligations under the defined benefit pension plans. Interest rate increases generally will result in a decline in the value of fixed income securities while reducing the present value of the obligations. Conversely, interest rate decreases will increase the value of fixed income securities, partially offsetting the related increase in the present value of the obligations. It is not possible for us to predict the economic environment at our next scheduled remeasurement as of December 31, 2011. Accordingly, discount rates and plan assets may be significantly different from those at December 31, 2010. If the total values of the assets held by our defined benefit plans fall and/or the returns on these assets underperform our assumptions, our pension expenses and contributions could increase and, as a result, could materially adversely affect our financial condition and results of operations. If we fail to make required minimum funding contributions, we could be subjected to reportable event disclosure to the Pension Benefit Guaranty Corporation, as well as interest and excise taxes calculated based upon the amount of funding deficiency.

***We may be unable to qualify for federal funding for our advanced technology vehicle programs under Section 136 of the EISA or may not be selected to participate in the program.***

The DOE is operating a program in which it may provide up to \$25.0 billion in low cost loans to eligible applicants for the costs of re-equipping, expanding, and establishing manufacturing facilities in the U.S. to produce advanced technology vehicles and components for these vehicles. We have pending with the DOE a consolidated application for a loan under Section 136 of the Energy Independence and Security Act of 2007, or the EISA, which seeks approximately \$7 billion in loans to support certain of our advanced technology vehicle and component programs. Our loan application has not been approved by the DOE, although the DOE has provided approximately \$8.4 billion in similar loans to other vehicle manufacturers to date. If our application is approved, the amount of the loan is likely to be significantly less than the amount requested in our application and we will have to negotiate the terms of the loan with the DOE and may need to reach agreement with the DOE and our current lenders with respect to collateral and potentially other matters. There can be no assurance that we will qualify for any remaining Section 136 loans or that even if we qualify we will be able to successfully negotiate terms acceptable to us, the DOE and our other lenders. If we do not receive Section 136 loans, our liquidity may be further constrained and we may be required to reduce our investment in new, advanced technology for our product development, which could make our vehicles less competitive in the future.

***We may be adversely affected by fluctuations in foreign currency exchange rates, commodity prices, and interest rates.***

Our manufacturing and sales operations are exposed to a variety of market risks, including the effects of changes in foreign currency exchange rates, commodity prices and interest rates. We monitor and manage these exposures as an integral part of our overall risk management program, which is designed to reduce the potentially adverse effects of these fluctuations. Nevertheless, changes in these market indicators cannot always be predicted or hedged. In addition, because of intense price competition, our significant fixed costs and our financial and liquidity restrictions, we may not be able to address such changes even if they are foreseeable. Further, our ability to trade derivative instruments to manage market risks is somewhat limited by our lack of a credit rating and our overall credit profile. As a result, substantial unfavorable changes in foreign currency exchange rates, commodity prices or interest rates could have a material adverse effect on our revenues, financial condition and results of operations.

[Table of Contents](#)***Laws, regulations or governmental policies in foreign countries may limit our ability to access to our own funds.***

When we sell vehicles in countries other than the U.S., we are subject to various laws, regulations and policies regarding the exchange and transfer of funds back to the U.S. In rare cases, we may be limited in our ability to transfer some or all of our funds for unpredictable periods of time. In addition, the local currency of a country may be devalued as a result of adjustments to the official exchange rate made by the government with little or no notice. For instance, we are subject to the rules and regulations of the Venezuelan government concerning our ability to exchange cash or marketable securities denominated in Venezuelan bolivar *fuerte*, or BsF, into U.S. dollars. Under these regulations, the purchase and sale of foreign currency must be made through the Commission for the Administration of Foreign Exchange, or CADIVI, or the Transaction System for Foreign Currency Denominated Securities, or SITME, at official rates of exchange and subject to volume restrictions. These factors limit our ability to access and transfer liquidity out of Venezuela to meet demands in other countries and also subject us to increased risk of devaluation or other foreign exchange losses during that period. On December 30, 2010, the Venezuelan government announced an adjustment to the official CADIVI exchange rate, which resulted in a devaluation of our BsF denominated balances as of December 31, 2010.

***Product development cycles can be lengthy, and there is no assurance that new designs will lead to revenues from vehicle sales.***

It generally takes two years or more to design and develop a new product, and there may be a number of factors which could lengthen that schedule. Because of this product development cycle and the various factors that may contribute to consumers' acceptance of new vehicle designs, including competitors' product introductions, fuel prices, general economic conditions and changes in styling preferences, we cannot be certain that an initial product concept or design that appears to be attractive will result in a production model that will generate sales in sufficient quantities and at prices to be profitable. If our designs do not result in development of products that are accepted in the market, our financial condition and results of operation may be adversely affected.

***In recent periods, we introduced fewer new and significantly refreshed vehicles than our competitors. Our future success depends on our ability to introduce rapidly a significant number of new and significantly refreshed vehicles that appeal to consumers.***

Our vehicle portfolio has had fewer new or significantly refreshed vehicle models than many of our competitors largely due to capital constraints experienced by Old Carco over the period from 2007 to 2009. Our relative lack of new or significantly refreshed product offerings during this period has had an adverse effect on our vehicle sales, market share, average selling price and profitability. We have implemented a program to significantly upgrade and update our vehicles designs to meet our customers' changing demands and expectations as described in detail in *Item 1. Business—Products*. In order to meet these goals, we have had to invest heavily in vehicle design, engineering and manufacturing. Our ability to realize acceptable returns on these investments will depend in large part on consumers' acceptance of our new and significantly refreshed vehicles.

We undertake significant market research and testing prior to developing and launching new or significantly refreshed vehicles. Nevertheless, market acceptance of our products depends on a number of factors, many of which are outside of our control and require us to anticipate customer preferences and competitive products several years in advance. These factors include the market perception of styling, safety, reliability and cost of ownership of our vehicles as compared to those of our competitors, as well as other factors that affect demand, including price competition and financing or lease programs. Competition has traditionally been intense in the automotive industry and has intensified further in recent years, including in the utility vehicle, minivan and truck segments that historically have represented most of our U.S. vehicle sales and in 2010 accounted for approximately 74 percent of our vehicle sales in the U.S. If our new or significantly refreshed products are not received favorably by customers, our vehicle sales, market share and profitability will suffer. If we are required to cut capital expenditures due to insufficient vehicle sales and profitability or we decide otherwise to reduce

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costs and conserve cash, our ability to continue our program of improving and updating our vehicle portfolio and keeping pace with product and technological innovations introduced by our competitors will be diminished, which may further reduce demand for our vehicles.

***We have historically depended on limited vehicle offerings, and a decline in our vehicle sales in our key products due to changes in consumer preferences, economic conditions and government regulations or increased competition could adversely affect our ability to achieve and maintain profitability.***

We have historically depended on limited vehicle offerings and have had a higher proportion of our best-selling vehicles concentrated in the large car and pick-up truck, utility vehicle and minivan segments than our competitors. For example, in 2010, truck, utility vehicle and minivan sales comprised approximately 74 percent of our total vehicle sales in the U.S., whereas truck, utility vehicle and minivan sales accounted for only about 52 percent of the overall U.S. market. Over the past several years, our competitors have been successful in introducing new vehicles in these segments that have taken market share away from us. In addition, consumer preferences generally have shifted away from these vehicles, which all have relatively low fuel economy, due to elevated fuel prices, environmental concerns, economic conditions, governmental actions or incentives, and other reasons, adversely affecting our overall market share and profitability.

If we fail to continue to introduce new and/or significantly refreshed vehicles in these segments that can compete successfully in the market, or if we fail to successfully reduce our concentration in these vehicle segments and declining consumer preference for these vehicles continues or accelerates, our financial condition and results of operations could deteriorate.

***Because of the nature of our vehicle offerings, our vehicle sales and market share may be more adversely affected by higher fuel prices than those of our competitors.***

A return to higher fuel prices, as well as possible volatility in fuel prices, particularly in the U.S., could cause demand for our relatively higher volume and more profitable models, such as minivans, sport utility vehicles and pick-up trucks, to deteriorate. We expect that any increase in fuel prices will likely have a disproportionate effect on our vehicle sales as compared to most of our competitors because our vehicle lineup continues to be more concentrated in larger, less fuel-efficient vehicles. In addition, as we anticipate changes in consumer preferences, we may adjust our investments in vehicle design, engineering and manufacturing to capture share in the vehicle segments in which we expect increased sales. Therefore, unexpected trends in vehicle demand, as well as volatility in demand for these segments, could have a substantial adverse effect on our business prospects, financial condition and results of operations.

***The automotive industry is highly competitive and suffers from excess manufacturing capacity. Our competitors' efforts to increase their share of vehicle sales could have a significant negative impact on our vehicle pricing, market share and operating results.***

The automotive industry is highly competitive, particularly in the U.S., our primary market. Moreover, we believe aggregate manufacturing capacity in the global automotive industry substantially exceeds demand, particularly over the past several years. We have a relatively high proportion of fixed costs and may have significant limitations on our ability to reduce fixed costs by closing facilities and/or reducing labor expenses. Our competitors may respond to these conditions by attempting to make their vehicles more attractive or less expensive to customers by adding vehicle enhancements, providing subsidized financing or leasing programs, offering option package discounts, price rebates or other sales incentives, or by reducing vehicle prices in certain markets. In addition, manufacturers in countries such as China and India, which have lower production costs, have announced that they intend to export lower-cost automobiles to established markets, including North America. These actions have had, and are expected to continue to have, a significant negative impact on our vehicle pricing, market share, and operating results, and present a significant risk to our ability to improve or even maintain our average selling price per vehicle.

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Offering desirable vehicles that appeal to customers can mitigate the risks of stiffer price competition, but vehicles that are perceived to be less desirable (whether in terms of price, quality, styling, safety, or other attributes) can exacerbate these risks.

***Our ability to achieve cost reductions and to realize production efficiencies is critical to our ability to achieve profitability.***

We are implementing a number of cost reduction and productivity initiatives, including substantial restructuring of our operating methods. Our future success depends upon our ability to implement these restructuring initiatives throughout our operations. In addition, while some of the productivity improvements are within our control, others depend on external factors, such as commodity prices or trade regulation. These external factors may impair our ability to reduce our structural costs as planned, and we may sustain larger than expected production expenses, materially affecting our business and results of operations.

***We may not be able to accurately forecast demand for our vehicles, potentially leading to inefficient use of our production capacity, which could harm our business.***

We have a high proportion of fixed costs, both due to our significant investment in property, plant and equipment as well as the requirements of our collective bargaining agreements, which limit our flexibility in calibrating personnel costs to changes in demand for our products. Demand for our vehicles depends on many factors, including consumer preference, vehicle pricing, availability of financing and general economic conditions, some of which are beyond our control, and current challenges in developing accurate forecasts will likely continue in the future. We expect that it may be even more difficult to forecast demand as we introduce and support the launch of a significant number of new and significantly refreshed vehicle models over the near-term and as we re-introduce the Fiat brand into the U.S. and Canada through our dealer network products. Significant unanticipated fluctuations in demand could cause the following problems in our operations:

- If demand increases beyond our forecasts, we would have to rapidly increase production and our ability to do so would depend in part on our suppliers' ability to provide greater than forecast volumes of raw materials and components and those suppliers might not be able to increase their own production rapidly enough to meet unexpected demand.
- Increases in production levels to meet unanticipated demand could result in excessive employee overtime, expedited procurement of raw materials and parts, and other potential expenditures, all of which could drive up costs for manufacturing and logistics. These higher costs could impact our profitability.
- Rapid and unexpected increases in manufacturing volumes may also adversely affect our manufacturing quality, which could delay production, or could generate product recalls and warranty claims. These results could reduce our gross margins and adversely impact customer satisfaction.
- If, on the other hand, demand does not develop as we forecast, we could have excess inventory, and we may need to increase sales incentives to sell off inventory, and/or take impairments or other charges. Lower than forecasted demand could also result in excess manufacturing capacity and reduced manufacturing efficiencies, which could reduce margins and profitability.

***Dealer sourcing and inventory management decisions could adversely affect sales of our vehicles and service parts.***

We sell most of our vehicles and service parts through our dealer network. The dealers carry inventories of vehicles and service parts in their ongoing operations and they adjust those inventories based on their assessment of future sales prospects, their ability to obtain wholesale financing, and other factors. Certain of our dealers may also carry products or operate separate dealerships that carry products of our competitors and may focus their

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inventory purchases and sales efforts on products of our competitors due to industry and product demand or profitability. These inventory and sourcing decisions can adversely impact our sales, financial condition and results of operations.

Our vehicle sales depend on the willingness and ability of our dealer network to purchase vehicles for resale to retail customers. Our dealers' willingness and ability to make these purchases depends, in turn, on the rate of their retail vehicle sales, as well as the availability and cost of capital and financing necessary for dealers to acquire and hold inventories for resale. To the extent sales of our vehicles from dealers' inventories decline, or if dealers either experience or foresee difficulties in obtaining wholesale financing at reasonable cost, our vehicle sales may decline and our financial condition and results of operations may be adversely affected. See *–Availability of adequate financing on competitive terms for our dealers and retail customers is critical to our success. In lieu of a captive finance company, we depend on our relationship with Ally to supply a significant percentage of this financing.*

***Our efforts to rationalize our dealer network and consolidate our brands under fewer dealers may result in lower sales and market share in the short term.***

Capital constraints and falling real estate values have negatively impacted many of our dealers since 2008. In reducing the number of dealers as part of the dealer network optimization plan that Old Carco initiated, and which was accelerated through its bankruptcy proceeding, we have increased our dependence on a smaller number of remaining dealers.

We believe that the reduced number of dealerships will ultimately result in higher sales, as per dealer sales improve and dealers then become more willing and able to invest in their advertising, in customer care and in their facilities. Nevertheless, because of the reduced number of sales outlets, sales may decline temporarily while consumers establish new relationships with the remaining dealers, and sales could remain low for a longer than expected period or even permanently as a result of these changes, culminating in a reduction in our market share.

***Our business plan depends in part on reducing the extent to which our vehicle sales depend on dealer and retail sales incentives and our ability to modify these market practices is uncertain.***

The intense competition and limited ability to reduce fixed costs that characterize the automotive industry has in many cases resulted in significant over-production of vehicles. These factors, together with significant excess manufacturing capacity, have driven manufacturers, including us, to rely heavily on sales incentives to drive vehicle sales. These incentives have included both dealer incentives, typically in the form of dealer rebates or volume-based awards, as well as retail incentives in a variety of forms, including subsidized financing, price rebates and other incentives. As a result, our profitability has been impaired, at times to a point that the net vehicle price has not necessarily covered the total vehicle cost. As part of our business plan, we are attempting to reduce our reliance on incentives, which might negatively affect our sales volumes. However, we expect the impact of any reduction in vehicle sales to be offset by improved and more predictable pricing and margins on vehicle sales. If, despite our efforts, we are unable to reduce our reliance on short-term sales incentives, and maintain price discipline, our attempts to do so may adversely affect our financial condition and results of operations.

***If our suppliers fail to provide us with the systems, components and parts that we need to manufacture our automotive products, our business operations may be disrupted which would have a material adverse effect on our business.***

Our business depends on a significant number of suppliers, which provide the components, parts and systems we require to manufacture vehicles and parts and to operate our business. In recent years, many of our suppliers have experienced financial difficulties similar to those we experienced, and some have sought protection under bankruptcy or similar reorganization laws. This trend intensified in 2009 due to the combination of general economic weakness, sharply declining vehicle sales and tightened credit availability that affected the automotive

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industry generally. In addition, we rely on specific suppliers to provide certain components, parts and systems required to manufacture our vehicles, and in some circumstances, we rely exclusively on one such supplier.

When key suppliers on which we depend have experienced financial difficulties in the past, they often sought to increase prices, pass through increased costs, accelerate payments or seek other relief. Many suppliers have been unable to raise sufficient working capital or funding or obtain the additional financing to continue operations, and some have been forced to reduce their output, cease operations or file for bankruptcy protection. Any such actions would likely increase our costs, impair our ability to meet design and quality objectives and in some cases make it difficult or impossible for us to produce certain vehicles. We may take steps to assist key suppliers to remain in business and maintain operations, but this would typically require us to divert capital from other needs and adversely affect our liquidity. It may also be difficult to find a replacement for certain suppliers without significant delay. Over the past several years, we have worked to reduce or eliminate our dependence on certain suppliers that we believed were financially at risk; however, this has increased our dependence on, and the concentration of our credit risk to our remaining suppliers.

We have changed the way in which we do business with certain key suppliers by paying up front for engineering design and development costs, rather than paying for these costs after production has begun via component or materials pricing. We believe that this shift will help financially stabilize our suppliers and will encourage supplier investment in our business, but as a result, we will now bear certain of the costs of new product development years before we will realize any revenue on that new product, which reduces our liquidity. In the event that parts production volumes are lower than forecast, or that the supplier does not perform all the way through the production cycle, we will experience financial losses that we would not otherwise have incurred under the prior payment system. Our competitors may not change their supplier payment programs, and may not experience similar losses, putting us at a potential competitive disadvantage in terms of available capital.

***Increase in costs, disruption of supply or shortage of raw materials could materially harm our business.***

We use a variety of raw materials in our business including steel, aluminum, lead, resin and copper, and precious metals such as platinum, palladium and rhodium. The prices for these raw materials fluctuate and at times in recent periods, these commodity prices have increased significantly in response to changing market conditions. We seek to manage this exposure, but we may not be successful in hedging these risks. See *—We may be adversely affected by fluctuations in foreign currency exchange rates, commodity prices, and interest rates*. Substantial increases in the prices for our raw materials increase our operating costs and could reduce our profitability if we cannot recoup the increased costs through changes in vehicle prices. In addition, certain raw materials are sourced only from a limited number of suppliers and from a limited number of countries. We cannot guarantee that we will be able to maintain arrangements with these suppliers that assure our access to these raw materials, and in some cases this access may be affected by factors outside of our control and the control of our suppliers. For instance, the recent earthquake and tsunami in Japan have negatively affected commodity markets, and may continue to have severe and unpredictable effects on the price of certain raw materials in the future.

As with raw materials, we are also at risk for supply disruption and shortages in parts and components for use in our vehicles. For example, in early 2011, we were forced to idle our minivan assembly plant in Windsor, Ontario for approximately one week as a result of a supply disruption. In addition, in 2010, there was an industry-wide shortage of computer chips that we use for the electrical systems in our vehicles. There was also an industry-wide shortage of tires in 2010, as tire manufacturers that cut back capacity during the 2007-09 recession have not increased capacity at a rate sufficient to meet increasing industry demand. We expect that these shortages will continue into 2011, but with less severity. Supply of raw materials, parts and components may also be disrupted or interrupted by natural disasters such as the recent earthquake and tsunami affecting Japan, the effect of which we are continuing to proactively assess. Based on our ongoing discussions with our suppliers as a result of those events in Japan, we are aware of a limited number of shortages of materials and parts, and we are taking steps to mitigate the impact of these shortages, including by accessing alternative sources of supply and managing our production schedules. We will continue to work with our suppliers to monitor potential shortages and to mitigate the effects of any emerging

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shortages on our production volumes and revenues; however, there can be no assurances that these events will not have an adverse effect on our production in the future, and any such effect may be material.

Any interruption in the supply or any increase in the cost of raw materials, parts and components could negatively impact our ability to achieve the growth in vehicle sales and profitability improvement contemplated by our business plan and the impact to our vehicle sales and profitability could be material.

***From time to time we enter into long-term supply arrangements that commit us to purchase minimum or fixed quantities of certain parts or materials, or to pay a minimum amount to a supplier, or "take-or-pay" contracts, which may require costs that cannot be recouped by vehicles sales.***

From time to time, we enter into long-term supply contracts that require us to purchase a minimum or fixed quantity of parts to be used in the production of our vehicles. If our need for any of these parts were to lessen, we would still be required to purchase a specified quantity of the part or pay a minimum amount to the supplier pursuant to the take- or-pay contract. We also have entered into a small number of long-term supply contracts for raw materials that require us to purchase fixed quantities. If our needs for raw materials decline, we could be required to purchase more materials than we need.

***Laws, regulations and governmental policies, including those regarding increased fuel economy requirements and reduced GHG emissions, may have a significant effect on how we do business and may adversely affect our results of operations.***

In order to comply with government regulations related to fuel economy and emissions standards, we must devote significant financial and management resources, as well as vehicle engineering and design attention to these legal requirements. We expect the number and scope of these regulatory requirements, along with the costs associated with compliance, to increase significantly in the future. In the U.S., for example, governmental regulation is driven by a variety of sometimes conflicting concerns, including vehicle safety, fuel economy and environmental impact (including GHG emissions). These government regulatory requirements could significantly affect our plans for product development, particularly for our plans to further integrate product development with our industrial partner, Fiat, and may result in substantial costs, including civil penalties, if we are unable fully to comply. They may also limit the types of vehicles we produce and sell and where we sell them, which can affect our vehicle sales and revenues. These requirements may also limit the benefits of the Fiat alliance, as we expend financial, vehicle design and engineering resources to the localization of Fiat vehicle platforms and adapt other Fiat technologies for use in our principal markets in North America, where Fiat has had a limited presence in recent years.

Among the most significant regulatory changes we face over the next several years are the heightened requirements for fuel economy and GHG emissions. The CAFE provisions under the U.S. Energy Independence and Security Act of 2007 mandate that by 2020, car and truck fleet-wide average fuel economy must be significantly higher than that required today. Moreover, the State of California, through the CARB, is implementing its own program to regulate vehicle emissions compliance that require even further improved fuel economy. This California program currently has standards established for the 2009 through 2016 model years. Some additional states and Canadian provinces have also adopted variations of the California emissions standards.

In May 2009, President Obama announced a goal of implementing harmonized federal standards for fuel economy and GHG emissions. The EPA and the NHTSA issued a joint final rule to implement this new federal program in May 2010. These standards apply to passenger cars, light-duty trucks, and medium-duty passenger vehicles built in model years 2012 through 2016, and CARB has agreed that compliance with the these federal emissions standards will be deemed compliance with the California emissions standards for the 2012 through 2016 model years. In the absence of these rules, we would be subject to conflicting and in some cases more onerous requirements adopted by states such as California. However, there are no national standards in effect for

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model years after 2016, and it is possible that future conflicting governmental regulations regarding GHG emissions and fuel economy could require us to take costly actions or limit the sale of our vehicles in certain states. In addition, we could also be adversely affected if pending litigation by third parties outside of the automotive industry challenging the EPA's regulatory authority with respect to GHGs is successful, and, as a result, CARB were to enforce its GHG standards.

We are committed to meeting these new regulatory requirements, and our current product plan projects that we will comply with the federal program through the 2016 model year. Nevertheless, we may not be able to develop appealing vehicles that comply with these requirements that can be sold at a competitive price. Our customers may not purchase the vehicles in this mix in the quantities necessary to achieve the proper fleet mix to achieve fuel economy requirements.

Canadian federal emissions regulations largely mirror the U.S. regulations.

The European Union promulgated passenger car carbon dioxide emissions regulations beginning in 2012. This directive sets a target of a fleet average of 95 grams per kilometer for 2020, with the requirements for each manufacturer calculated based on the average weight of vehicles across its fleet. In addition, some EU member states have adopted or are considering some form of carbon-dioxide based vehicle tax, which may affect consumer preferences for certain vehicles in unpredicted ways, and which could result in specific market requirements that are more stringent than the EU emissions standards.

Other countries are also developing or adopting new policies to address these issues. These policies could significantly affect our product development and international expansion plans and, if adopted in the form of new laws or regulations, could subject us to significant civil penalties or require that we modify our products to remain in compliance. Additionally, any new regulations could result in substantial increased costs, which we may be unable to pass through to customers, and could limit the vehicles we design, manufacture and sell and the markets we can access. These changes could adversely affect our business, financial condition and results of operations. For example, the EPA is reexamining the use of selective catalyst reduction, or SCR, technology in diesel engines. Regulatory constraints on such use could adversely affect our ability to sell heavy-duty vehicles.

***Safety standards set by regulatory authorities, as well as design, safety and quality ratings by widely accepted independent parties may have a significant negative effect on our costs and our vehicle sales.***

Our vehicles must satisfy safety requirements that are developed and overseen by a variety of governmental bodies within the U.S. and foreign countries. Our vehicles are also tested by independent vehicle rating programs such as the Insurance Institute for Highway Safety. In addition, independent ratings services such as Consumers Union and J.D. Power and Associates perform reviews on safety, design and quality issues, which often influence consumers' purchase decisions.

Meeting or exceeding government-mandated safety standards and improving independent safety, design and quality ratings can be difficult and costly in many cases. Often, safety requirements or desired quality and design attributes hinder our efforts to meet emissions and fuel economy standards, since the latter are often facilitated by reducing vehicle weight. The need to meet regulatory or other generally accepted rating standards can substantially increase costs for product development, testing and manufacturing, particularly if new requirements or testing standards are implemented in the middle of a product cycle, and the vehicle does not already meet the new requirements or standards.

To the extent that the ratings of independent parties are negative, or are below our competitors' ratings, our vehicle sales may be negatively impacted.

***Vehicle defects may delay vehicle launches, or increase our warranty costs.***

Manufacturers are required to remedy defects related to motor vehicle safety and to emissions through safety recall campaigns, and a manufacturer is obligated to recall vehicles if it determines that they do not comply with



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an applicable Federal Motor Vehicle Safety Standard. In addition, if we determine that a safety or emissions defect or a noncompliance exists with respect to certain of our vehicles prior to the start of production, the launch of such vehicle could be delayed until we remedy the defect or noncompliance. The costs associated with any protracted delay in new model launches necessary to remedy such defect, and the cost of providing a free remedy for such defects or noncompliance in vehicles that have been sold, could be substantial. We are also obligated under the terms of our warranty to make repairs or replace parts in our vehicles at our expense for a specified period of time. Therefore, any failure rate that exceeds our expectations may result in unanticipated losses.

***Product recalls can result in direct costs and loss of vehicle sales that could have material adverse effect on our business.***

From time to time, we have been required to recall vehicles to address performance, compliance or safety-related issues. The cost we incur to recall vehicles typically includes the cost of the new remedy parts and labor to remove and replace the problem parts, and may be substantial depending on the nature of the remedy and the number of vehicles affected. Product recalls also harm our reputation and may cause consumers to question the safety or reliability of our products.

Any costs incurred or lost vehicle sales resulting from product recalls could materially adversely affect our business. Moreover, if we face consumer complaints or information from vehicle rating services that call into question the safety or reliability of one of our vehicles and we do not issue a recall, or if we do not do so on a timely basis, our reputation may also be harmed and we may lose future vehicle sales.

***We are exposed to ongoing litigation and other legal and regulatory actions and risks in the ordinary course of our business, and we could incur significant liabilities and substantial legal fees.***

In the ordinary course of business, we face a significant volume of litigation as well as other legal claims and proceedings and regulatory enforcement actions. The results of these legal proceedings cannot be predicted with certainty, and adverse results in current or future legal proceedings may materially harm our business, financial condition and results of operations, whether because of significant damage awards or injunctions or because of harm to our reputation and market perception of our vehicles and brands. We may incur losses in connection with current or future legal proceedings that exceed any provisions we may have set aside in respect of such proceedings or that exceed any applicable insurance coverage.

Although we design and develop vehicles to comply with all applicable safety standards, compliance with governmental standards does not necessarily prevent individual or class action lawsuits, which can entail significant costs and risks. For example, whether Federal Motor Vehicle Safety Standards preempt state common law claims is often a contested issue in litigation, and some courts have found us in breach of legal duties and liable in tort, though our vehicles comply with all applicable federal and state regulations. Furthermore, simply responding to actual or threatened litigation or government investigations regarding our compliance with regulatory standards, even in cases in which no liability is found, often requires significant expenditures of funds, time and other resources, and may cause significant reputational harm.

In addition, our vehicles may have “long-tail” exposures, including as a result of potential product recalls and product liability claims, giving rise to liabilities many years after their sale. Any insurance we hold currently may not be available when costs arise in the future and, in the case of harm caused by a component sourced from a supplier, the supplier may no longer be available to provide indemnification or contribution.

***Taxing authorities could challenge our historical and future tax positions as well as our allocation of taxable income among our subsidiaries.***

The amount of income taxes we pay is subject to our interpretation of applicable tax laws in the jurisdictions in which we file. We have taken and will continue to take tax positions based on our interpretation of such tax laws.

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While we believe that we have complied with all applicable income tax laws, there can be no assurance that a taxing authority will not have a different interpretation of the law and assess us with additional taxes. Should additional taxes be assessed, this may result in a material adverse effect on our results of operations and financial condition.

We conduct sales, contract manufacturing, marketing, distribution and research and development operations with affiliated companies located in various tax jurisdictions around the world. While our transfer pricing methodologies are based on economic studies which we believe are reasonable, the transfer prices for these products and services could be challenged by the various tax authorities resulting in additional tax liability, interest and/or penalties, and the possibility of double taxation. Efforts are underway to secure an advance pricing agreement, or APA, with our key foreign markets, Canada and Mexico, to reduce the risk of transfer pricing adjustments, but we currently have no APA in place with either jurisdiction.

***We depend on the services of our key executives, whose loss could materially harm our business.***

Several of our senior executives, including our Chief Executive Officer, Sergio Marchionne, are important to our success because they have been instrumental in establishing our new strategic direction and implementing our business plan. These executive and managers have significant experience in executing restructuring strategies of the type we are pursuing. If we were to lose the services of any of these individuals this could have a material adverse effect on our business, financial condition and results of operations. We believe that these executives, in particular Mr. Marchionne, could not easily be replaced with executives of equivalent experience and capabilities. This is particularly true while we, unlike many of our competitors, are subject to limitations on executive compensation under TARP. Mr. Marchionne also serves as Chief Executive Officer of Fiat S.p.A. and Chairman or Chief Executive Officer of several significant business units within Fiat and Fiat Industrial including Fiat Group Automobiles, Case New Holland, or CNH, and Iveco trucks. We do not have a specified allocation of Mr. Marchionne's time and attention. If Mr. Marchionne allocates more of his time and attention to non-Chrysler matters, our business may suffer as a result.

***Our LLC Operating Agreement designates Mr. Marchionne, Fiat's Chief Executive Officer, as our initial Chief Executive Officer, which may create a potential for conflicts of interest.***

Mr. Marchionne's dual role as Chief Executive Officer of both Chrysler Group and Fiat could present potential conflicts of interest under our industrial alliance with respect to the development of products, brands, and global distribution strategies, and component sourcing to Fiat affiliates, and Mr. Marchionne does not receive any compensation from us for serving as our Chief Executive Officer. The Board approval requirements in our LLC Operating Agreement may not be sufficient to protect against such conflicts, for example, to the extent they involve matters below the dollar thresholds triggering such approval.

***We are unable to compensate our senior executives at the level at which several of our competitors compensate their executives, which may adversely affect our ability to hire and retain the most capable executives.***

In addition to the limitations on incentive compensation contained in the American Recovery and Reinvestment Act of 2009, we are also subject to the restrictions placed on executive compensation by the Office of the Special Master for TARP Executive Compensation, which we refer to as the Special Master. Under these standards, the Special Master must approve all compensation plans and payments to the five executives named in the Summary Compensation Table and the next 20 highest paid employees and the compensation structure for our next 75 most highly compensated employees. The effect of the limitations is to restrict the compensation and other benefits that we can provide to our most senior and most highly compensated employees. As a result, the form and timing of the compensation for our most highly paid employees is not necessarily competitive with that offered by other large corporations with whom we may compete for executive talent. Under the terms of our U.S. Treasury and EDC credit facilities, the limitations placed on executive compensation will continue to apply to us until at least June 10, 2018. Given our compensation structure, there is no assurance that we will continue to be able to attract, retain and incentivize the employees whose expertise is required to execute our business plan.

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***We are operating our business with far fewer salaried employees than Old Carco and those employees may lack some of the skills and qualifications that Old Carco's employees had, which may harm our business and threaten our ability to hire and retain salaried employees, especially those with critical skills.***

We employ substantially fewer salaried employees than Old Carco employed. As part of cost reduction efforts in the 2007-2009 period, Old Carco had offered early retirement packages and voluntary separation incentives to a broad cross-section of experienced salaried employees. As a result, we do not have the services of key employees who worked for Old Carco in a number of critical areas including vehicle design and engineering, finance, accounting, tax and legal. The remaining employees have heavier workloads than employees have historically had. We are currently in the process of trying to hire additional experienced salaried employees, particularly engineers, the market for whom is particularly competitive. Companies in similar situations have experienced significant difficulties in hiring and retaining highly skilled employees, particularly in competitive specialties, and we may experience such difficulties going forward. Due to increasing demands on the salaried workforce, and the potential lack of critical skills in our employee population, we may not be able to achieve our business plan targets in as costly or efficient a manner as we had projected.

***Our collective bargaining agreements limit our ability to modify our operations and reduce costs in response to market conditions. In addition, we may be required to modify the terms of our collective bargaining agreement with the UAW in connection with its renewal this year in a manner that may be disadvantageous to us.***

Substantially all of our hourly employees in the U.S. and Canada are represented by unions and covered by collective bargaining agreements. Our collective bargaining agreements with the UAW and the CAW expire in September 2011 and September 2012, respectively. Although these agreements were amended during 2009 in connection with the 363 Transaction, the agreements still provide for certain minimum wage and benefit levels throughout their terms and a degree of employment security, subject to certain conditions. As a practical matter, these agreements restrict our ability to modify our operations and reduce costs in response to market conditions during the terms of the agreements. These and other provisions in our collective bargaining agreements may impede our ability to restructure our business successfully to compete more effectively, especially with those automakers whose U.S. employees are not represented by unions.

The amendment to our UAW collective bargaining agreement includes a "no-strike" provision through 2015. As consideration for the no-strike provision, however, we and the UAW are subject to binding arbitration in connection with the renewal of this agreement in September 2011. Under the arbitration process, if we do not reach agreement with the UAW, the arbitrator will set the terms of our agreement, subject only to the requirement that hourly wages and benefits are to be set at a level comparable to those paid by other manufacturers in the U.S., including foreign-owned manufacturers. As a result, we may be required to modify the terms of our collective bargaining agreement and the terms and conditions of our relationship with our hourly work force in a manner that may be disadvantageous to us, including the potential reversal of some of the critical concessions negotiated in connection with the 363 Transaction.

***Work stoppages at our suppliers' facilities or other interruptions of production may harm our business.***

A work stoppage or other interruption of production could occur at our facilities or those of our suppliers as a result of disputes under existing collective bargaining agreements with labor unions or in connection with negotiations of new collective bargaining agreements, as a result of supplier financial distress, or for other reasons. For example, many suppliers are experiencing financial distress due to decreasing production volume and increasing prices for raw materials, jeopardizing their ability to produce parts for us. A work stoppage or interruption of production at our facilities or those of our suppliers due to labor disputes, shortages of supplies, or any other reason (including but not limited to tight credit markets or other financial distress, natural or man-made disasters, or production difficulties) could substantially adversely affect our financial condition and results of operations.

[Table of Contents](#)***We depend on our computer and data processing systems, and a significant malfunction or disruption in their operation could disrupt our business.***

Our ability to keep our business operating effectively depends on the functional and efficient operation of our enterprise resource planning and telecommunications systems, including our vehicle design, manufacturing, inventory tracking and billing and collection systems. We rely on these systems to make a variety of day-to-day business decisions as well as to track transactions, billings, payments and inventory. Our systems are susceptible to malfunctions and interruptions (including due to equipment damage, power outages, computer viruses and a range of other hardware, software and network problems) and we may experience such malfunctions or interruptions in the future. Although our systems are diversified, including multiple server locations and a range of software applications for different regions and functions, a significant or large-scale malfunction or interruption of our computer or data processing systems could adversely affect our ability to manage and keep our operations running efficiently, and damage our reputation if we are unable to track transactions and deliver products to our customers. A malfunction that results in a wider or sustained disruption to our business could have a material adverse effect on our business, financial condition and results of operations.

We are currently in the process of transitioning, retiring or replacing a significant number of our software applications at an accelerated rate, an effort which will continue throughout 2011 and future years. These applications include, among others, our engineering, finance, procurement and communication systems. During the transition periods, and until we fully migrate to our new systems, we may experience material disruptions in communications, in our ability to conduct our ordinary business processes and in our ability to report out on the results of our operations. Though we are taking commercially reasonable steps to transition our data properly, we may also lose significant amounts of data in the transition, or we may be unable to access data for periods of time without forensic intervention. Loss of data may affect our ability to continue ongoing business processes according to the dates in our business plan, or could affect our ability to file timely reports required by a wide variety of regulators, including the SEC. Our ability to comply with the requirements of the Sarbanes-Oxley Act, to the extent required of us, may also be compromised.

[Table of Contents](#)**Item 2. Financial Information**

The discussion of our critical accounting estimates and our financial condition and operating results should be read together with our accompanying audited consolidated financial statements included in this Registration Statement.

***Selected Financial Data***

In 2007, Old Carco became an indirect, wholly-owned subsidiary of Chrysler Holding in connection with a business combination transaction between Daimler and Cerberus. Prior to August 3, 2007, Old Carco was an indirect, wholly-owned subsidiary of Daimler. The results of Old Carco's automotive business operations prior to August 3, 2007 (excluding its finance company, Chrysler Financial) are shown as the results of Chrysler Automotive, which was not separately organized under an existing legal structure.

Chrysler Group was formed on April 28, 2009. On June 10, 2009, we purchased the principal operating assets and assumed certain liabilities of Old Carco and its principal domestic subsidiaries, in addition to acquiring the equity of Old Carco's principal foreign subsidiaries, in the 363 Transaction approved by the bankruptcy court. Chrysler Group represents the successor to Old Carco for financial reporting purposes. Old Carco and Chrysler Automotive represent Predecessor A and Predecessor B, respectively, to Chrysler Group for financial reporting purposes.

Refer to *Item 1. Business* for additional discussion of Chrysler Group's background and formation.

The following table sets forth selected financial data of Chrysler Group (Successor), Old Carco (Predecessor A) and Chrysler Automotive (Predecessor B). The selected financial data has been derived from:

- Chrysler Group's accompanying audited consolidated financial statements as of December 31, 2010 and 2009 and for the year ended December 31, 2010 and the period from June 10, 2009 to December 31, 2009 (Successor);
- Old Carco's accompanying audited consolidated financial statements as of June 9, 2009 and December 31, 2008 and for the period from January 1, 2009 to June 9, 2009 and the year ended December 31, 2008 (Predecessor A);
- Old Carco's audited consolidated and combined financial statements as of December 31, 2007 (Predecessor A) and for the period from August 4, 2007 to December 31, 2007 (Predecessor A), which are not included in this Registration Statement; and
- Chrysler Automotive's audited combined financial statements for the period from January 1, 2007 to August 3, 2007 and as of and for the year ended December 31, 2006 (Predecessor B), which were derived from the audited consolidated financial statements and accounting records of Daimler and include expense allocations applicable to the business. The financial results of Chrysler Automotive are not necessarily indicative of those for a stand-alone company. Chrysler Automotive's financial statements are not included in this Registration Statement.

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The following data should be read in conjunction with —*Management's Discussion and Analysis of Financial Condition and Results of Operations* included below and the audited consolidated financial statements and notes thereto included in *Item 13. Financial Statements and Supplementary Data*. Historical results for any prior period are not necessarily indicative of results to be expected in any future period.

	Successor		Predecessor A			Predecessor B	
	Year Ended December 31, 2010	Period from June 10, 2009 to December 31, 2009	Period from January 1, 2009 to June 9, 2009	Year Ended December 31, 2008	Period from August 4, 2007 to December 31, 2007	Period from January 1, 2007 to August 3, 2007 <sup>(1)</sup>	Year Ended December 31, 2006
(in millions of dollars)							
<b>Consolidated Statements of Operations Data:</b>							
Revenues, net	\$ 41,946	\$ 17,710	\$ 11,082	\$ 48,477	\$ 26,561	\$ 34,556	\$ 59,272
Gross margin	6,060	1,599	(1,934)	1,928	2,734	1,938	4,062
Selling, administrative and other expenses	3,797	4,336	1,599	3,991	2,070	3,583	4,973
Restructuring expenses (income), net <sup>(2)</sup>	48	34	(230)	1,306	21	1,200	—
Impairment of brand name intangible assets <sup>(3)</sup>	—	—	844	2,857	—	—	—
Impairment of goodwill <sup>(4)</sup>	—	—	—	7,507	—	—	—
Reorganization expense, net <sup>(5)</sup>	—	—	843	—	—	—	—
Interest expense <sup>(6)</sup>	1,276	470	615	1,080	640	515	705
Net loss	(652)	(3,785)	(4,425)	(16,844)	(639)	(4,402)	(3,506)
<b>Consolidated Statements of Cash Flows Data:</b>							
Cash flows provided by (used in):							
Operating activities	\$ 4,195	\$ 2,335	\$ (7,130)	\$ (5,303)	\$ 3,238	\$ (829)	\$ 781
Investing activities	(1,167)	250	(404)	(3,632)	(3,172)	(1,530)	(5,053)
Financing activities	(1,526)	3,268	7,517	1,058	8,638	(772)	761
<b>Other Financial Information:</b>							
Depreciation and amortization expense	\$ 3,051	\$ 1,587	\$ 1,537	\$ 4,808	\$ 2,016	\$ 3,499	\$ 5,330
Capital expenditures	2,385	1,088	239	2,765	1,603	1,796	3,721
<b>Consolidated Balance Sheets Data at Period End:</b>							
Cash, cash equivalents and marketable securities	\$ 7,347	\$ 5,877	\$ 1,845	\$ 1,898	\$ 9,531	\$ 850	\$ 4,689
Restricted cash	671	730	1,133	1,355	2,484	219	—
Total assets	35,449	35,423	33,577	39,336	66,538	51,435	51,435
Current maturities of financial liabilities	2,758	1,092	2,694	11,308	2,446	7,363	1,517
Long-term financial liabilities	10,973	8,459	1,900	2,599	11,457	4,196	8,813
Members' Interest (deficit)	(4,489)	(4,230)	(16,562)	(15,897)	1,713	(8,335)	(6,470)
<b>Other Statistical Information (unaudited):</b>							
Worldwide factory shipments (in thousands) <sup>(7)</sup>	1,602	670	381	1,987	1,045	1,565	2,655
Number of employees at period end <sup>(8)</sup>	51,623	47,326	48,237	52,191	73,286	76,624	80,267

(1) Balance sheet data as of August 3, 2007 was derived from unaudited information.

(2) In 2007, Old Carco announced a three year Recovery and Transformation Plan ("RTP"), or RTP I Plan, which was aimed at restructuring its business. In conjunction with the Cerberus transaction in 2007, Old Carco initiated the RTP II Plan. Then, in 2008 and 2009, the RTP III Plan and RTP IV Plan were initiated, respectively. For additional information refer to *Results of Operations*.

(3) Old Carco recorded indefinite-lived intangible asset impairment charges of \$844 million and \$2,857 million in the period from January 1, 2009 to June 9, 2009 and the year ended December 31, 2008, respectively, related to its brand names. The impairments were primarily a result of the significant deterioration in Old Carco's revenues, the ongoing volatility in the U.S. economy, in general, and in the automotive industry in particular, and a significant decline in its projected production volumes and revenues considering the market conditions at that time.

(4) In 2008, Old Carco recorded a goodwill impairment charge of \$7,507 million, primarily as a result of significant declines in its projected financial results considering the deteriorating economic conditions and the weakening U.S. automotive market at that time.

(5) In connection with Old Carco's bankruptcy filings, Old Carco recognized \$843 million of net losses from the settlement of pre-petition liabilities, provisions for losses resulting from the reorganization and restructuring of the business, as well as professional fees directly related to the process of reorganizing Old Carco and its principal domestic subsidiaries under Chapter 11 of the U.S. Bankruptcy Code. These losses were partially off-set by a gain on extinguishment of certain financial liabilities and accrued interest.

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- (6) Interest expense for the period from January 1, 2009 to June 9, 2009 excludes \$57 million of contractual interest expense on debt subject to compromise. Refer to Note 4, *Interest Expense*, of Old Carco's accompanying audited consolidated financial statements for additional information.
- (7) Represents vehicle sales to our dealers, distributors and fleet customers. For additional information refer to – *Management's Discussion and Analysis of Financial Condition and Results of Operations – Worldwide Factory Shipments*.
- (8) The number provided for August 3, 2007 is as of July 31, 2007. The number provided for June 9, 2009 is as of June 30, 2009.

### ***Critical Accounting Estimates***

The audited consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, or U.S. GAAP, which requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses in the periods presented. We believe that the accounting estimates employed are appropriate and resulting balances are reasonable; however, due to inherent uncertainties in making estimates actual results could differ from the original estimates, requiring adjustments to these balances in future periods.

The critical accounting estimates that affect the audited consolidated financial statements and that use judgments and assumptions are listed below. In addition, the likelihood that materially different amounts could be reported under varied conditions and assumptions is discussed.

#### ***Capitalization***

We acquired the principal operating assets and assumed certain liabilities of Old Carco and its principal domestic subsidiaries, as well as acquired the equity of Old Carco's principal foreign subsidiaries. We issued membership interests to our members in exchange for their contributions, which we valued as follows:

*Fiat.* We recorded the intellectual property contributed by Fiat at its fair value of \$320 million, which was determined using the relief from royalty method. The significant assumptions used in this method included the following:

- Forecasts of revenues for vehicles expected to be manufactured in the future utilizing Fiat intellectual property;
- A royalty rate based on licensing arrangements for the use of technology in the automotive industry and related industries;
- Estimated costs expected to be incurred to allow the Fiat intellectual property to be used on vehicles sold in North America; and
- A discount rate of 18 percent commensurate with the perceived business risks related to the cash flows attributable to the Fiat intellectual property. This discount rate is lower than the estimated weighted average cost of capital, or WACC, of 19.5 percent used to value the membership interests issued to the other members. Management believes this is appropriate because the intellectual property represents proven technology that had already been utilized by Fiat in its products.

We determined that a useful life of 10 years for the intellectual property was appropriate and consistent with our intended use of the asset, as well as the average life cycle of the products and platforms that the intellectual property will be used in.

*VEBA Trust.* In connection with the 363 Transaction, we entered into the VEBA Settlement Agreement with the UAW whereby the VEBA Trust agreed to assume responsibility for certain health care claims incurred by certain of our retirees. The terms of the VEBA Settlement Agreement are discussed in –*Other Postretirement Benefits*

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below. In accordance with the terms of the VEBA Settlement Agreement, we issued to the VEBA Trust the VEBA Trust Note with a face value of \$4,587 million as well as membership interests representing an initial 67.7 percent ownership interest in the Company. The recognition and valuation of the VEBA Trust Note and VEBA Membership Interests are discussed in Note 18, *Employee Retirement and Other Benefits*, of our accompanying audited consolidated financial statements.

*United States Department of the Treasury and the Canada CH Investment Corporation.* On June 10, 2009, we issued membership interests to the U.S. Treasury and Canada CH in consideration for the credit facilities and financing provided by the U.S. and Canadian governments. We recorded their membership interests at their fair values of \$72 million and \$17 million, respectively, which were determined using a discounted cash flow model as discussed below. We recognized these contributions at their fair value as a deferred charge representing the fair value of the undrawn credit facilities and as a discount to the face value of the financing. Deferred charges of \$65 million, of which \$48 million related to U.S. Treasury and \$17 million related to Canada CH, were recognized in prepaid expenses and other assets for the undrawn credit facilities, which will be amortized on a straight-line basis over the term of the credit facilities. Additionally, \$24 million was recognized as a discount to the financing received from the U.S. Treasury, which will be accreted over the term of the loans utilizing the effective interest method.

The fair value of the U.S. Treasury's and Canada CH's membership interests was determined by subtracting the face value of the Company's debt from an enterprise value established using a discounted cash flow model. The key inputs to the model included:

- Annual projections through 2014 prepared by management that reflect the estimated cash flows a market participant would expect to generate from operating the business;
- A terminal value which was determined using a growth model that applied a 2.0 percent long-term growth rate to our projected cash flows beyond 2014. The long-term growth rate was based on our internal projections as well as industry growth prospects;
- An estimated WACC of 19.5 percent; and
- Projected worldwide factory shipments ranging from 1.6 million vehicles in 2010 to 2.8 million vehicles in 2014.

The fair value of the undrawn credit facilities was estimated considering the probability the facilities would be drawn and the difference between their contractual interest rates and the estimated market rates at June 10, 2009, taking in to account the Company's estimated creditworthiness.

*Business Combination Accounting*

We accounted for the 363 Transaction utilizing the acquisition method of accounting in accordance with the accounting guidance related to business combinations. Chrysler Group was formed on April 28, 2009 for the purpose of acquiring the principal operating assets and assuming certain liabilities of Old Carco. We paid \$2 billion in cash consideration to Old Carco in connection with the 363 Transaction. This consideration was funded by proceeds from our U.S. Treasury first lien credit agreement. Goodwill of \$1,361 million was calculated as the excess of the consideration transferred to the creditors of Old Carco in the 363 Transaction over the June 10, 2009 values recognized for the identifiable assets acquired and the liabilities assumed. Goodwill represents the future economic benefits arising from other assets acquired as part of the 363 Transaction that do not meet the separability criteria of the business combination accounting guidance.



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The following summarizes the estimated values of the assets acquired and liabilities assumed on June 10, 2009 (in millions of dollars):

Consideration transferred		\$ 2,000
Cash and cash equivalents	1,694	
Restricted cash	1,079	
Marketable securities	16	
Trade receivables	1,731	
Inventories	3,040	
Property, plant and equipment	14,242	
Equipment on operating leases	3,415	
Prepaid expenses and other assets	3,278	
Advances to related parties and other financial assets	185	
Deferred taxes	120	
Other intangible assets	3,219	
Total assets acquired	32,019	
Trade liabilities	3,782	
Accrued expenses and other liabilities	20,557	
Financial liabilities	5,659	
Deferred revenue	1,262	
Deferred taxes	120	
Total liabilities assumed	31,380	
	Value of net assets acquired	639
Goodwill (excess of consideration transferred over value of net assets)		\$ 1,361

In applying the accounting guidance related to business combinations, we recorded the assets acquired and the liabilities assumed from Old Carco at fair value, except for certain pre-acquisition contingent liabilities for which fair value was not determinable, deferred income taxes and certain liabilities associated with employee benefits, which were recorded according to other accounting guidance. These adjustments are final and no determinations of fair value are considered provisional as of June 10, 2009. The significant assumptions related to the valuation of our assets and liabilities recorded in connection with the 363 Transaction are discussed below.

*Trade Receivables.* We recorded trade receivables with a fair value of \$1,731 million, which takes into account the risk that not all contractual amounts owed us will be collected. Contractual amounts due to us for acquired trade receivables amounted to \$1,827 million. Due to the short-term nature of the acquired trade receivables, management did not expect cash collections for trade receivables to differ materially from the fair value recognized.

*Inventories.* We recorded inventories at a fair value of \$3,040 million, which was determined as follows:

- Finished products were determined based on the estimated selling price of finished products on hand less costs to sell, including disposal and holding period costs, as well as a reasonable profit margin on the selling and disposal effort for each specific category of finished products being evaluated;
- Work in process was determined based on the estimated selling price once completed less total costs to complete the manufacturing process, costs to sell including disposal and holding period costs, as well as a reasonable profit margin on the remaining manufacturing, selling and disposal effort; and
- Raw materials were determined based on current replacement cost.

*Property, Plant and Equipment.* We recorded property, plant and equipment, which includes land, buildings, leasehold improvements, machinery, equipment, construction in progress and special tooling, at a fair value of \$14,242 million. The fair value was based on the premise of highest and best use.

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The cost approach was applied in determining fair value for certain assets related to buildings, leasehold improvements and the majority of our machinery, equipment and special tooling. This method considers the amount required to construct or purchase a new asset of equal utility at current prices, with adjustments in value for physical deterioration, as well as functional and economic obsolescence. Economic obsolescence represents a loss in value due to unfavorable external conditions, such as the economics of the automotive industry as of June 10, 2009. Economic obsolescence was estimated based on expectations of the highest and best use of the property, plant and equipment, which generally contemplated an in use valuation premise. Land was valued using the comparable sales method, which is a market approach that uses recent transactions for similar types of real property as a basis for estimating the fair value of the land acquired.

*Equipment on Operating Leases.* We recorded equipment on operating leases for which we are the lessor at a fair value of \$3,415 million, which was based on the market value of comparable assets.

*Intangible Assets.* We recorded intangible assets at a fair value of \$3,219 million. The following is a summary of the methods used to determine the fair value of our significant intangible assets:

- The relief from royalty method was used to calculate the fair value of brand names of \$2,210 million. The significant assumptions used in this method included:
  - Forecasted revenue for each brand name (Chrysler, Jeep, Dodge, Ram and Mopar);
  - Royalty rates based on licensing arrangements for the use of brands and trademarks in the automotive industry and related industries;
  - Discount rates ranging from 19 percent to 26 percent based on an estimated WACC and adjusted for perceived business risks related to these intangible assets; and
  - Indefinite economic lives for the acquired brands.
- The cost approach was used to calculate the fair value of the acquired dealer networks of \$384 million. The fair value of the acquired dealer networks was determined based on our estimated costs to re-create the dealer networks, which took into consideration an estimate of an optimal number of dealers.
- The relief from royalty method was used to calculate the fair value of patented and unpatented technology of \$208 million. The significant assumptions used included:
  - Forecasted revenue for each technology category;
  - Royalty rates based on licensing arrangements for similar technologies and obsolescence factors by technology category;
  - Discount rates ranging from 18 percent to 21 percent based on an estimated WACC and adjusted for perceived business risks related to these developed technologies; and
  - Estimated economic lives, which ranged from 4 to 10 years.
- We recorded other intangible assets of \$417 million, which included \$192 million related to operating lease contracts that were favorable relative to available market terms.

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*Accrued Expenses and Other Liabilities.* We recorded accrued expenses and other liabilities of \$20,557 million, which included the following:

- Pension and OPEB liabilities of \$3,333 million and \$6,506 million, respectively, measured in accordance with the accounting guidance for employee benefits discussed in Note 18, *Employee Retirement and Other Benefits*, of our accompanying audited consolidated financial statements;
- Other employee benefit and nonretirement post-employment benefits, including workers' compensation and supplemental unemployment benefit obligations totaling \$959 million, measured in accordance with the accounting guidance for employee benefits;
- Warranty obligations of \$2,310 million measured at fair value. Fair value was determined based on the expected future cash flows to satisfy the obligations, adjusted for a profit margin that would be required by a market participant to assume the obligations and discounted to a single present value using a discount rate that considers the timing of the expected cash flows and the non-performance risk of the obligations ranging from 3.0 percent in 2009 to 18.5 percent in 2012 and later based on the timing of the claims and their relationship to other secured and unsecured obligations of the Company;
- Various accrued expenses, including accrued sales incentives of \$1,820 million; accrued income, property, excise, state, local and other taxes payable of \$841 million and other items totaling \$3,055 million measured at fair value; and
- Various pre-acquisition contingencies totaling \$1,733 million for which fair value was not determinable, which were measured in accordance with the accounting guidance related to contingencies as discussed below.

*Deferred Revenue.* We recorded deferred revenue with a fair value of \$1,262 million, which primarily related to obligations assumed to fulfill service contracts. Fair value was determined based on the expected future cash flows to satisfy the obligations, adjusted for a profit margin that would be required by a market participant to assume the obligations and discounted to a present value using a discount rate that considers the timing of the expected cash flows and the non-performance risk of the obligations ranging from 3.0 percent in 2009 to 19.0 percent in 2012 and later based on the timing of the claims and their relationship to other secured and unsecured obligations of the Company.

*Financial Liabilities.* We recorded financial liabilities, including debt and capital leases, at a fair value of \$5,659 million. The fair value was calculated using a discounted cash flow methodology utilizing a synthetic credit rating to estimate the non-performance risk associated with our debt instruments, adjusted where appropriate for any security interests. Market observable data for discount rates reflecting the non-performance risk of the obligations was not available at the measurement dates. Appropriate discount rates were estimated by extrapolating market-observable debt yields at the measurement dates. Financial liabilities included the following:

- Assumed obligations to the U.S. Treasury primarily relating to loans originally provided to Old Carco's parent company, Chrysler Holding, with an acquisition date fair value of \$716 million. Refer to Note 12, *Financial Liabilities*, of our accompanying audited consolidated financial statements for additional information related to the nature, terms, and amounts of the U.S. Treasury financial liabilities;
- Notes payable to EDC with an acquisition date fair value of \$695 million. Refer to Note 12, *Financial Liabilities*, of our accompanying audited consolidated financial statements for additional information related to the nature, terms, and amounts of the EDC financial liabilities;

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- Asset-backed securitization facilities for the Gold Key Lease portfolio with an acquisition date fair value of \$3,197 million. Refer to Note 12, *Financial Liabilities*, of our accompanying audited consolidated financial statements for additional information related to the nature, terms, and amounts of the Gold Key Lease asset-backed securitization facilities;
- Auburn Hills Headquarters Loan with a fair value of \$207 million. Refer to Note 12, *Financial Liabilities*, of our accompanying audited consolidated financial statements for additional information related to the nature, terms, and amounts of the Auburn Hills Headquarters Loan; and
- Other various financial liabilities and capital lease obligations with fair values totaling \$844 million.

*Pre-acquisition Contingencies for which Fair Value was not Determinable.* We recorded \$1,733 million relating to certain pre-acquisition contingent liabilities assumed from Old Carco in the 363 Transaction for which fair value was not determinable due to uncertainty in the timing and amount of the liability and the number of variables and assumptions in assessing the possible outcomes. Pre-acquisition contingencies for which fair value was not determinable included \$1,203 million for certain warranty obligations and \$530 million relating to product liabilities, including various pending legal actions and proceedings arising in connection with Old Carco's activities as an automotive manufacturer.

Warranty obligations for which fair value was not determinable related to voluntary service actions and recall actions to address various customer satisfaction, safety and emissions issues on past vehicle sales. Estimates of the future costs of these actions are inevitably imprecise due to numerous uncertainties, including the enactment of new laws and regulations, the number of vehicles affected by a service or recall action and the nature of the corrective actions. The estimated future costs of these actions are based primarily on historical claims experience for our vehicles.

Fair value was also not determinable for product liabilities and various pending legal actions and proceedings arising from Old Carco's activities as an automotive manufacturer. These contingencies included various legal proceedings, claims and governmental investigations which were pending on a wide range of topics, including: vehicle safety; emissions and fuel economy; dealer, supplier and other contractual relationships; intellectual property rights; product warranties; and environmental matters. Some of these proceedings allege defects in specific component parts or systems (including airbags, seats, seat belts, brakes, ball joints transmissions, engines and fuel systems) in various vehicle models or allege general design defects relating to vehicle handling and stability, sudden unintended movement or crashworthiness. These proceedings seek recovery for damage to property, personal injuries or wrongful death and in some cases include a claim for exemplary or punitive damages. Adverse decisions in one or more of these proceedings could require us to pay substantial damages, or undertake service actions, recall campaigns or other costly actions.

As the fair value of these liabilities was not determinable, they have been measured in accordance with the accounting guidance related to contingencies.

We also assessed pre-acquisition contingencies for which we did not record an accrual to determine whether it was reasonably possible that the exposure relating to an individual matter could be material to our consolidated financial statements, thus requiring disclosure. On June 10, 2009, there were no such individual matters where we believed it was reasonably possible that our exposure to loss would be material to our consolidated financial statements.

Refer to Note 14, *Commitments, Contingencies and Concentrations*, of our accompanying audited consolidated financial statements for additional information related to these contingencies.

*Pension*

We sponsor both noncontributory and contributory defined benefit pension plans. The majority of the plans are funded plans. The noncontributory pension plans cover certain of our hourly and salaried employees. Benefits are

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based on a fixed rate for each year of service. Additionally, contributory benefits are provided to certain of our salaried employees under the salaried employees' retirement plans. These plans provide benefits based on the employee's cumulative contributions, years of service during which the employee contributions were made and the employee's average salary during the five consecutive years in which the employee's salary was highest in the fifteen years preceding retirement.

Our defined benefit pension plans are accounted for on an actuarial basis, which requires that we make use of estimates of the present value of the projected future payments to all participants, taking into consideration the likelihood of potential future events such as demographic experience. These assumptions may have an effect on the amount and timing of future contributions.

The assumptions used in developing the required estimates include the following key factors:

- *Discount rates.* Our discount rates are based on yields of high-quality (AA-rated or better) fixed income investments for which the timing and amounts of payments match the timing and amounts of the projected pension payments.
- *Expected return on plan assets.* Our expected long-term rate of return on plan assets assumption is developed using a consistent approach across all plans. This approach primarily considers various inputs from a range of advisors for long-term capital market returns, inflation, bond yields and other variables, adjusted for specific aspects of our investments strategy.
- *Salary growth.* Our salary growth assumption reflects our long-term actual experience, outlook and assumed inflation.
- *Inflation.* Our inflation assumption is based on an evaluation of external market indicators.
- *Expected contributions.* Our expected amount and timing of contributions is based on an assessment of minimum funding requirements. From time to time contributions are made beyond those that are legally required.
- *Retirement rates.* Retirement rates are developed to reflect actual and projected plan experience.
- *Mortality rates.* Mortality rates are developed to reflect actual and projected plan experience.

*Plan Assets Measured at Net Asset Value.* Plan assets are recognized and measured at fair value in accordance with the accounting guidance related to fair value measurements, which specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques (Level 1, 2 and 3). Level 3 pricing inputs include significant inputs that are generally less observable from objective sources. At December 31, 2010, substantially all of our investments classified as Level 3 in the fair value hierarchy are valued at the net asset value, or NAV. These plan assets are classified as Level 3 as we are not able to redeem our investments at their respective measurement dates. NAV is provided by the investment manager or a third-party administrator.

Our investments classified as Level 3 include private equity, real estate and hedge fund investments. Private equity investments include those in limited partnerships that invest primarily in operating companies that are not publicly traded on a stock exchange. Our private equity investment strategies include leveraged buyouts, venture capital, mezzanine and distressed investments. Real estate investments include those in limited partnerships that invest in various commercial and residential real estate projects both domestically and internationally. Hedge fund investments include those seeking to maximize absolute returns using a broad range of strategies to enhance returns and provide additional diversification. Investments in limited partnerships are valued at the NAV, which is based on audited financial statements of the funds when available, with adjustments to account for partnership activity and other applicable valuation adjustments.

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Refer to Note 3, *Summary of Significant Accounting Policies* and Note 18, *Employee Retirement and Other Benefits*, of our accompanying audited consolidated financial statements for a discussion of the fair value hierarchy measurement.

Plan obligations and costs are based on existing retirement plan provisions. No assumption is made regarding any potential future changes to benefit provisions beyond those to which we are presently committed, such as in existing labor contracts.

The effects of actual results differing from our assumptions and the effects of changing assumptions are included in unamortized net gains and losses in accumulated other comprehensive income. Gains and losses are amortized over future periods and, therefore, generally affect our recognized expense in future periods. These net gains and losses are only amortized to the extent they exceed 10 percent of the higher of the market-related value of assets or the projected benefit obligation of the respective plan and these amounts are recognized as a component of net expense over the plan participants' expected future years of service. For our defined benefit pension plans, these losses do not exceed this threshold. During 2010, the actual return on plan assets was \$2,929 million, which was higher than the expected return of \$1,741 million. The weighted average discount rate used to determine the benefit obligation for defined benefit pension plans was 5.33 percent at December 31, 2010 versus 5.54 percent at December 31, 2009, resulting in an unamortized loss of \$635 million.

The December 31, 2010 pension funded status and 2011 expense are affected by year-end 2010 assumptions. These sensitivities may be asymmetric and are specific to the time periods noted. They also may not be additive, so the impact of changing multiple factors simultaneously cannot be calculated by combining the individual sensitivities shown. The effect of the indicated increase (decrease) in selected factors, holding all other assumptions constant, is shown below:

	<b>Pension Plans</b>	
	<b>Effect on 2011 Pension Expense</b>	<b>Effect on December 31, 2010 Projected Benefit Obligation</b>
	<b>(in millions of dollars)</b>	
10 basis point decrease in discount rate	\$ (6)	\$ 317
10 basis point increase in discount rate	6	(308)
50 basis point decrease in expected return on assets	121	—
50 basis point increase in expected return on assets	(121)	—

Refer to Note 18, *Employee Retirement and Other Benefits*, of our accompanying audited consolidated financial statements for a detailed discussion of our pension plans.

#### *Other Postretirement Benefits*

We provide health care, legal and life insurance benefits to certain of our hourly and salaried employees. Upon retirement from the Company, these employees may become eligible for continuation of certain benefits. Benefits and eligibility rules may be modified periodically.

Other postretirement benefit obligations, or OPEB, plans are accounted for on an actuarial basis, which requires the selection of various assumptions. The estimation of our obligations, costs and liabilities associated with OPEB, primarily retiree health care and life insurance, requires that we make use of estimates of the present value of the projected future payments to all participants, taking into consideration the likelihood of potential future events such as health care cost increases and demographic experience, which may have an effect on the amount and timing of future payments.

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The assumptions used in developing the required estimates include the following key factors:

- *Discount rates.* Our discount rates are based on yields of high-quality (AA-rated or better) fixed income investments for which the timing and amounts of payments match the timing and amounts of the projected benefit payments.
- *Health care cost trends.* Our health care cost trend assumptions are developed based on historical cost data, the near-term outlook, and an assessment of likely long-term trends.
- *Salary growth.* Our salary growth assumptions reflect our long-term actual experience, outlook and assumed inflation.
- *Retirement rates.* Retirement rates are developed to reflect actual and projected plan experience.
- *Mortality rates.* Mortality rates are developed to reflect actual and projected plan experience.

Plan assets are recognized and measured at fair value in accordance with the accounting guidance related to fair value measurements, which specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. A variety of inputs are used, including independent pricing vendors, third party appraisals, and fund net asset value provided by the investment manager or a third party administrator. Refer to Note 3, *Summary of Significant Accounting Policies* and Note 18, *Employee Retirement and Other Benefits*, of our accompanying audited consolidated financial statements for a discussion of the fair value hierarchy measurement.

Plan obligations and costs are based on existing retirement plan provisions. No assumption is made regarding any potential future changes to benefit provisions beyond those to which we are presently committed, such as in existing labor contracts.

The effects of actual results differing from our assumptions and the effects of changing assumptions are included in unamortized net gains and losses in accumulated other comprehensive income (loss). We immediately recognize actuarial gains or losses for OPEB plans that are short-term in nature and under which our obligation is capped. For all other plans, our accounting policy is to recognize gains or losses to the extent they exceed 10 percent of the higher of the market-related value of assets or the projected benefit obligation of the respective plan and these amounts are recognized as a component of the net expense over the plan participants' expected future years of service. The weighted average discount rate used to determine the benefit obligation for OPEB plans was 5.57 percent and 5.38 percent at December 31, 2010 and 2009, respectively. Excluding the plans that provided postretirement health care benefits to UAW vested retirees and to CAW represented employees, retirees and dependents and for which we have been discharged of further obligation, the weighted average discount rate for December 31, 2009 was 5.52 percent. As a result, during the year ended December 31, 2010, the impact of the change in discount rate for continuing plans was minimal.

Refer to Note 18, *Employee Retirement and Other Benefits*, of our accompanying audited consolidated financial statements for more information regarding costs and assumptions for OPEB plans.

The effect of the indicated increase (decrease) in the assumed discount rate, holding all other assumptions constant, is shown below:

	<b>OPEB Plans</b>	
	<b>Effect on 2011 OPEB Expense</b>	<b>Effect on December 31, 2010 OPEB Obligation</b>
	<b>(in millions of dollars)</b>	
10 basis point decrease in discount rate	\$ —	\$ 29
10 basis point increase in discount rate	—	(29)

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*Transfer of VEBA Trust Assets and Obligations to the VEBA Trust.* On January 1, 2010, and in accordance with the terms of the VEBA Settlement Agreement, we transferred \$1,972 million of plan assets to the VEBA Trust and thereby were discharged of \$7,049 million of benefit obligations related to postretirement health care benefits for certain UAW retirees. As a result of this settlement, we derecognized the associated OPEB obligation of \$5,077 million, which was included in accrued expenses and other liabilities as of December 31, 2009. Separately, we recognized a financial liability for the VEBA Trust Note at a fair value of \$3,854 million, which included the \$4,587 million VEBA Trust Note net of the related discount of \$733 million, as well as accrued interest of \$233 million. In addition, the contribution receivable for the VEBA Trust Membership Interests of \$990 million was satisfied. Refer to Note 18, *Employee Retirement and Other Benefits*, of our accompanying audited consolidated financial statements for more information regarding the transfer of VEBA Trust assets and obligations to the VEBA Trust.

*Canadian Health Care Trust Settlement Agreement.* On August 13, 2010, Chrysler Canada Inc., or Chrysler Canada, entered into the Canadian Health Care Trust Settlement Agreement, which we refer to as the Canadian HCT Settlement Agreement, with the CAW to permanently transfer the responsibility for providing postretirement health care benefits to the CAW represented employees, retirees and dependents (“Covered Group”) to a new retiree plan. The new retiree plan will be funded by a new independent Health Care Trust, or HCT.

On December 31, 2010, and in accordance with the Canadian HCT Settlement Agreement, Chrysler Canada issued four unsecured promissory notes, or Canadian HCT Notes, to the HCT with a fair value of \$1,087 million (\$1,085 million CAD) and made a cash contribution of \$104 million to the HCT in exchange for settling its retiree health care obligations for the Covered Group. In accordance with the Canadian HCT Settlement Agreement, the cash contribution was determined based on an initial payment of \$175 million which was adjusted for the following: (i) reduced by \$53 million for benefit payments made by us for claims incurred by the Covered Group from January 1, 2010 through December 31, 2010, (ii) reduced by \$22 million for required taxes associated with the transaction and administrative costs and (iii) increased by \$4 million for interest charges and retiree contributions received by us during the same period. In addition, on December 31, 2010, we paid \$3 million to the HCT for taxes incurred related to this transaction. As of December 31, 2010, \$19 million of obligations associated with this transaction were outstanding and are scheduled to be paid in 2011. During the year ended December 31, 2010, we recognized a \$46 million loss as a result of the Canadian HCT Settlement Agreement.

Refer to Note 18, *Employee Retirement and Other Benefits*, of our accompanying audited consolidated financial statements for more information regarding the Canadian HCT Settlement Agreement.

### *Stock-Based Compensation*

We have various compensation plans that provide for the granting of stock-based compensation to certain employees and directors. Certain of our plans are subject to approval by the Special Master. Compensation expense for equity-classified awards is measured at the grant date based on the fair value of the award. Liability-classified awards are remeasured to fair value at each balance sheet date until the award is settled with compensation expense recognized over the employee service period.

Since there is no publicly observable trading price for our membership interests, fair value was determined by subtracting the fair value of the Company’s interest-bearing debt from an enterprise value established using a discounted cash flow model. The significant assumptions used in the calculation of fair value for each period are described below:

- Annual projections through 2014 prepared by management that reflect the estimated cash flows a market participant would expect to generate from operating the business;
- A terminal value which was determined using a growth model that applied a 2.0 percent long-term growth rate to our projected cash flows beyond 2014. The long-term growth rate was based on our internal projections as well as industry growth prospects;



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- An estimated WACC of 15.0 percent and 15.3 percent as of December 31, 2010 and 2009, respectively; and
- Projected worldwide factory shipments ranging from 1.6 million vehicles in 2010 to 2.8 million vehicles in 2014.

Based on these calculations, we estimated that the per unit fair value of a Chrysler Group Unit was \$7.95 and \$2.98 as of December 31, 2010 and 2009, respectively. The increase in the per unit fair value was primarily attributable to continued improvement in our performance and achievement of the objectives outlined in our business plan.

If awards contain certain performance conditions in order to vest, we recognize the cost of the award when achievement of the performance condition is probable. For those awards with post-vesting contingencies, we apply an adjustment to account for the probability of meeting those contingencies. For additional information related to our stock-based compensation awards, refer to Note 17, *Stock-Based Compensation*, of our accompanying audited consolidated financial statements.

#### *Impairment of Long-Lived Assets*

Long-lived assets held and used (such as property, plant and equipment, and equipment on operating leases) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of an asset or asset group to be held and used is measured by a comparison of the carrying amount of an asset or asset group to the estimated undiscounted future cash flows expected to be generated by the asset or group of assets. If the carrying amount of an asset or asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset or group of assets exceeds the fair value of the asset or group of assets. When long-lived assets are considered held for sale, they are recorded at the lower of carrying amount or fair value less costs to sell, and depreciation ceases.

#### *Goodwill and Other Intangible Assets*

We account for goodwill in accordance with the accounting guidance related to intangibles and goodwill, which requires us to test goodwill for impairment at the reporting unit level at least annually and when significant events occur or there are changes in circumstances that indicate the fair value is less than the carrying value. Such events could include, among others, a significant adverse change in the business climate, an unanticipated change in the competitive environment and a decision to change the operations of the Company. We have one operating segment, which is also our only reporting unit.

Goodwill is reviewed for impairment utilizing a two-step process. The first step of the impairment test is to compare the fair value of our reporting unit to its carrying value. The fair value is determined by estimating the present value of expected future cash flows for the reporting unit. If the fair value of the reporting unit is greater than its carrying amount, no impairment exists and the second step of the test is not performed. If the carrying amount of the reporting unit is greater than the fair value, there is an indication that an impairment may exist and the second step of the test must be completed to measure the amount of the impairment. The second step of the test calculates the implied fair value of goodwill by assigning the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. The implied fair value of goodwill is then compared to the carrying value. If the implied fair value of goodwill is less than the carrying value, an impairment loss is recognized equal to the difference. Goodwill is evaluated for impairment annually as of October 1.

Intangible assets with a finite useful life are amortized over their respective estimated useful lives, which are reviewed by management each reporting period and whenever changes in circumstances indicate that the carrying value of the assets may not be recoverable. Other intangible assets determined to have an indefinite

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useful life are not amortized, but are instead tested for impairment annually. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. Management estimates fair value through various techniques including discounted cash flow models, which incorporate market-based inputs, and third party independent appraisals, as considered appropriate. Management also considers current and estimated economic trends and outlook.

*Valuation of Deferred Tax Assets*

A valuation allowance on deferred tax assets is required if, based on the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon our ability to generate sufficient taxable income during the carry back or carry forward periods applicable in each applicable tax jurisdiction. Our accounting for deferred tax assets represents our best estimate of those future events. Changes in our current estimates, due to unanticipated events or otherwise, could have a material impact on our financial condition and results of operations.

In assessing the realizability of deferred tax assets, we consider both positive and negative evidence. Concluding that a valuation allowance is not required is difficult when there is absence of positive evidence and significant negative evidence which is objective and verifiable, such as cumulative losses in recent years. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses. U.S. GAAP states that a cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed against deferred tax assets.

The assessment for the nature, timing and recognition of a valuation allowance takes into account a number of types of evidence, including the following:

- Nature, frequency and severity of current and cumulative financial reporting losses. A pattern of objectively measured recent financial reporting losses is heavily weighted as a source of negative evidence. In certain circumstances, historical information may not be as relevant due to changed circumstances;
- Sources of future taxable income. Future reversals of existing temporary differences are heavily-weighted sources of objectively verifiable positive evidence. Projections of future taxable income exclusive of reversing temporary differences are a source of positive evidence only when the projections are combined with a history of recent profits and can be reasonably estimated. Otherwise, these projections are considered inherently subjective and generally will not be sufficient to overcome negative evidence that includes relevant cumulative losses in recent years, particularly if the projected future taxable income is dependent on an anticipated turnaround to profitability that has not yet been achieved. In such cases, we generally give these projections of future taxable income no weight for the purposes of our valuation allowance assessment pursuant to U.S. GAAP; and
- Tax planning strategies. If necessary and available, tax planning strategies would be implemented to accelerate taxable amounts to utilize expiring carryforwards. These strategies would be a source of additional positive evidence and, depending on their nature, could be heavily weighted.

We concluded that the lack of positive evidence in combination with the negative objective evidence of the uncertainty of the near-term outlook for the North American automotive industry, financial markets and projected future taxable income were significant and outweighed other factors. Accordingly, at December 31, 2010 and 2009, we have valuation allowances on deferred tax assets of \$852 million and \$801 million, respectively, related to our foreign operations, which are highly dependent on U.S. sourced taxable income.

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If, in the future, we generate taxable income on a sustained basis in jurisdictions where we have recorded full valuation allowances, our conclusion regarding the need for full valuation allowances in these tax jurisdictions could change, resulting in the reversal of some or all of the valuation allowances. If our operations generate taxable income prior to reaching profitability on a sustained basis, we would reverse a portion of the valuation allowance related to the corresponding realized tax benefit for that period, without changing our conclusions on the need for a full valuation allowance against the remaining net deferred tax assets.

### *Sales Incentives*

We record the estimated cost of sales incentive programs offered to dealers and retail customers as a reduction to revenue at the time of sale to the dealer. This estimated cost represents the incentive programs offered to dealers and retail customers, as well as the expected modifications to these programs in order to facilitate sales of the dealer inventory. Subsequent adjustments to incentive programs related to vehicles previously sold to dealers are recognized as an adjustment to revenue in the period the adjustment is determinable.

We use price discounts to adjust vehicle pricing in response to a number of market and product factors, including: pricing actions and incentives offered by competitors, economic conditions, the amount of excess industry production capacity, the intensity of market competition, consumer demand for the product and to support promotional campaigns. We may offer a variety of sales incentive programs at any given point in time, including: cash offers to dealers and retail customers and subvention programs offered to retail customers, or lease subsidies, which reduce the retail customer's monthly lease payment. Incentive programs are generally brand, model and region specific for a defined period of time, which may be extended.

Multiple factors are used in estimating the future incentive expense by vehicle line including the current incentive programs in the market, planned promotional programs and the normal incentive escalation incurred as the model year ages. The estimated incentive rates are reviewed monthly and changes to the planned rates are adjusted accordingly, thus impacting revenues. As discussed previously, there are a multitude of inputs affecting the calculation of the estimate for sales incentives, and an increase or decrease of any of these variables could have a significant effect on recorded revenues.

### *Warranty and Product Recalls*

We establish reserves for product warranties at the time the sale is recognized. We issue various types of contractual product warranties under which we generally guarantee the performance of products delivered for a certain period or term. The reserve for product warranties includes the expected costs of warranty obligations imposed by law or contract, as well as the expected costs for policy coverage, recall actions and buyback commitments. Estimates are principally based on historical claims experience for our vehicles and, where little or no claims experience may exist, assumptions regarding the lifetime warranty costs of each vehicle. In addition, the number and magnitude of additional service actions expected to be approved, and policies related to additional service actions, are taken into consideration. Due to the uncertainty and potential volatility of these estimated factors, changes in our assumptions could materially affect our results of operations.

We periodically initiate voluntary service and recall actions to address various customer satisfaction, safety and emissions issues related to vehicles we sell. Included in the reserve is the estimated cost of these service and recall actions. The estimated future costs of these actions are based primarily on historical claims experience for our vehicles. Estimates of the future costs of these actions are inevitably imprecise due to numerous uncertainties, including the enactment of new laws and regulations, the number of vehicles affected by a service or recall action and the nature of the corrective action. It is reasonably possible that the ultimate cost of these service and recall actions may require us to make expenditures in excess of established reserves over an extended period of time and in a range of amounts that cannot be reasonably estimated. Our estimate of warranty and additional service and recall action obligations is re-evaluated on a quarterly basis. Experience has shown that initial data for any given model year can be volatile; therefore, our process relies upon long-term historical

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averages until actual data is available. As actual experience becomes available, it is used to modify the historical averages to ensure that the forecast is within the range of likely outcomes. Resulting accruals are then compared with current spending rates to ensure that the balances are adequate to meet expected future obligations.

***Accounting Standards Not Yet Adopted***

Accounting standards not yet adopted are discussed in Note 3, *Summary of Significant Accounting Policies*, of our accompanying audited consolidated financial statements.

***Non-GAAP Financial Measures***

We monitor our operations through the use of several non-GAAP financial measures: Modified Operating Profit (Loss); Modified Earnings Before Interest, Taxes, Depreciation and Amortization, which we refer to as Modified EBITDA; Gross and Net Industrial Debt; as well as Free Cash Flow. We believe that these non-GAAP financial measures provide useful information about our operating results and enhance the overall assessment of our financial performance. They provide us with comparable measures of our financial performance based on normalized operational factors which then facilitate management's ability to identify operational trends as well as make decisions regarding future spending, resource allocations and other operational decisions, and because they and similar measures are widely used in the industry in which we operate.

These financial measures may not be comparable to other similarly titled measures of other companies and are not an alternative to net income (loss) or income (loss) from operations as calculated and presented in accordance with U.S. GAAP. These measures should not be used as a substitute for any U.S. GAAP financial measures.

***Modified Operating Profit (Loss)***

We measure Modified Operating Profit (Loss) to assess the performance of our core operations, establish operational goals and forecasts that are used to allocate resources, and evaluate our performance period over period. Modified Operating Profit (Loss) is computed starting with net income (loss), and then adjusting the amount to (i) add back income tax expense and exclude income tax benefits, (ii) add back net interest expense (excluding interest expense related to financing activities associated with a vehicle lease portfolio we refer to as Gold Key Lease), (iii) add back all pension, OPEB and other employee benefit costs other than service costs, (iv) add back restructuring expense and exclude restructuring income, (v) add back other financial expense, (vi) add back losses and exclude gains due to cumulative change in accounting principles, and (vii) add back certain other costs, charges and expenses.

***Modified EBITDA***

We measure the performance of our business using Modified EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. We compute Modified EBITDA starting with net income (loss) adjusted to Modified Operating Profit (Loss) as described above, and then add back depreciation and amortization expense (excluding depreciation and amortization expense for vehicles held for lease). We believe that Modified EBITDA is useful to determine the operational profitability of our business which we use as a basis for making decisions regarding future spending, budgeting, resource allocations and other operational decisions. We also use performance targets based on Modified EBITDA as a factor in our incentive compensation calculations.

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The reconciliation of net loss to Modified Operating Profit (Loss) and Modified EBITDA is set forth below:

	Successor		Predecessor A	
	Year Ended December 31, 2010	Period from June 10, 2009 to December 31, 2009	Period from January 1, 2009 to June 9, 2009	Year Ended December 31, 2008
	(in millions of dollars)		(in millions of dollars)	
Net loss	\$ (652)	\$ (3,785)	\$ (4,425)	\$ (16,844)
Plus:				
Income tax expense (benefit)	139	29	(317)	790
Net interest expense <sup>(1)</sup>	1,228	359	584	796
Pension, OPEB and other employee benefit costs other than service costs:				
Remeasurement loss on VEBA Trust Note and Membership Interests <sup>(2)</sup>	—	2,051	—	—
Interest expense and accretion on VEBA Trust Note	—	270	—	—
Other employee benefit costs	(52)	136	236	423
Loss on Canadian HCT Settlement <sup>(3)</sup>	46	—	—	—
Restructuring expenses (income), net <sup>(4)</sup>	48	34	(230)	1,306
Other financial expense, net	6	11	6	82
Impairment of goodwill <sup>(5)</sup>	—	—	—	7,507
Impairment of brand name intangible assets <sup>(6)</sup>	—	—	844	2,857
Impairment of property, plant and equipment <sup>(7)</sup>	—	—	391	—
Reorganization expense, net <sup>(8)</sup>	—	—	843	—
Certain troubled supplier concessions	—	—	—	106
Less:				
Gain on NSC settlement <sup>(9)</sup>	—	—	(684)	—
Gain on Daimler pension contribution <sup>(10)</sup>	—	—	(600)	—
Modified Operating Profit (Loss)	\$ 763	\$ (895)	\$ (3,352)	\$ (2,977)
Plus:				
Depreciation and amortization expense	3,051	1,587	1,537	4,808
Less:				
Depreciation and amortization expense for vehicles held for lease	(353)	(154)	(354)	(1,581)
Modified EBITDA	\$ 3,461	\$ 538	\$ (2,169)	\$ 250

(1) Interest expense for the period from January 1, 2009 to June 9, 2009 excludes \$57 million of contractual interest expense on debt subject to compromise. Refer to Note 4, *Interest Expense*, of Old Carco's accompanying audited consolidated financial statements for additional information.

(2) As a result of the December 31, 2009 remeasurement, the OPEB obligation increased primarily due to a change in discount rate, resulting in a loss. Our policy is to immediately recognize actuarial gains or losses for OPEB plans that are short-term in nature and under which our obligation is capped. Therefore, we immediately recognized a loss of \$2,051 million in OPEB net periodic benefit costs due to increases in the fair values of the VEBA Trust Note and Membership Interests issued to the VEBA Trust of \$1,540 million and \$511 million, respectively, from June 10, 2009 to December 31, 2009.

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- (3) In August 2010, Chrysler Canada entered into a settlement agreement with the CAW to permanently transfer the responsibility for providing postretirement health care benefits to the Covered Group to a new retiree plan. The new retiree plan will be funded by the HCT. During the year ended December 31, 2010, we recognized a \$46 million loss as a result of the Canadian HCT Settlement Agreement.
- (4) During 2008, Old Carco developed a multi-year plan, RTP III Plan, to further restructure its business in order to reduce its cost structure in response to continued deterioration of its business. Charges recorded for the RTP III Plan included costs related to workforce reductions, including a curtailment loss as a result of the salaried and hourly workforce reductions, as well as supplier contract cancellation costs and other costs. Restructuring income, net for the period from January 1, 2009 to June 9, 2009 was primarily due to refinements to existing supplier contract cancellation costs and workforce reduction reserves recorded in connection with Old Carco's RTP I, II and III Plans.
- (5) In 2008, Old Carco recorded a goodwill impairment charge of \$7,507 million, primarily as a result of significant declines in its projected financial results considering the deteriorating economic conditions and the weakening U.S. automotive market at that time.
- (6) Old Carco recorded indefinite-lived intangible asset impairment charges of \$844 million and \$2,857 million during the period from January 1, 2009 to June 9, 2009 and the year ended December 31, 2008, respectively, related to its brand names. The impairments were primarily a result of the significant deterioration in Old Carco's revenues, the ongoing volatility in the U.S. economy, in general, and in the automotive industry in particular, and a significant decline in its projected production volumes and revenues considering the market conditions at that time.
- (7) During the period from January 1, 2009 to June 9, 2009, Old Carco recorded a property, plant and equipment impairment charge of \$391 million on the long-lived assets which were not acquired by us. The impairment was primarily the result of the Old Carco bankruptcy cases, continued deterioration of Old Carco's revenues, ongoing volatility in the U.S. economy, in general, and in the automotive industry in particular, as well as taking into consideration the expected proceeds to be received upon liquidation of the assets.
- (8) In connection with Old Carco's bankruptcy filings, Old Carco recognized \$843 million of net losses from the settlement of pre-petition liabilities, provisions for losses resulting from the reorganization and restructuring of the business, as well as professional fees directly related to the process of reorganizing Old Carco and its principal domestic subsidiaries under Chapter 11 of the U.S. Bankruptcy Code. These losses were partially off-set by a gain on extinguishment of certain financial liabilities and accrued interest. On April 30, 2010, Old Carco transferred its remaining assets and liabilities to a liquidating trust and was dissolved in accordance with a plan of liquidation approved by the bankruptcy court.
- (9) On March 31, 2009, Daimler transferred its ownership of 23 national sales companies, or NSCs, to Chrysler Holding, which simultaneously transferred the NSCs to Old Carco. Old Carco paid Daimler \$99 million in exchange for the settlement of obligations related to the NSCs and other international obligations, resulting in a net gain of \$684 million.
- (10) On June 5, 2009, Old Carco, Chrysler Holding, Cerberus, Daimler and the Pension Benefit Guaranty Corporation entered into a binding agreement settling various matters. Under the agreement, Daimler agreed to make three equal annual cash payments to Old Carco totaling \$600 million, which were to be used to fund contributions into Old Carco's U.S. pension plans in 2009, 2010 and 2011. This receivable and certain pension plans were subsequently transferred to us as a result of the 363 Transaction.

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The table below shows a reconciliation of Modified EBITDA as currently defined and reported to Modified EBITDA as previously defined and reported by Old Carco in its accompanying audited consolidated financial statements as of June 9, 2009 and December 31, 2008 and for the period from January 1, 2009 to June 9, 2009 and for the year ended December 31, 2008.

	<b>Predecessor A</b>	
	<b>Period from January 1, 2009 to June 9, 2009</b>	<b>Year Ended December 31, 2008</b>
	<b>(in millions of dollars)</b>	
Modified EBITDA	\$ (2,169)	\$ 250
Adjustment to include:		
Certain employee benefit costs	(236)	(423)
Modified EBITDA as previously reported	<u>\$ (2,405)</u>	<u>\$ (173)</u>

*Gross and Net Industrial Debt*

We compute Gross Industrial Debt as total financial liabilities less Gold Key Lease financing obligations. Gold Key Lease financing obligations are primarily satisfied out of collections from the underlying securitized assets and out of collections from operating leases and proceeds from the sale of leased vehicles.

We deduct our cash, cash equivalents and marketable securities from Gross Industrial Debt to compute Net Industrial Debt. We use Net Industrial Debt as a measure of our financial leverage and believe it is useful to others in evaluating our financial leverage.

As a result of the 363 Transaction, our capital structure is not comparable to Old Carco's. As a result, the non-GAAP measures for our Gross and Net Industrial Debt are not comparable to Predecessor A.

The following is a reconciliation of financial liabilities to Gross and Net Industrial Debt:

	<b>Successor</b>	
	<b>December 31, 2010</b>	<b>December 31, 2009</b>
	<b>(in millions of dollars)</b>	
Financial liabilities <sup>(1)</sup>	\$ 13,731	\$ 9,551
Less: Gold Key Lease obligations		
Short-term asset-backed notes payable	130	922
Long-term asset-backed notes payable	43	291
Gold Key Lease credit facility	438	953
Gross industrial debt	<u>\$ 13,120</u>	<u>\$ 7,385</u>
Less: cash, cash equivalents and marketable securities	<u>7,347</u>	<u>5,877</u>
Net Industrial Debt	<u>\$ 5,773</u>	<u>\$ 1,508</u>

(1) Refer to Note 12, *Financial Liabilities*, of our accompanying audited consolidated financial statements for additional information regarding our financial liabilities.

[Table of Contents](#)*Free Cash Flow*

Free Cash Flow is defined as cash flows from operating and investing activities, excluding any debt related investing activities, adjusted for financing activities related to Gold Key Lease financing. Free Cash Flow is presented because we believe that it is used by analysts and other parties in evaluating the Company. However, Free Cash Flow does not necessarily represent cash available for discretionary activities, as certain debt obligations and capital lease payments must be funded out of Free Cash Flow. Free Cash Flow should not be considered as an alternative to, or substitute for, net change in cash and cash equivalents. We believe it is important to view Free Cash Flow as a complement to our entire consolidated statements of cash flows.

We calculate Free Cash Flow as follows:

	<b>Successor</b>	
	<b>Year Ended December 31, 2010</b>	<b>Period from June 10, 2009 to December 31, 2009</b>
	<b>(in millions of dollars)</b>	
Net cash provided by operating activities	\$ 4,195	\$ 2,335
Net cash (used in) provided by investing activities	(1,167)	250
Investing activities excluded from free cash flow:		
Change in loans and note receivables	(36)	(7)
Proceeds from the USDART <sup>(1)</sup>	—	(500)
Financing activities included in free cash flow:		
Proceeds from Gold Key Lease financing	266	—
Repayments of Gold Key Lease financing	(1,903)	(1,248)
Free Cash Flow	<u>\$ 1,355</u>	<u>\$ 830</u>

(1) U.S. Dealer Automotive Receivable Transition, LLC, or USDART, as described below under —*Ally*.



[Table of Contents](#)**Management's Discussion and Analysis of Financial Condition and Results of Operations*****Overview of our Operations and Formation***

We generate revenue, income, and cash primarily from our sales of Chrysler, Jeep, Dodge and Ram vehicles and Mopar service parts and automotive accessories to dealers and distributors for sale to retail and fleet customers. The majority of our operations, employees, independent dealers and vehicle sales are in North America, principally in the U.S. Approximately 10 percent of our vehicle sales in 2010 were outside North America, mostly in South America, Asia Pacific and Europe. We also generate revenue, income and cash from the sale of separately-priced extended warranty service contracts to consumers and from providing contract manufacturing services to other vehicle manufacturers, including Fiat.

Our dealers enter into wholesale financing arrangements to purchase vehicles to hold in inventory which are available for sale to retail customers. Our retail customers use a variety of finance and lease programs to acquire vehicles from our dealers. The availability of financing with reasonable terms is a significant factor influencing our vehicle sales and revenues. Insufficient availability of financing to Old Carco's dealers and retail customers contributed to declines in Old Carco's vehicle sales and lease volumes beginning in 2008, which in turn affected its cash flows and liquidity. These impacts were one of the key factors leading to Old Carco's bankruptcy filing.

We began operations on June 10, 2009, following our purchase of the principal operating assets of Old Carco in the 363 Transaction. In connection with the 363 Transaction, we entered into an industrial alliance with Fiat that provides for collaboration in a number of areas, including product platform sharing and development, global distribution, procurement, information technology infrastructure and process improvement. See *Item 1. Business—Chrysler Group Overview* for a description of the circumstances surrounding our formation and the Fiat alliance.

For comparative purposes, we present certain information below regarding the financial condition and operating performance for 2009 based on our results for the period from June 10, 2009 to December 31, 2009 and those of Old Carco for the period from January 1, 2009 to June 9, 2009. Information presented for periods prior to 2009 represents the results of Old Carco or Chrysler Automotive, as indicated. Refer to the discussion of the lack of comparability of our and Old Carco's financial information in *—Results of Operations*.

***Strategic Business Plan***

Following completion of the 363 Transaction, our management team spent several months analyzing our business, products, operations and financial performance and condition in order to develop a business plan with clearly defined financial and operational performance targets.

In November 2009, we announced our business plan and related performance targets for the 2010 through 2014 period. Our business plan focuses on a number of initiatives designed to bring significant changes to our business, including investing in our brands and new product development, leveraging our alliance with Fiat, improving supply chain management, optimizing our dealer networks and building a workforce culture of high performance. Our business plan includes targets for vehicle sales and market share growth, profitability improvements and increased liquidity.

Since we began operations in June 2009, we have made progress toward the following business and operational objectives included in our business plan:

- *Products and Product Development.* We are in the process of implementing an extensive renewal of our product lineup, which began in the fourth quarter of 2009 and has to date included: the retail launch of the new Ram 2500 and 3500 Heavy Duty pick-up trucks, the new Jeep Grand Cherokee and the Ram Chassis Cab commercial truck; the production launch of the 2011 Chrysler 300 and Dodge Charger

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sedans, the 2011 Dodge Durango crossover vehicle, and the 2012 Fiat 500; and the production launch of 10 other significantly refreshed vehicles, many of which have been launched for retail sale in the first quarter of 2011. As is typical in the automotive industry, all of these vehicles were or will be available for retail purchase two to three months following production launch. In addition, we introduced our new Pentastar V-6 engine in 2010 in the 2011 model year Jeep Grand Cherokee and in the production launches of nine other vehicles, and we also launched production of the 1.4L Fiat FIRE engine for use in the Fiat 500.

- *Optimizing our U.S. Dealer Network.* A stable network of profitable dealers is important to our plan to increase vehicle sales. As part of the 363 Transaction, Old Carco had reduced the total number of its U.S. dealers by 789. This represented a 24 percent decrease in the number of dealers, but the terminated dealers accounted for only 13 percent of Old Carco's vehicle sales during the year ended December 31, 2008. Certain legal matters relating to those terminations are described below in *Item 8. Legal Proceedings*. As of December 31, 2010, we had approximately 2,311 dealers in the U.S., compared to over 3,000 dealers in the U.S. at June 9, 2009. We believe that the overall financial strength of our dealer network improved significantly during 2010, with approximately 82 percent of our U.S. dealers reporting to us that they were profitable by the end of 2010, as compared to approximately 70 percent in 2009 and 49 percent in 2008. Nearly all of our current dealers have access to wholesale financing through Ally or through other lenders. In addition, our U.S. dealers have committed to invest an aggregate of more than \$300 million in new construction and major renovations in their dealerships since we began operations in June 2009.
- *Enhancing Our Brands.* We believe that we can increase sales of our vehicles and service parts while reducing our reliance on sales incentives by building the value of our brands. We have begun a multi-year campaign to strengthen our Chrysler, Jeep, Dodge and Mopar brands, to develop Ram as a separate brand, and to reintroduce the Fiat brand in the U.S. and Canadian markets. We separated the Ram truck lineup from the Dodge brand and established a new Ram brand within the fourth quarter of 2009 in order to more effectively develop and market the distinct attributes of the vehicles in each brand's product portfolio. We also began selecting dealers for the sale of Fiat brand vehicles and service parts in the U.S. during the fourth quarter of 2010. As of December 31, 2010, we had selected 122 Fiat brand dealers in the U.S., of which 120 are current Chrysler, Jeep, Dodge and Ram brand dealers. We intend to develop a U.S. network of approximately 165 Fiat brand dealers in approximately 120 metropolitan areas in 37 states, as well as Puerto Rico. In Canada, we anticipate establishing 67 Fiat dealerships, of which 58 were selected in 2010.
- *World Class Manufacturing.* In 2010, we invested approximately \$155 million in our manufacturing plants to improve the infrastructure, efficiency and quality of our production systems. This investment, which was incremental to the investments we made for the purposes of our 2010 production launches, is part of a larger effort to introduce WCM principles to our manufacturing operations. WCM principles were developed by the WCM Association, a London-based non-profit organization dedicated to developing superior manufacturing standards. Fiat is the only automobile manufacturer that belongs to the WCM Association, and Fiat's membership provides us access to WCM processes. WCM fosters a manufacturing culture that targets improved performance, safety and efficiency as well as the elimination of all types of waste. Unlike some other advanced manufacturing programs, WCM is designed to prioritize issues to focus on those believed likely to yield the most significant savings, and then directs resources at those limited issues. In preparation for our 2010 production launches, we invested \$34 million in state-of-the-art metrology (precision measuring) centers at three of our assembly plants. We also installed a proprietary advanced statistical software system across all of our facilities that identifies emerging variation patterns during the assembly process which can be linked to worn tools or other root causes, thereby leading to prompt resolution of fit and finish discrepancies. In December 2010, we broadened the capability of our plant in Toluca, Mexico to a multi-platform facility. That plant is now capable of manufacturing our Fiat 500 and Dodge Journey models interchangeably. Our progress toward achieving goals under WCM is externally verified by certified

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WCM consultants, who measure our plants' performance against 20 categories of pre-determined WCM metrics. WCM consultants conducted 9 external reviews in 2010, and 11 additional external reviews are planned for 2011. As a result of our WCM activities overall, we achieved a 25 percent reduction in reported injuries, a 39 percent reduction in lost days due to injury, a 10 percent improvement in manufacturing cost productivity, and a 13 percent improvement in first time quality in our vehicle assembly plant operations.

- *Procurement.* We have established joint purchasing programs with Fiat that are designed to yield preferred pricing and logistics terms. Our objective is to achieve cumulative savings from 2009 levels of approximately \$3 billion by 2014, net of estimated raw material price increases, primarily through the use of shared parts and components and common suppliers, and obtaining better pricing by using Chrysler's and Fiat's combined annual purchasing power (approximately \$60 billion in 2010, based on the average of the daily EUR/USD exchange rate during 2010). We also expect to achieve cost savings as we integrate our procurement activities with Fiat.
- *Supply Chain Management.* Our supply chain management function coordinates efforts to accurately forecast demand, manage the materials and vehicle ordering processes, track plant capacity, schedule production, allocate product inventory and arrange transportation logistics. Supply chain management is important in preventing potentially costly oversupply or undersupply conditions. Our supply chain management also monitors our dealers' vehicle inventory levels to maintain availability of vehicles to facilitate sales, while at the same time preventing excess dealer stock to avoid the need for dealer and retail incentives. We improved the accuracy of our production forecasts in 2010 as compared to 2009, which led to decreased waste and lowered costs by reducing both underproduction and overproduction. We brought U.S. dealer vehicle inventory levels more in line with market demand and finished the year with 63 days supply (number of units in dealer inventory divided by the daily selling rate for December 31, 2010). This is up slightly from 58 days supply as of December 31, 2009, reflecting an increase in inventory levels associated with the launch of new and refreshed models. These inventory levels represent a significant improvement over Old Carco's 115 days supply as of December 31, 2008.
- *Global Distribution.* We plan to increase our sales of vehicles and service parts outside of North America principally by leveraging the Fiat alliance to provide better access to key markets in Europe and South America. In 2010, we developed a new business model for distribution of our vehicles in Europe and began to integrate the activities of our sales companies for each country into Fiat's distribution organization. Fiat currently is managing our vehicles and service parts distribution in select European countries through our existing dealer network. Starting in June 2011, Fiat will serve as our general distributor in Europe, and will then distribute our vehicles and service parts in that region through a network of newly appointed dealers. Specifically, we will produce and sell several of our vehicle models and related service parts to Fiat for significantly expanded distribution throughout Europe, beginning with our Chrysler 300, Chrysler Grand Voyager, Dodge Journey, and a range of Jeep models. The Chrysler brand vehicle models will be distributed by Fiat in certain countries in Europe under its Lancia brand. In addition, we are establishing arrangements for one or more of our vehicles to be distributed in Europe through Fiat's dealer network. We are also developing strategies by which we can benefit from Fiat's longstanding presence in Brazil, the largest automotive market in South America. In that regard, we are arranging to produce and sell one or more of our vehicle models and related service parts to Fiat for distribution in Brazil under the Fiat brand. We expect to produce the Fiat Freemont, a utility vehicle equipped with a 2.4 liter engine based on the Dodge Journey, under these arrangements starting in June 2011. Further, we are exploring opportunities for the production and expansion of the sale of Chrysler Group vehicles and service parts in growing and emerging markets, such as China and Russia, in connection with Fiat's efforts to establish or expand manufacturing and distribution activities in those markets.
- *Management Structure.* We implemented a flatter management structure so that each functional area of our business reports directly to the Chief Executive Officer. To facilitate collaboration and enhance speed of decision making, two management committees chaired by our Chief Executive Officer meet

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regularly to consider significant operational matters. Our Product Committee oversees capital investment, engineering and product development, while our Commercial Committee oversees matters related to sales and marketing.

See *Item 1. Business—Chrysler Group Overview—Chrysler Group Transformation* and *—Alliance with Fiat*, for additional information regarding our progress in 2010 in implementing our business plan.

### ***Trends, Uncertainties and Opportunities***

***Rate of U.S. Economic Recovery.*** The U.S. economy is recovering slowly from a recession that began in late 2007 and became increasingly severe with the global credit crisis in 2008 and 2009. The weaker economic conditions led to a substantial industry-wide decline in vehicle sales in the U.S., which fell from 16.5 million vehicles in 2007 to 13.5 million vehicles in 2008 with SAAR falling to less than ten million vehicles in the first quarter of 2009. Events contributing to the recession, including severely constrained credit markets, interrupted Old Carco's development and launch of new or significantly refreshed vehicles in 2008 and 2009, which has had a continuing adverse effect on our vehicle sales and market share. Unemployment remains relatively high in the U.S. and U.S. SAAR estimates for 2011 remain significantly below 2007 levels. We continue to assume a U.S. SAAR level of 12.7 million vehicles for 2011.

***Product Development and Launches.*** Many of the models in our product lineup in 2011 are new or significantly refreshed, including the new Jeep Grand Cherokee, which had a successful retail launch in 2010. We expect that by the end of 2014, all of the models in our vehicle lineup that we have carried over from the 2009 model year will be all-new. This is a challenging product development and launch schedule that depends heavily on continued successful collaboration with Fiat, particularly in terms of sharing vehicle platforms. Our ability to continue to make the necessary investments in product development to achieve these plans depends in part on the market acceptance and success of the new and significantly refreshed vehicles we introduce early in the process.

A key component of our strategic plan is to create a compelling portfolio of products that will appeal to a wide range of customers. In order to optimize the mix of products we design, manufacture and sell, we consider a number of factors, including:

- consumer taste, trends and preferences;
- demographic trends, such as age of population and rate of family formation;
- economic factors which affect preferences for luxury, affordability and fuel-efficiency;
- competitive environment, in terms of quantity and quality of competitors' vehicles offered within a particular segment;
- our brand portfolio, as each of our brands target a different group of customers;
- consumer preferences for certain vehicle types based on geographic region; and
- technology, manufacturing capacity and other factors that impact our product development.

We also consider these factors in developing a mix of vehicles within each brand, with an additional focus on ensuring that the vehicles we develop further our brand strategy.

Over time, we seek to balance our portfolio to appeal to a broader, more global customer base. Because efforts to affect our product mix meaningfully can take several years in light of typical industry development timelines and the vehicle life cycle, we have undertaken several short-term steps toward our goal. Since June 2009, we have significantly refreshed or launched new versions of the majority of our existing models to offer improved content and performance at a greater value. We leveraged the Jeep Grand Cherokee platform to develop and launch the seven-passenger Dodge Durango crossover vehicle to better accommodate families. As another example of balancing our product portfolio, we also expanded our reach to include smaller vehicles with the production and retail launch of the eco-friendly Fiat 500.

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*Pricing.* Our profitability depends in part on our ability to increase or maintain margins on the sale of vehicles, while operating in an automotive industry which has intense price competition resulting from the wide variety of available competitive vehicles and manufacturing overcapacity. Historically, manufacturers have competed for vehicle sales by offering dealer, retail and fleet incentives, including cash rebates, option package discounts, guaranteed depreciation programs, and subsidized financing or leasing programs, all of which constrain margins on vehicle sales. Although we will continue to use such incentives to generate sales for particular models in particular geographic regions during specific time periods, we intend to focus our efforts to achieve higher sales volumes by building brand value, balancing our product portfolio by offering smaller vehicle models, and improving the content, quality and performance of our vehicles. Our U.S. retail average net transaction price increased and our average incentive per unit decreased from the first quarter of 2010 to the fourth quarter of 2010, in each case as adjusted for changes in model mix over the period, as a result of favorable content mix and net price discipline. We expect that our average net transaction price may decline over the next few years as we introduce several smaller and less expensive vehicles in our lineup, but we intend to apply the same net pricing discipline, and to reduce incentives per unit proportionately.

*Vehicle Profitability.* Our results of operations depend on the profitability of the vehicles we sell, which tends to vary by vehicle segment. Vehicle profitability depends on a number of factors, including sales prices, net of sales incentives, costs of materials and components, as well as transportation and warranty costs. Typically, larger vehicles, which tend to have higher unit selling prices, have been more profitable on a per unit basis. Therefore, our minivans, larger utility vehicles and pick-up trucks have generally been more profitable than our passenger cars. Our minivans, larger utility vehicles and pick-up trucks accounted for approximately 53 percent of our total U.S. vehicle sales. While more profitable on a per unit basis, these larger vehicles have relatively low fuel economy and over the past several years, consumer preferences have shifted away from these vehicles, particularly in periods of relatively high fuel prices. In order to ensure that our portfolio of vehicles appropriately addresses the range of vehicles that may appeal to consumers over time, we have renewed our focus on the design, manufacturing, marketing and sale of our passenger cars, including mini, compact and subcompact cars, notwithstanding the lower per unit profitability. Our success in selling these smaller vehicles will provide us not only with a degree of insulation from the effects of changing consumer preferences, but will also be an important part of our efforts to comply with tightening environmental and fuel economy standards and to achieve corporate sustainability goals.

In addition, our vehicle sales through dealers to retail customers are normally more profitable than our fleet sales. Our fleet customers increasingly tend to purchase a higher proportion of our smaller, more fuel-efficient vehicles, which have historically had a lower profitability per unit. Nevertheless, our fleet sales have been an important source of revenue and can also be an effective means for marketing our vehicles. Our fleet sales also help to normalize our plant production because they typically involve the delivery of a large, pre-determined quantity of vehicles over several months. Our U.S. fleet sales accounted for approximately 36 percent of our total U.S. vehicle sales in 2010. The combined 2009 U.S. fleet sales for Old Carco and us accounted for approximately 26 percent of the total combined U.S. vehicles sales for Old Carco and us in 2009. The combined 2009 U.S. fleet sales for Old Carco and us were abnormally low due to reduced fleet sales to rental car companies as a result of the overall credit market crisis and Old Carco's bankruptcy in April 2009.

*International Distribution of our Vehicles.* In connection with the implementation of our new distribution strategy for certain markets in Europe, we gave termination notices to our dealers and distributors in Europe. Fiat will be the distributor of our vehicles and service parts in Europe beginning in June 2011 and, at that time, we will complete the integration of our European sales operations into Fiat's organization. We are also developing strategies by which we can benefit from Fiat's longstanding presence in Brazil, the largest automotive market in South America. Further, we are exploring opportunities for the production and expansion of the sale of Chrysler Group products in emerging markets such as China and Russia.

*Our Distribution of Fiat Vehicles.* We will be the exclusive distributor for Fiat and Alfa Romeo brand vehicles and service parts in North America. We expect to generate incremental revenue and profits from the distribution

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of Fiat brand vehicles and service parts in Mexico beginning in October 2010, and later, in the U.S. and Canada. We are currently developing a plan to reintroduce Alfa Romeo brand vehicles and service parts in Mexico in 2011, and in the U.S. and Canada in 2012. In addition, we have a right of first refusal to serve as distributor for Lancia brand vehicles in North America.

*Cost of Sales.* Our cost of sales is comprised of a number of elements. The most significant element of our cost of sales is the cost of materials and components, which makes up the majority of our cost of sales, typically around 70 percent of the total. The remaining costs principally include labor costs, consisting of direct and indirect wages and fringe benefits, depreciation and amortization, and transportation costs. A large portion of our materials and component costs are affected directly or indirectly by raw materials prices, particularly prices for steel, aluminum, lead, resin and copper, as well as precious metals. The prices for these raw materials fluctuate and in recent years, the prices have increased significantly in response to changing market conditions. These market conditions affect, to a significant extent, our ability to manage our cost of sales over the long term. To the extent raw material price fluctuations may affect our cost of sales, we typically seek to manage these costs and minimize the impact on cost of sales through the use of fixed price purchase contracts and the use of commercial negotiations and technical efficiencies. As a result, for the periods reported, changes in raw material costs generally have not had a material effect on the period to period comparisons of our cost of goods sold.

*Engineering, Design & Development Costs.* In the past, suppliers often incurred the initial cost of engineering, designing and developing automotive component parts, and recovered their investments over time by including a cost recovery component in the price of each part based on expected volumes. Due in part to liquidity constraints faced by key suppliers, many of them have negotiated for cost recovery payments independent of volumes. This trend places increased demands on our liquidity and increases our economic risk, if new vehicles incorporating these components are not successful in the market. See —*Management's Discussion and Analysis of Financial Condition and Results of Operations—Commercial Trends*.

*Impact of Labor Cost Modifications.* Our collective bargaining agreements with the UAW and the CAW have introduced lower wage and benefit structures for entry-level new hires, eliminated the employment security system (commonly known as the “Jobs Bank”), and reduced other compensation programs for terminated or laid-off represented employees, other than traditional severance pay. Over time, these and other modifications were intended to help us achieve hourly labor costs that are comparable to those of the transplant automotive manufacturers with which we compete while continuing to offer competitive compensation packages. We expect to realize the benefit of the new hire wage and benefit structure as our production increases and as a result of natural attrition. Our collective bargaining agreements with the UAW and CAW expire in September 2011 and September 2012, respectively. In connection with the renewal of our agreement with the UAW, we are subject to binding arbitration under which the arbitrator will set hourly wages and benefits that are at a level comparable to those paid by other manufacturers in the U.S., including transplant automotive manufacturers, if we do not reach agreement with the UAW by September 14, 2011.

#### ***Accounting for the Effects of the Old Carco Bankruptcy Proceedings***

##### ***Old Carco Bankruptcy Proceedings***

As a result of the bankruptcy proceedings under Chapter 11 of the U.S. Bankruptcy Code, Old Carco adopted accounting guidance pertaining to financial reporting by entities in reorganization under the U.S. Bankruptcy Code. This accounting guidance does not change the application of U.S. GAAP with respect to the preparation of Old Carco's audited consolidated financial statements. Rather, this accounting guidance requires that financial statements for periods including and subsequent to a Chapter 11 filing, distinguish between transactions and events that are directly associated with the reorganization proceedings from the ongoing operations of the business. Additional disclosures are also required. Revenues, expenses, gains and losses directly associated with the reorganization proceedings were reported as *Reorganization Items, Net* for the period from January 1, 2009 to June 9, 2009. In addition, liabilities subject to compromise in the Chapter 11 proceedings were distinguished

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separately from liabilities not subject to compromise and post-petition liabilities in Old Carco's balance sheet as of June 9, 2009. Liabilities subject to compromise were reported at amounts expected to be allowed, even if they settled for reduced amounts. The financial results presented throughout this Registration Statement for the period from January 1, 2009 to June 9, 2009 were prepared using this accounting guidance.

**Results of Operations***Presentation of Chrysler Group and Old Carco Operating Results*

A summary of our operating results is presented below for the year ended December 31, 2010 and the period from June 10, 2009 to December 31, 2009, along with the operating results of Old Carco for the period from January 1, 2009 to June 9, 2009 and for the year ended December 31, 2008.

*Comparability of Chrysler Group and Old Carco Financial Information*

In connection with the 363 Transaction, we did not acquire all of the assets or assume all of the liabilities of Old Carco. The assets we acquired and liabilities we assumed from Old Carco were generally recorded at fair value in accordance with business combination accounting guidance, resulting in a change from Old Carco's basis. In addition, certain of our accounting policies differ from those of Old Carco. For these reasons, we do not present any financial information on a combined basis, with the exception of revenues, for the period from June 10, 2009 to December 31, 2009 combined with Old Carco's financial information for the period from January 1, 2009 to June 9, 2009. The comparability of revenues was not significantly affected by these items. Therefore, for the purpose of discussing the commercial trends affecting the business, we have combined our revenues with Old Carco's information for these same periods.

This presentation is in accordance with the practice of Chrysler Group management. We do not review the results of operations for the Predecessor A period when assessing the performance of our operations. Our business during the Successor periods compared to the Predecessor A periods has been impacted by the significant changes in capital structure, management, business strategies and product development programs that were implemented subsequent to the 363 Transaction in an effort to realize the benefits of our alliance with Fiat. For further details on our business, refer to *Item 1. Business*.

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In order to facilitate the understanding of the underlying trends within the business that have occurred since 2008, we are providing other financial metrics for the periods presented, in addition to disclosures concerning significant transactions in the periods presented. The discussion of certain expense line items (cost of sales, gross margin, selling, administrative and other expenses and research and development expenses) includes a presentation of these line items as a percentage of revenues for the respective periods.

	Successor				Predecessor A			
	Year Ended December 31, 2010	Percentage of Revenues (in millions of dollars)	Period from June 10, 2009 to December 31, 2009	Percentage of Revenues	Period from January 1, 2009 to June 9, 2009	Percentage of Revenues (in millions of dollars)	Year Ended December 31, 2008	Percentage of Revenues
Revenues, net	\$ 41,946	100.0%	\$ 17,710	100.0%	\$ 11,082	100.0%	\$ 48,477	100.0%
Cost of sales	35,886	85.6%	16,111	91.0%	13,016	117.5%	46,549	96.0%
Gross margin	6,060	14.4%	1,599	9.0%	(1,934)	(17.5)%	1,928	4.0%
Selling, administrative and other expenses	3,797	9.1%	4,336	24.5%	1,599	14.4%	3,991	8.2%
Research and development expenses	1,500	3.6%	626	3.5%	452	4.1%	1,525	3.1%
Restructuring (income) expenses, net	48	0.1%	34	0.2%	(230)	(2.1)%	1,306	2.7%
Interest expense	1,276	3.0%	470	2.7%	615	5.5%	1,080	2.2%
Interest income	(48)	(0.1)%	(111)	(0.6)%	(31)	(0.3)%	(284)	(0.6)%
Gain on NSC settlement	—	—	—	—	(684)	(6.2)%	—	—
Gain on Daimler pension contribution	—	—	—	—	(600)	(5.4)%	—	—
Impairment of brand name intangible assets	—	—	—	—	844	7.6%	2,857	5.9%
Impairment of goodwill	—	—	—	—	—	—	7,507	15.5%
Reorganization expense, net	—	—	—	—	843	7.6%	—	—
Loss before income taxes	(513)	(1.2)%	(3,756)	(21.2)%	(4,742)	(42.8)%	(16,054)	(33.1)%
Income tax expense (benefit)	139	0.3%	29	0.2%	(317)	(2.9)%	790	1.6%
Net loss	<u>\$ (652)</u>	<u>(1.6)%</u>	<u>\$ (3,785)</u>	<u>(21.4)%</u>	<u>\$ (4,425)</u>	<u>(39.9)%</u>	<u>\$ (16,844)</u>	<u>(34.7)%</u>



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**Worldwide Factory Shipments**

The following table summarizes our gross and net worldwide factory shipments, which include vehicle sales to our dealers, distributors and fleet customers. Management believes this data provides meaningful information regarding our operating results. Shipments of vehicles manufactured by our assembly facilities are generally aligned with current period production, which is driven by consumer demand. Revenue is generally recognized when the risks and rewards of ownership of a vehicle have been transferred to our customer, which usually occurs upon release of the vehicle to the carrier responsible for transporting the vehicle to our customers. Our fleet customers include rental car companies, commercial fleet customers, leasing companies and governmental entities. Our fleet shipments include vehicle sales through our Guaranteed Depreciation Program, or GDP, under which we guarantee the residual value or otherwise assume responsibility for the minimum resale value of the vehicle. We account for such sales similar to an operating lease and recognize rental income over the contractual term of the lease on a straight-line basis. Gains or losses from the resale of these vehicles are included in gross margin. We include GDP vehicle sales in our worldwide factory shipments at the time of auction rather than at the time of sale to the fleet customer, consistent with the timing of revenue recognition. We consider these net worldwide factory shipments to approximate the timing of revenue recognition.

	<b>Successor</b>		<b>Predecessor A</b>	
	<b>Year Ended December 31, 2010</b>	<b>Period from June 10, 2009 to December 31, 2009</b>	<b>Period from January 1, 2009 to June 9, 2009</b>	<b>Year Ended December 31, 2008</b>
	<b>(units in thousands)</b>		<b>(units in thousands)</b>	
Retail	1,167	480	283	1,504
Fleet	435	190	98	483
<b>Worldwide Factory Shipments</b>	<b>1,602</b>	<b>670</b>	<b>381</b>	<b>1,987</b>
Adjust for GDP activity during the period:				
Less: Vehicles shipped	(63)	(14)	(10)	(142)
Plus: Vehicles auctioned	42	16	88	220
<b>Net Worldwide Factory Shipments</b>	<b>1,581</b>	<b>672</b>	<b>459</b>	<b>2,065</b>

**Commercial Trends**

The following table and related discussion provide information regarding our revenues, vehicle shipments, and average transaction prices, and those of Old Carco, during a recession in the U.S. economy that had a significant adverse affect on Old Carco's and our operations.

	<b>Successor</b>	<b>Combined</b>	<b>Successor</b>	<b>Predecessor A</b>	
	<b>Year Ended December 31, 2010</b>	<b>Total 2009</b>	<b>Period from June 10, 2009 to December 31, 2009</b>	<b>Period from January 1, 2009 to June 9, 2009</b>	<b>Year Ended December 31, 2008</b>
	<b>(in millions of dollars and units in thousands)</b>			<b>(in millions of dollars and units in thousands)</b>	
Revenues, net	\$ 41,946	\$ 28,792	\$ 17,710	\$ 11,082	\$ 48,477
Net worldwide factory shipments	1,581	1,131	672	459	2,065
Worldwide vehicle sales	1,516	1,318	725	593	2,007
U.S. dealer inventory at period end	236	179	179	246	398
U.S. retail average transaction price (in dollars) <sup>(1)</sup>	\$ 27,600	\$ 26,200	\$ 26,700	\$ 25,600	\$ 25,300

(1) Our calculation is based on J.D. Power & Associates data as adjusted by us to reflect a constant 2010 calendar year sales model mix.

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During the second half of 2008, there was a sharp decline in the U.S. economy as a result of the global credit market crisis, including reduced levels of available financing for automotive dealers and consumers, fluctuating prices for oil and commodities, continued reductions in U.S. housing values, high levels of unemployment, and decreased consumer spending resulting in a global recession. These macro-economic conditions resulted in a reduction in U.S. vehicle sales from 16.5 million vehicles in 2007 to 13.5 million vehicles in 2008. Old Carco's vehicle sales in the U.S. declined from 2.1 million vehicles in 2007 to 1.5 million vehicles in 2008. Old Carco undertook a number of initiatives aimed at reducing its cost structure and expenses to address lower industry sales volumes and declining market share, including significant headcount and operating cost reductions, production volume cuts, discontinued production of four unprofitable vehicle models, and offering significant sales incentives to dealers and consumers in an attempt to reduce U.S. dealer inventory levels which were at 115 days supply at December 31, 2008.

The continued deterioration in the U.S. economy resulted in the U.S. SAAR falling to less than 10 million vehicles in the first quarter of 2009. The combination of a rapid decline in U.S. SAAR, high dealer inventory levels, and reduced levels of financing for dealers and consumers had a significant negative impact on Old Carco's financial position and contributed to its need to file for bankruptcy protection on April 30, 2009 and suspend all production operations.

We began operations on June 10, 2009, following the 363 Transaction, and systematically started production operations at our facilities, which had remained idled during Old Carco's bankruptcy. We gradually increased production throughout 2009 as we continued to analyze our business, products, operations and financial condition. We were also focused on improving our supply chain management function, optimizing our dealer network and investing in our product portfolio. As dealer and retail consumer financing became more available and demand for our vehicles improved, we continued to increase production, while closely monitoring our U.S. dealer inventory levels and our ability to increase or maintain vehicle prices. For the period from June 10, 2009 to December 31, 2009, net worldwide factory shipments were 672 thousand vehicles and we recorded \$17.7 billion of revenues. On a combined basis, we and Old Carco had net worldwide factory shipments of 1,131 thousand vehicles and \$28.8 billion of revenues for 2009. U.S. dealer inventory at December 31, 2009 was 179 thousand vehicles, or 58 days supply.

During 2010, we continued to increase our production to levels consistent with the goals of our business plan, which are intended to maintain appropriate U.S. dealer inventory levels. Production increased commensurate with the increase in consumer demand for our products leading to U.S. dealer inventory levels of 236 thousand vehicles, or 63 days supply, at December 31, 2010. For the year ended December 31, 2010 revenues were \$41.9 billion, reflective of net worldwide factory shipments of 1,581 thousand vehicles and improvements in the availability of dealer and retail consumer financing.

***Year Ended December 31, 2010 compared to the Period from June 10, 2009 to December 31, 2009 — Chrysler Group******Consolidated Results***

The following discussion of the results of operations for the year ended December 31, 2010 and the period from June 10, 2009 through December 31, 2009 includes a comparison of a full calendar year of financial results to a partial year. As a result, the financial information may not be fully comparable. The discussion of certain expense line items (cost of sales, gross margin, selling, administrative, and other expenses and research and development expenses) includes a presentation of such line items as a percentage of revenues, for the respective periods presented, to facilitate the discussion of the year ended December 31, 2010 to the period from June 10, 2009 to December 31, 2009. The percentage of revenues measures have been impacted by trends in our overall production volumes, which, in turn, were impacted by factors affecting our overall business subsequent to the 363 Transaction. We gradually increased our level of production operations subsequent to the 363 Transaction as our management team completed the development of our 2009 business plan, which was publicized in November 2009. This resulted in our production volumes steadily increasing throughout 2009 and 2010.

[Table of Contents](#)*Revenues, Net*

	Successor	
	Year Ended December 31, 2010	Period from June 10, 2009 to December 31, 2009
	(in millions of dollars)	
Revenues, net	\$ 41,946	\$ 17,710

Revenues in 2010 reflected a full year of operations and the introduction of new vehicle models into the marketplace. For the year ended December 31, 2010, our net worldwide factory shipments increased to 1,581 thousand vehicles, an increase of 909 thousand vehicles as compared to the period from June 10, 2009 to December 31, 2009. This accounted for the majority of the increase in our revenues. The remainder of the increase in revenues during 2010 was primarily attributable to a reduction in the average incentives per vehicle, as well as a more favorable model and option mix of higher revenue-generating vehicles due to increases in pick-up truck and utility vehicle shipments, which included the new 2011 Jeep Grand Cherokee that was available to customers beginning in June 2010.

Revenues in the period from June 10, 2009 to December 31, 2009 reflected a partial year of production, as well as operating at reduced production levels. During the period from June 10, 2009 to December 31, 2009, we began to ramp up production at facilities that had been idled at the time of Old Carco's bankruptcy. Lower revenues in this period were also indicative of increased sales of lower revenue generating vehicles resulting from a less favorable model and option mix. Revenues were also affected adversely by the use of higher sales incentives to generate vehicle sales.

*Cost of Sales*

	Successor			
	Year Ended December 31, 2010	Percentage of Revenues	Period from June 10, 2009 to December 31, 2009	Percentage of Revenues
	(in millions of dollars)			
Cost of sales	\$ 35,886	85.6%	\$ 16,111	91.0%
Gross margin	\$ 6,060	14.4%	\$ 1,599	9.0%

Fluctuations in our cost of sales are driven primarily by the number of vehicles we sell. The cost of materials and components make up a majority of our cost of sales, approximately 70 percent for each period. For the year ended December 31, 2010, the increase in prices for raw materials, particularly aluminum and steel, had an approximately \$400 million negative impact on our cost of sales, however we were able to offset this increase with approximately \$400 million of cost savings, principally from commercial renegotiations and technical efficiencies. Our exposure to significant increases in steel prices in 2010 was limited because we purchased approximately two-thirds of our steel pursuant to fixed-price contracts. These contracts are scheduled to expire in mid-2011.

The remaining costs principally include labor costs, consisting of direct and indirect wages and fringe benefits, depreciation and amortization, and transportation costs. Cost of sales also includes warranty and product-related costs, as well as interest, depreciation and amortization expense related to the Gold Key Lease portfolio and depreciation expense related to our GDP vehicles.

Cost of sales for 2010 reflected a full year of operations with increasing production reflecting growing demand for our vehicles. During 2010, we benefitted from a more stable supplier environment, as well as the cost savings impact of workforce reduction efforts related to the restructuring plans initiated by Old Carco in April 2009, which were implemented during late 2009 and 2010. Refer to the *Restructuring Expenses, Net* discussions below for additional information related to this and similar initiatives. Cost of sales also benefitted from the

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implementation of the re-negotiated workforce cost structure in the U.S. and Canada. These improvements were partially offset by increased costs associated with the new product launches in 2010. Typically a higher ratio of costs are incurred prior to and during the early months after the production launch of a new vehicle.

The period from June 10, 2009 to December 31, 2009 reflected a partial year of operations and was negatively affected by manufacturing inefficiencies associated with the gradual ramp up of manufacturing facilities that had been idled at the time of Old Carco's bankruptcy.

#### *Selling, Administrative and Other Expenses*

	Successor			
	<u>Year Ended December 31, 2010</u>	<u>Percentage of Revenues</u> (in millions of dollars)	<u>Period from June 10, 2009 to December 31, 2009</u>	<u>Percentage of Revenues</u>
Selling, administrative and other expenses	\$ 3,797	9.1%	\$ 4,336	24.5%

Selling, administrative and other expenses includes personnel, advertising, warehousing and other costs. During 2010, advertising expenses increased to \$1,721 million compared to \$677 million for the period from June 10, 2009 to December 31, 2009. Throughout 2010, we continued to increase our brand-focused and new vehicle advertising campaigns, including our promotions for Ram Motor Trend Truck of the Year award and the newly launched Jeep Grand Cherokee. Typically, a significant portion of advertising is incurred with the introduction of new vehicles, especially in the initial months that the vehicles are available to customers in the dealerships.

The 2009 period included a non-cash charge of \$2,051 million associated with the remeasurement of our OPEB obligation related to the VEBA Settlement Agreement. In addition, selling, administrative and other expenses during the 2009 period included \$270 million of interest expense and accretion on the VEBA Trust Note. Refer to Note 18, *Employee Retirement and Other Benefits*, of our accompanying audited consolidated financial statements, for additional information related to the VEBA Settlement Agreement and VEBA Trust Note. Excluding these charges, selling, administrative and other expenses for the period from June 10, 2009 to December 31, 2009 would have been \$2,015 million, or 11.4 percent of revenues.

#### *Research and Development Expenses*

	Successor			
	<u>Year Ended December 31, 2010</u>	<u>Percentage of Revenues</u> (in millions of dollars)	<u>Period from June 10, 2009 to December 31, 2009</u>	<u>Percentage of Revenues</u>
Research and development expenses	\$ 1,500	3.6%	\$ 626	3.5%

Research and development expenses consist of material costs and personnel related expenses associated with engineering, design and development. Our research and development spending has been focused on improving the quality of our vehicles and reducing the time-to-market of new vehicles, including both short-term improvements related to existing vehicles, such as interior refreshes, and longer term product and powertrain programs. In late 2009, we began to co-develop the CUSW platform with Fiat to expand our product portfolio and focus our development efforts on creating vehicle platforms that could be used on multiple vehicles, which would lead to greater production efficiencies, as well as utilize other cost-savings opportunities gained through our alliance with Fiat. These product actions resulted in higher spending on prototype parts and tools throughout 2010. Our research and development costs also included material and personnel expenses related to the development of more eco-friendly vehicles which have greater fuel efficiency and reduced CO<sub>2</sub> emissions, as well as enhancing the overall driving experience and safety of our vehicles. In conjunction with these efforts, we

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increased our engineering, research and development headcount by 14 percent during 2010, while also increasing our temporary contract workers to meet specialized needs. In addition, in the fourth quarter of 2009, we began paying some suppliers for their engineering design and development costs up front, rather than having these costs reflected in the price we pay for the purchased part. The result was \$286 million of research and development expenses being included in 2010, which previously would have been included in the price of the purchased part and recognized in cost of sales over the life of the arrangement.

*Restructuring Expenses, Net*

	<b>Successor</b>	
	<b>Year Ended December 31, 2010</b>	<b>Period from June 10, 2009 to December 31, 2009</b>
	<b>(in millions of dollars)</b>	
Restructuring expenses, net	\$ 48	\$ 34

In connection with the 363 Transaction, we assumed certain liabilities related to specific restructuring actions commenced by Old Carco. These liabilities represented costs for workforce reduction actions related to our represented and non-represented hourly and salaried workforce, as well as specific contractual liabilities assumed for other costs, including supplier contract cancellation claims. In accordance with the accounting guidance for exit or disposal activities, certain costs associated with these previously announced plans, such as relocation, contract termination and plant deactivations, are recognized as restructuring expense when the costs are incurred. We continue to monitor these previously established reserves for adequacy and any necessary adjustments are recorded in the period the adjustment is determinable.

Restructuring expenses, net for the year ended December 31, 2010 included charges of \$273 million primarily related to the integration of the operations of our European distribution and dealer network into Fiat's distribution organization, which included, but were not limited to, workforce reductions, contract cancellations and legal claim costs. These charges were partially offset by refinements to existing reserve estimates of \$227 million. These reserve adjustments were primarily the result of the cancellation of a previously announced plant closure. During 2010, we announced that our Sterling Heights, Michigan assembly plant, which was scheduled to close after 2012, would remain open in connection with the granting of certain tax incentives by local and state governments.

Restructuring expenses, net for the period from June 10, 2009 to December 31, 2009 included charges of \$42 million primarily related to costs associated with workforce reductions, plant deactivations and interest accretion. These restructuring charges were partially offset by an \$8 million net reduction to previously established reserves primarily due to a net decrease in the expected costs of workforce reductions previously announced based on management's adequacy reviews, which took into consideration the actual acceptances and the composition of the remaining estimated costs.

*Interest Expense*

	<b>Successor</b>	
	<b>Year Ended December 31, 2010</b>	<b>Period from June 10, 2009 to December 31, 2009</b>
	<b>(in millions of dollars)</b>	
Interest expense	\$ 1,276	\$ 470

Interest expense for the year ended December 31, 2010 consisted of \$1,154 million of financial interest expense, of which \$514 million, \$420 million and \$107 million was associated with the debt obligations to the U.S. Treasury, VEBA Trust and EDC, respectively. This financial interest expense was partially offset by \$175 million of capitalized interest related to certain assets under construction. In addition, interest expense for the year ended December 31, 2010 included \$229 million of non-cash interest accretion, primarily related to debt

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discounts, debt issuance costs and fair value adjustments resulting from the 363 Transaction. Interest expense during 2010 also included \$68 million of payable-in-kind interest associated with the U.S. Treasury Tranche C credit facility. Prior to January 1, 2010, \$270 million of interest expense and accretion on the VEBA Trust Note was included in selling, administrative and other expenses, in accordance with the classification of the VEBA Trust Note as an OPEB obligation as discussed in Note 18, *Employee Retirement and Other Benefits*, of our accompanying audited consolidated financial statements.

Interest expense for the period from June 10, 2009 to December 31, 2009 included \$310 million of interest incurred on the U.S. Treasury Tranche B and Tranche C credit facilities. In accordance with the U.S. Treasury credit agreement, the interest was considered payable-in-kind and was capitalized as additional debt in 2009. Interest expense for the 2009 period also included \$148 million of financial interest expense, principally related to the EDC credit facilities. This financial interest expense was partially offset by \$91 million of capitalized interest related to certain assets under construction. Also included in interest expense was \$103 million of non-cash interest accretion, primarily related to debt discounts, debt issuance costs and fair value adjustments resulting from the 363 Transaction. Refer to —*Liquidity and Capital Resources—Chrysler Group—Credit Facilities and Certain Indebtedness*, below for additional information regarding our financing arrangements.

*Interest Income*

	<b>Successor</b>	
	<b>Year Ended December 31, 2010</b>	<b>Period from June 10, 2009 to December 31, 2009</b>
	<b>(in millions of dollars)</b>	
Interest income	\$ 48	\$ 111

Interest income during 2010 was primarily the result of interest earned on our available cash.

Interest income for the period from June 10, 2009 to December 31, 2009 included interest earned on our available cash, as well as on wholesale financing that we had provided to certain dealers in Mexico as a result of limited availability of third party financing to them during the period. This financing was repaid in the second quarter of 2010.

*Income Tax Expense*

	<b>Successor</b>	
	<b>Year Ended December 31, 2010</b>	<b>Period from June 10, 2009 to December 31, 2009</b>
	<b>(in millions of dollars)</b>	
Income tax expense	\$ 139	\$ 29

Our effective income tax rate for the year ended December 31, 2010 was negative 27 percent, which differs from the expected federal statutory rate of 35 percent, primarily due to losses generated by our limited liability companies, which are disregarded for U.S. federal tax purposes, the establishment of additional Canadian income tax receivables for prior year tax refunds, and changes in valuation allowances in the U.S., Canada and other foreign jurisdictions.

Our effective income tax rate for the period from June 10, 2009 to December 31, 2009 was negative 1 percent, which differs from the expected federal statutory rate of 35 percent primarily due to losses in limited liability companies, which are disregarded for U.S. federal tax purposes, and increases in valuation allowances in the U.S., Canada and other foreign jurisdictions.

Income tax expense for the year ended December 31, 2010 and for the period from June 10, 2009 to December 31, 2009, was primarily driven by foreign tax provisions as a result of several of our international locations having current period earnings. Income tax expense also includes provisions for U.S., state and local taxes.

[Table of Contents](#)**Period from January 1, 2009 to June 9, 2009 compared to the Year Ended December 31, 2008—Old Carco****Consolidated Results**

The following discussion of the results of Old Carco's operations for the period from January 1, 2009 to June 9, 2009 and for the year ended December 31, 2008 includes a comparison of a partial year of financial results to a full calendar year, which affects the comparability between periods and as a result, the financial information may not be fully comparable. The discussion of certain expense line items (cost of sales, gross margin, selling, administrative and other expenses, and research and development expenses) includes a presentation of such line items as a percentage of revenues for the respective periods to facilitate the comparison discussion of the period from January 1, 2009 to June 9, 2009 versus the year ended December 31, 2008. As compared to the year ended December 31, 2008, the percentage of revenues measure for the 2009 period was adversely impacted by the dramatic decline in revenues and reductions in production volumes as Old Carco approached bankruptcy, which Old Carco was unable to fully offset with cost reduction activities.

**Revenues, Net**

	<b>Predecessor A</b>	
	<b>Period from January 1, 2009 to June 9, 2009</b>	<b>Year Ended December 31, 2008</b>
	<b>(in millions of dollars)</b>	
Revenues, net	\$ 11,082	\$ 48,477

Revenues reflected a steep decline in Old Carco's net worldwide factory shipments, as a result of the deterioration in the U.S. economy and automotive industry beginning in 2008 and continuing into 2009. The decline was also the result of Old Carco idling its production operations following its bankruptcy filing on April 30, 2009. As of June 9, 2009, Old Carco had not resumed operations. Additionally, the limited availability of consumer and dealer financing in late 2008 and 2009 restricted the ability of potential customers to purchase Old Carco's vehicles. Refer to the *Commercial Trends* discussion above for additional information.

**Cost of Sales**

	<b>Predecessor A</b>			
	<b>Period from January 1, 2009 to June 9, 2009</b>	<b>Percentage of Revenues</b>	<b>Year Ended December 31, 2008</b>	<b>Percentage of Revenues</b>
	<b>(in millions of dollars)</b>			
Cost of sales	\$ 13,016	117.5%	\$ 46,549	96.0%
Gross margin	\$ (1,934)	(17.5)%	\$ 1,928	4.0%

Cost of sales includes material, labor and overhead costs incurred in the manufacturing and distribution of vehicles and service parts. Overhead costs consist primarily of fixed and variable manufacturing costs, including depreciation and amortization expense. Cost of sales also includes warranty and product-related costs, along with interest, depreciation and amortization expense related to the Gold Key Lease portfolio, as well as depreciation expense related to our GDP vehicles.

The decline in cost of sales was primarily due to a steady decline in production volumes period over period, as well as an approximately 12 percent reduction in Old Carco's manufacturing headcount as a result of the voluntary employee separation programs offered to employees in late 2008. Refer to *Restructuring (Income) Expense, Net* below for additional information on these costs. The above cost reductions were partially offset by charges of \$371 million related to voluntary employee separation programs extended to all represented hourly

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and salary employees throughout the organization in March 2009, which were offered as part of an initiative to reduce the represented workforce, however these programs did not meet the accounting criteria to be accounted for as exit or disposal activities. In addition, the reduction in cost of sales was partially offset by \$360 million of costs recorded in 2009 for inventory valuation adjustments required to write-down the recorded cost of the inventory to its estimated net realizable value as of June 9, 2009. There was also an increase in supplemental unemployment benefit costs associated with additional payments to hourly employees as a result of Old Carco ceasing its production operations at the time of its bankruptcy filings.

*Selling, Administrative and Other Expenses*

<b>Predecessor A</b>				
	<b>Period from January 1, 2009 to June 9, 2009</b>	<b>Percentage of Revenues</b>	<b>Year Ended December 31, 2008</b>	<b>Percentage of Revenues</b>
		<b>(in millions of dollars)</b>		
Selling, administrative and other expenses	\$ 1,599	14.4%	\$ 3,991	8.2%

Selling, administrative and other expenses declined in the period from January 1, 2009 to June 9, 2009 versus 2008, primarily due to an approximately 18 percent reduction in Old Carco's selling and administrative personnel headcount as a result of the voluntary employee separation programs offered to employees in late 2008. The decline was also due to Old Carco's planned reduction in advertising spending in late 2008 and early 2009 as a result of its cost reduction efforts. During 2008, selling, administrative and other expenses included a \$375 million gain recognized as a result of Old Carco modifying the terms of its postretirement benefits in March 2008 to no longer extend company sponsored group life insurance to certain retirees. This change was treated as a plan settlement in accordance with the accounting guidance related to employers' accounting for postretirement benefits. A similar gain did not recur in the 2009 period.

*Research and Development Expenses*

<b>Predecessor A</b>				
	<b>Period from January 1, 2009 to June 9, 2009</b>	<b>Percentage of Revenues</b>	<b>Year Ended December 31, 2008</b>	<b>Percentage of Revenues</b>
		<b>(in millions of dollars)</b>		
Research and development expenses	\$ 452	4.1%	\$ 1,525	3.1%

Research and development expenses significantly declined during the period from January 1, 2009 through June 9, 2009 as a result of cost savings initiatives implemented by Old Carco in late 2008, which resulted in a significant reduction in development activities. The decline was also due to reduced personnel costs as a result of an approximately 21 percent reduction in research and development personnel headcount, which was primarily attributable to the voluntary employee separation programs offered in late 2008.

*Restructuring (Income) Expense, Net*

<b>Predecessor A</b>				
	<b>Period from January 1, 2009 to June 9, 2009</b>		<b>Year Ended December 31, 2008</b>	
		<b>(in millions of dollars)</b>		
Restructuring (income) expenses, net	\$ (230)		\$ 1,306	



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On February 14, 2007, Old Carco announced its three year Recovery and Transformation Plan, or RTP I Plan, which was aimed at restructuring its business. Key initiatives for the plan included workforce reductions of 13,000 individuals over the period from 2007 through 2009, and the elimination of excess production capacity by eliminating manufacturing work shifts and idling facilities. Old Carco was required to continuously evaluate and reduce its cost structure in response to the continued deterioration of its business and subsequently initiated three additional Recovery and Transformation Plans, which it referred to as the “RTP II Plan”, which was initiated in conjunction with the Cerberus transaction in 2007, the “RTP III Plan”, initiated in 2008 and the “RTP IV Plan”, initiated in 2009 in conjunction with its bankruptcy filings. Overall the plans were aimed at further restructuring the business to be aligned with a smaller market and refocus product offerings towards smaller, more fuel-efficient vehicles. The restructuring plans included significant workforce reductions, idling of facilities, elimination of excess production capacity, including work shift eliminations, modifications to its domestic and international parts distribution operations, including the closures of certain parts distribution centers in the U.S. and Canada, and refinements to its product portfolio.

Restructuring income, net for the period from January 1, 2009 to June 9, 2009 included refinements to existing supplier contract cancellation claim costs and workforce reduction reserves recorded in connection with Old Carco’s RTP I, II and III Plans. Refinements to the supplier contract cancellation claim costs reserves of \$398 million were primarily due to settlements of certain anticipated supplier claims in connection with the bankruptcy proceedings. Workforce reduction reserve adjustments of \$125 million were primarily due to a net decrease in the expected costs of workforce reductions previously announced as a result of management’s adequacy reviews, which took into consideration the actual acceptances and the composition of the remaining estimated costs. The above workforce reduction reserve adjustments were offset by \$326 million of additional reserves recorded during the period from January 1, 2009 to June 9, 2009, primarily related to additional workforce reduction initiatives announced in 2009 in connection with the RTP III and RTP IV Plans.

Restructuring expenses, net for the year ended December 31, 2008 included costs associated with Old Carco’s RTP III Plan, the key initiatives of which included salaried workforce reductions of 5,500 individuals by the first quarter of 2009, the elimination of manufacturing work shifts to align with a market shift towards smaller, more fuel-efficient vehicles by the end of 2009 and the restructuring of its parts distribution operations, including the closure of certain parts distribution centers in the U.S. and Canada. During the year ended December 31, 2008, Old Carco recorded charges, adjustments and interest accretion associated with this plan of \$1,069 million related to workforce reduction costs and \$56 million related to other costs, which primarily consisted of estimated supplier contract cancellation claims. During the year ended December 31, 2008, Old Carco also made adjustments to its existing RTP I and RTP II Plans reserves of \$181 million, which primarily related to net increases in the expected costs of workforce reductions associated with these plans due to management’s adequacy reviews, which took into consideration the actual acceptances and the composition of the remaining estimated costs.

### *Interest Expense*

	<b>Predecessor A</b>	
	<b>Period from January 1, 2009 to June 9, 2009</b>	<b>Year Ended December 31, 2008</b>
	<b>(in millions of dollars)</b>	
Interest expense	\$ 615	\$ 1,080

Interest expense for the period from January 1, 2009 to June 9, 2009 included \$258 million of financial interest expense principally related to Old Carco’s First and Second Lien Credit Facilities. At the time of its bankruptcy and in accordance with the accounting guidance related to financial reporting while a company is in bankruptcy, Old Carco ceased accruing interest on amounts due under the contractual terms of its outstanding debt, including debt subject to compromise. Interest expense also included amortization of debt discounts and debt issuance costs

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of \$271 million, primarily driven by the amortization of \$220 million of the \$330 million of debt issuance costs associated with the debtors-in-possession financing provided by the U.S. Treasury and EDC in connection with the bankruptcy and \$86 million of interest accretion related to fair value adjustments recorded in connection with the Cerberus transaction.

Interest expense for the year ended December 31, 2008 included \$744 million of financial interest expense primarily related to Old Carco's First and Second Lien Credit Facilities. Old Carco fully drew upon the \$2.0 billion available under its Second Lien Credit Facility in June 2008. In addition, interest expense included \$311 million of interest accretion related to fair value adjustments recorded in connection with the Cerberus transaction. Interest expense also included amortization of debt discounts and debt issuance costs of \$25 million, principally associated with its First and Second Lien Credit Facilities.

*Interest Income*

	<b>Predecessor A</b>	
	<b>Period from January 1, 2009 to June 9, 2009</b>	<b>Year Ended December 31, 2008</b>
	<b>(in millions of dollars)</b>	
Interest income	\$ 31	\$ 284

The decline in interest income was primarily due to the significant reduction in Old Carco's cash on hand throughout 2008 and continuing into 2009. Old Carco began 2008 with \$12.0 billion of cash, cash equivalents and restricted cash, which declined to \$3.3 billion by the end of 2008 and further declined to \$3.0 billion as of June 9, 2009.

*Gain on NSC Settlement*

	<b>Predecessor A</b>	
	<b>Period from January 1, 2009 to June 9, 2009</b>	<b>Year Ended December 31, 2008</b>
	<b>(in millions of dollars)</b>	
Gain on NSC settlement	\$ 684	\$ —

On March 31, 2009, Daimler transferred its ownership of 23 NSCs to Chrysler Holding, which simultaneously transferred its ownership of the NSCs to Old Carco. In connection with the transfer, Old Carco paid Daimler \$99 million in exchange for the settlement of \$415 million of trade payables and other international obligations due to Daimler and \$368 million of the NSCs financial liabilities to Daimler, and recognized a net gain of \$684 million during the period from January 1, 2009 to June 9, 2009. A similar gain was not recognized during the year ended December 31, 2008.

*Gain on Daimler Pension Contribution*

	<b>Predecessor A</b>	
	<b>Period from January 1, 2009 to June 9, 2009</b>	<b>Year Ended December 31, 2008</b>
	<b>(in millions of dollars)</b>	
Gain on Daimler pension contribution	\$ 600	\$ —

On June 5, 2009, Old Carco, Chrysler Holding, Cerberus, Daimler and the Pension Benefit Guaranty Corporation entered into a binding agreement settling various matters. Under the agreement, Daimler agreed to make three

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equal cash payments to Old Carco totaling \$600 million, which were to be used to fund contributions into Old Carco's U.S. pension plans in 2009, 2010 and 2011. Old Carco recognized a \$600 million gain related to this settlement during the period from January 1, 2009 to June 9, 2009. A similar gain was not recognized during the year ended December 31, 2008.

*Impairment of Brand Name Intangible Assets*

	<b>Predecessor A</b>	
	<b>Period from January 1, 2009 to June 9, 2009</b>	<b>Year Ended December 31, 2008</b>
	<b>(in millions of dollars)</b>	
Impairment of brand name intangible assets	\$ 844	\$ 2,857

During the period from January 1, 2009 to June 9, 2009, Old Carco recorded impairment charges of \$844 million related to its Chrysler and Dodge brand names. The impairments were primarily a result of the significant deterioration in Old Carco's revenues, the ongoing volatility in the U.S. economy, in general, and in the automotive industry in particular, as well as a significant decline in its projected production volumes and revenues considering the market conditions at the time.

During the year ended December 31, 2008, Old Carco recorded total impairment charges of \$2,857 million related to its Chrysler, Jeep, Dodge and Mopar brand names. Old Carco completed its annual evaluation of the indefinite-lived brand name intangible assets on July 1, 2008, which resulted in charges of \$1,749 million. Old Carco completed a second evaluation of its indefinite-lived brand name intangible assets during the fourth quarter of 2008, as a result of the continued deterioration in Old Carco's revenues, the ongoing volatility in the U.S. economy, in general, and in the automotive industry in particular, as well as a significant decline in its projected production volumes and revenues considering the market conditions at the time, which resulted in additional charges of \$1,108 million.

*Impairment of Goodwill*

	<b>Predecessor A</b>	
	<b>Period from January 1, 2009 to June 9, 2009</b>	<b>Year Ended December 31, 2008</b>
	<b>(in millions of dollars)</b>	
Impairment of goodwill	\$ —	\$ 7,507

During the year ended December 31, 2008, Old Carco recorded total goodwill impairment charges of \$7,507 million. Old Carco completed its annual evaluation of goodwill on July 1, 2008, which resulted in charges of \$1,195 million. Old Carco completed a second evaluation of goodwill during the fourth quarter of 2008, as a result of the continued deterioration in Old Carco's financial results and considering the deteriorating economic conditions and the weakening U.S. automotive market at that time, which resulted in additional charges of \$6,312 million to write off the remainder of its goodwill balance.

*Reorganization Expense, Net*

	<b>Predecessor A</b>	
	<b>Period from January 1, 2009 to June 9, 2009</b>	<b>Year Ended December 31, 2008</b>
	<b>(in millions of dollars)</b>	
Reorganization expense, net	\$ 843	\$ —

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During the period from January 1, 2009 to June 9, 2009, Old Carco recorded net reorganization expenses of \$843 million. In accordance with accounting guidance related to financial reporting while an entity is in bankruptcy, reorganization items such as realized gains and losses from the settlement of pre-petition liabilities, provisions for losses resulting from the reorganization and restructuring of the business, and professional fees related directly to the process of reorganizing Old Carco and its principal domestic subsidiaries under Chapter 11 of the U.S. Bankruptcy Code are required to be separately disclosed. Net reorganization expenses included: (i) a \$1,025 million loss on the extinguishment of the Chrysler CA Lease Depositor LLC note receivable and accrued interest, (ii) \$35 million of professional fees directly related to the Old Carco bankruptcy proceedings, and (iii) \$302 million of other charges, which included the write-off of Old Carco's First and Second Lien Credit Facilities debt issuance costs and discounts, a note receivable from Chrysler Financial and other pre-petition claims, partially offset by (iv) a \$519 million gain related to the extinguishment of certain financial liabilities and accrued interest related to Old Carco's Second Lien Credit Agreement.

*Income Tax (Benefit) Expense*

	<b>Predecessor A</b>	
	<b>Period from January 1, 2009 to June 9, 2009</b>	<b>Year Ended December 31, 2008</b>
	<b>(in millions of dollars)</b>	
Income tax (benefit) expense	\$ (317)	\$ 790

Old Carco's effective income tax rate for the period from January 1, 2009 to June 9, 2009 and for the year ended December 31, 2008 was 7 percent and negative 5 percent, respectively, which differs from the expected federal statutory rate of 35 percent primarily due to losses in limited liability companies, which are disregarded for U.S. federal tax purposes, and changes in valuation allowances in the U.S., Canada and other foreign jurisdictions.

The income tax benefit recognized during the period from January 1, 2009 to June 9, 2009 was primarily the result of losses generated by entities subject to income tax. Many of Old Carco's entities were limited liability companies. The income tax benefit also included a \$196 million reduction in income tax expense resulting from the June 3, 2009 tax settlement agreement between Chrysler Holding, Daimler and Old Carco, which modified a previous tax agreement to resolve certain issues raised in connection with a Canadian income tax dispute. In addition, Daimler waived its right to certain tax refunds for periods prior to August 3, 2007. This reduction was offset by tax expense for the valuation allowances on deferred tax assets in the U.S., Canada and other foreign jurisdictions as a result of Old Carco's assessment of the realizability of its deferred tax assets, as well as a reduction in certain Canadian tax receivables.

The income tax expense recognized during the year ended December 31, 2008, was primarily the result of a \$703 million valuation allowance on deferred tax assets in the U.S., Canada and other foreign jurisdictions as a result of Old Carco's assessment of the realizability of its deferred tax assets.

[Table of Contents](#)**Non-Cash Charges (Gains)**

The following table summarizes our and Old Carco's significant non-cash charges (gains):

	<b>Successor</b>		<b>Predecessor A</b>	
	<b>Year Ended December 31, 2010</b>	<b>Period from June 10, 2009 to December 31, 2009</b>	<b>Period from January 1, 2009 to June 9, 2009</b>	<b>Year Ended December 31, 2008</b>
	<b>(in millions of dollars)</b>		<b>(in millions of dollars)</b>	
Remeasurement loss on VEBA Trust Note and Membership Interests	\$ —	\$ 2,051	\$ —	\$ —
Loss on Canadian HCT Settlement	46	—	—	—
Gain on VEBA claims adjustment	(35)	—	—	—
Gain on NSC settlement	—	—	(684)	—
Gain on Daimler pension contribution	—	—	(600)	—
Impact of Daimler tax settlement	—	—	(196)	—
Impairment of property, plant and equipment	—	—	391	—
Impairment of brand name intangible assets	—	—	844	2,857
Impairment of goodwill	—	—	—	7,507
Valuation allowances against deferred tax assets	100	(83)	118	703
Reorganization items:				
Gain on extinguishment of certain financial liabilities and accrued interest related to the Second Lien Credit Agreement	—	—	(519)	—
Loss on extinguishment of Chrysler CA Lease Depositor LLC note receivable and accrued interest	—	—	1,025	—
Reorganization losses, net	—	—	302	—
Total significant non-cash charges	<u>\$ 111</u>	<u>\$ 1,968</u>	<u>\$ 681</u>	<u>\$ 11,067</u>

**Liquidity and Capital Resources—Chrysler Group****Liquidity Overview**

We require significant liquidity in order to meet our obligations and fund our business plan. Short-term liquidity is required to purchase raw materials, parts and components required for vehicle production, and to fund selling, administrative, research and development, and other expenses. In addition to our general working capital needs, we expect to use significant amounts of cash for the following purposes: (i) capital expenditures to support our existing and future products; (ii) interest and principal payments to the U.S. Treasury and EDC (including principal repayments totalling \$2.5 billion in December 2011); (iii) certain payments under the VEBA Trust Note and the Canadian HCT Notes; (iv) pension and OPEB payments; and (v) payments on capital leases and other financial obligations. Our capital expenditures in 2011 are estimated to be approximately \$4 billion, which we plan to fund with cash generated from our operating activities.

Refer to —*Contractual Obligations*, for additional information regarding short-term and long-term payments due under our significant contractual obligations and commitments as of December 31, 2010.

Liquidity needs are met primarily through cash generated from operations, including the sale of vehicles and parts to dealers, distributors and other customers worldwide. In addition, undrawn credit facilities are available as

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detailed under the caption – *Total Available Liquidity* below. Finally, long-term liquidity needs may involve some level of debt refinancing as outstanding debt becomes due or we are required to make amortization or other principal payments. Although we believe that our current level of total available liquidity is sufficient to meet our short-term and long-term liquidity requirements, we regularly evaluate opportunities to improve our liquidity position and reduce our Net Industrial Debt over time in order to enhance our financial flexibility and to achieve and maintain a liquidity and capital position consistent with that of our principal competitors.

Any actual or perceived limitations of our liquidity may affect the ability or willingness of counterparties, including dealers, suppliers and financial service providers, to do business with us, or require us to restrict additional amounts of cash to provide collateral security for our obligations. Our liquidity levels are subject to a number of risks and uncertainties, including those described in *Item 1A. Risk Factors*.

### *Total Available Liquidity*

At December 31, 2010, our total available liquidity was \$9,617 million, including funds available to be borrowed under the U.S. Treasury and EDC credit facilities of \$2,270 million. We may access these funds subject to conditions in the applicable loan agreement, and may use the proceeds for general corporate and/or working capital purposes. Total available liquidity includes cash, cash equivalents and marketable securities, which are subject to intra-month, foreign exchange and seasonal fluctuations. Restricted cash is not included in our presentation of total available liquidity. The following table summarizes our total available liquidity:

	<b>Successor</b>	
	<b>December 31, 2010</b>	<b>December 31, 2009</b>
	<b>(in millions of dollars)</b>	
Cash, cash equivalents & marketable securities <sup>(1)</sup>	\$ 7,347	\$ 5,877
U.S. Treasury Loan availability <sup>(2)</sup>	1,716	1,716
EDC Loan availability	554	554
Total Available Liquidity	<u>\$ 9,617</u>	<u>\$ 8,147</u>

(1) The foreign subsidiaries, for which we have elected to permanently reinvest earnings outside of the U.S., hold \$1.4 billion of cash and cash equivalents as of December 31, 2010. Our current plans do not demonstrate a need to, nor do we have plans to repatriate the retained earnings from these subsidiaries, as the earnings are permanently reinvested. However, in the future if we determine it is necessary to repatriate these funds, or we sell or liquidate any of these subsidiaries, we may be required either to pay taxes, even though we are not currently a taxable entity for U.S. federal income tax purposes, or make distributions to our members to pay taxes associated with the repatriation or the sale or liquidation of these subsidiaries. We may also be required to accrue and pay withholding taxes, depending on the foreign jurisdiction from which the funds are repatriated.

(2) Excludes \$350 million which may be drawn only to fund payments to USDART, as described below under —*Ally*.

The increase of \$1,470 million in total available liquidity from December 31, 2009 to December 31, 2010, reflects net cash provided from operating activities of \$4,195 million, net cash used in investing activities of \$1,167 million and net cash used in financing activities of \$1,526 million. A significant portion of our total available liquidity is attributable to the liquidity and financing provided as part of the 363 Transaction, as well as cash generated from our operations.

### *Restricted Cash*

At December 31, 2010, we had restricted cash, which includes cash equivalents, of \$671 million, including \$263 million held on deposit to secure our obligations under various commercial agreements guaranteed by Daimler, \$172 million as collateral for financing associated with leases under the Gold Key Lease portfolio, \$116 million as collateral for foreign exchange and commodity hedge contracts and \$120 million as collateral for letters of credit and other contractual arrangements.

[Table of Contents](#)*Working Capital Cycle*

Our business and results of operations depend upon our ability to achieve certain minimum vehicle sales volumes. As is typical for an automobile manufacturer, we have significant fixed costs, and therefore, changes in our vehicle sales volume can have a significant effect on profitability and liquidity. We generally receive payment on sales of vehicles in North America within a few days of shipment from our assembly plants, whereas there is a lag between the time we receive parts and materials from our suppliers and the time we are required to pay for them. Therefore, during periods of vehicle sales increases there is a significant positive impact on our cash flow and liquidity. On the other hand, during periods in which vehicle sales fall there is a significant negative impact on our cash flow and liquidity.

*Cash Flows*

*Operating Activities.* For the year ended December 31, 2010, we had positive cash flows from operating activities of \$4,195 million primarily due to: (i) a net loss of \$652 million with an add back of \$3,308 million in depreciation and amortization expense (including amortization and accretion of debt issuance costs, fair market value adjustments and favorable and unfavorable lease contracts); (ii) a \$1,469 million increase in trade liabilities due primarily to increased production and capital expenditures; (iii) a decrease in accounts receivable of \$931 million due primarily to lower dealer and fleet receivables, settlement of trade receivables with Daimler and improved customer collections. These amounts were partially offset by an increase in inventory of \$860 million due primarily to finished vehicle and work in process levels to support multiple year end vehicle launches, partially offset by a reduction in international inventories during the year due to the sale of inventory to Fiat in connection with its assumption of the management of our distribution and sales operation in select European countries.

For the period from June 10, 2009 to December 31, 2009, we had positive cash flows from operating activities of \$2,335 million primarily due to: (i) a net loss of \$3,785 million with an add back of non-cash items which include a loss on remeasurement of the VEBA Trust Note of \$2,051 million, \$1,715 million of depreciation and amortization expense (including amortization of debt issuance costs, discounts and favorable and unfavorable lease contracts) and payable-in-kind interest of \$310 million; and (ii) an increase in trade liabilities of \$1,857 million as a result of increases in production levels following the 363 Transaction.

*Investing Activities.* For the year ended December 31, 2010, we had negative cash flows from investing activities of \$1,167 million primarily due to capital expenditures of \$2,385 million, partially offset by \$1,109 million of proceeds from disposals of equipment on operating leases.

For the period from June 10, 2009 to December 31, 2009, we had positive cash flows from investing activities of \$250 million primarily due to: (i) cash acquired related to the 363 Transaction of \$1,694 million; (ii) proceeds from disposals of equipment on operating leases of \$738 million; (iii) proceeds from the USDART of \$500 million; and (iv) a reduction in restricted cash of \$366 million, primarily due to the termination of funding arrangements with Chrysler Warranty SPV LLC, or Warranty SPV. This was partially offset by \$2,000 million of payments related to the 363 Transaction and capital expenditures of \$1,088 million.

*Financing Activities.* For the year ended December 31, 2010, we had negative cash flows from financing activities of \$1,526 million primarily due to: (i) a net reduction in Gold Key Lease obligations of \$1,637 million (Gold Key Lease program proceeds used to fund these payments are included in operating and investing activities); (ii) repayment of the Chrysler Receivables SPV LLC, or Receivable SPV, loan of \$123 million, and (iii) net repayments of other financial liabilities of \$109 million. These activities were partially offset by loan proceeds of \$400 million from Mexican development banks.

For the period from June 10, 2009 to December 31, 2009, we had positive cash flows from financing activities of \$3,268 million primarily due to loan proceeds of \$4,576 million from the U.S. Treasury and \$355 million from the EDC. These activities were partially offset by repayments of \$1,248 million of Gold Key Lease obligations, a \$280 million Warranty SPV debt repayment described more fully below, and a \$95 million Auburn Hills Headquarters Loan repayment.

[Table of Contents](#)*Net Industrial Debt and Free Cash Flow*

Our Net Industrial Debt increased by \$4,265 million from \$1,508 million at December 31, 2009 to \$5,773 million at December 31, 2010. This change was due to a \$1,470 million increase in cash, cash equivalents and marketable securities (see *Cash Flows* above for more detail of cash changes) and an increase of \$5,735 million in financial liabilities primarily related to: (i) the recognition of the VEBA Trust Note during 2010 with a carrying value of \$4,018 million at December 31, 2010; (ii) the issuance of the Canadian HCT Notes during 2010 with a carrying value of \$1,042 million at December 31, 2010; and (iii) a financing arrangement with certain Mexican development banks with a carrying value of \$416 million at December 31, 2010. Refer to the VEBA Trust Note, Canadian Health Care Trust Notes and Mexican Development Banks Credit Facility discussions below for additional information.

At December 31, 2009 our Net Industrial Debt balance was \$1,508 million. Gross industrial debt of \$7,385 million primarily related to financing received in connection with the 363 Transaction. The largest components of this financing were from the U.S. Treasury and EDC, with carrying values of \$5,604 million and \$1,141 million at December 31, 2009, respectively. Net Industrial Debt reflected gross industrial debt adjusted for \$5,877 million of cash, cash equivalents and marketable securities.

Free Cash Flow for the year ended December 31, 2010 and the period from June 10, 2009 to December 31, 2009 totaled \$1,355 million and \$830 million, respectively, predominantly due to cash generated from operations.

For further discussion of Gross and Net Industrial Debt and Free Cash Flow refer to – *Non-GAAP Financial Measures*.

*Credit Facilities and Certain Indebtedness*

We have entered into the following credit facilities and certain debt instruments under which we and certain of our subsidiaries are borrowers and/or guarantors:

- *U.S. Treasury First Lien Credit Agreement* – A \$7,142 million first lien credit facility maturing on June 10, 2017, of which \$5,076 million was drawn or assumed at December 31, 2010;
- *Export Development Canada Loan* – A \$2,325 million CAD first lien credit facility between Chrysler Canada and EDC, maturing on June 10, 2017, of which \$1,604 million CAD was drawn at December 31, 2010;
- *Mexican Development Banks Credit Facility* – A secured term loan arrangement equal to the Mexican peso equivalent of \$400 million (fully drawn in July 2010) between Chrysler de Mexico S.A. de C.V., or Chrysler de Mexico, and certain Mexican development banks which is denominated in Mexican pesos and matures on July 19, 2025, the outstanding balance of which was equivalent to \$416 million at December 31, 2010;
- *VEBA Trust Note* – An unsecured note issued under an indenture and held by the VEBA Trust, with a face value of \$4,587 million at June 10, 2009 and an outstanding balance of \$4,710 million at December 31, 2010;
- *Canadian Health Care Trust Notes* – Four unsecured promissory notes held by the Canadian Health Care Trust, with an initial aggregate face value of \$974 million CAD at December 31, 2010; and
- *Auburn Hills Headquarters Loan* – A loan secured by a mortgage on our Auburn Hills headquarters and technology center facility, of which \$118 million was outstanding at December 31, 2010.



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*U.S. Treasury First Lien Credit Agreement.* Our first lien credit agreement with U.S. Treasury is divided into two tranches, a Tranche B Loan of \$2,000 million and Tranche C Loans consisting of \$4,642 million of commitments, plus \$500 million of debt we assumed from an affiliate of Old Carco in connection with the 363 Transaction. The Tranche B Loan is a term borrowing that matures on December 10, 2011. We have the option to extend the maturity of up to \$400 million of the Tranche B Loan to the Tranche C maturity date, with a corresponding deferral of \$100 million outstanding under the EDC credit facility discussed below. The Tranche C Loans mature on June 10, 2017. Of the undrawn Tranche C Commitment of \$2,066 million, \$350 million may be used solely to fund payments to USDART, as described below under *–Ally*. In addition, we provided the U.S. Treasury a \$288 million note, which we refer to as the Additional Note, and a \$100 million zero coupon note, which we refer to as the Zero Coupon Note. Amounts repaid on the loans cannot be re-borrowed.

In accordance with the terms of the first lien credit agreement, all interest incurred on the Tranche B Loan and Tranche C Loans for the period from June 10, 2009 to December 31, 2009 was Payable-In-Kind, or PIK. The Tranche C Loans will continue to accrue quarterly PIK interest of a maximum of \$17 million through June 10, 2017. The quarterly PIK interest amount will be reduced by a calculated percentage based on any prepayment amounts on the Tranche C Loans. The additional PIK interest will be capitalized as additional debt on a quarterly basis. Accordingly, \$68 million and \$310 million of PIK interest was capitalized as additional debt during the year ended December 31, 2010 and the period from June 10, 2009 to December 31, 2009, respectively.

We used the proceeds of the Tranche B Loan to fund the cash portion of the consideration provided to Old Carco in the 363 Transaction. Our initial drawdowns totaling \$2,576 million under the Tranche C Loans were used for working capital purposes.

The Tranche B Loan, Tranche C Loans, Additional Note and Zero Coupon Note are secured by a pledge of substantially all of our tangible and intangible assets in the U.S. as well as that of our U.S. subsidiary guarantors. Certain property is excluded from this collateral, including equity interests in our foreign subsidiaries to the extent the pledge of those interests would result in a disadvantageous U.S. tax treatment, as well as certain assets and interests that are prohibited from being pledged by requirements of applicable law or agreements to which we are subject.

The Tranche B Loan and Tranche C Loans each bear interest at a margin over a benchmark rate. The Tranche B Loan bears interest at a rate per annum equal to three month LIBOR, subject to a floor of 2.0 percent, plus 5.0 percent. If we elect to extend the maturity of a portion of the Tranche B Loan, the applicable margin on the extended principal will increase by 150 basis points on and after December 10, 2011. The Tranche C Loans and the Additional Note bear interest at a rate equal to three month LIBOR, subject to a floor of 2.0 percent, plus 7.91 percent. LIBOR is reset quarterly.

We may prepay the Tranche B Loan and Tranche C Loans (and may reduce any undrawn commitment for Tranche C Loans) at our option upon notice to U.S. Treasury. We cannot voluntarily prepay the Additional Note or the Zero Coupon Note until the Tranche B Loan and Tranche C Loans have been repaid in full and extinguished. Furthermore, if we incur certain debt, sell certain assets, or receive insurance or condemnation payments over specified thresholds, then we are required to use the net proceeds from such events to prepay the loans.

On June 10, 2016, the Tranche C loans are required to be prepaid and the amounts undrawn on the Tranche C Commitment reduced in a certain priority by an amount equal to 50 percent of the total of the Tranche C Commitment plus assumed debt, less the amount of any prior prepayments or commitment reductions. On that date the Additional Note and Zero Coupon Note are also required to be prepaid in amounts of 50 percent of their respective face values.

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Our first lien credit agreement includes a number of affirmative covenants, many of which are customary, including, but not limited to, the reporting of financial results and other developments, compliance with laws, payment of taxes, maintenance of insurance and similar requirements. In addition, we are subject to a number of other covenants including the following:

- *Vitality Covenant* – For each fiscal year, beginning with the fiscal year ending December 31, 2010, until the later of June 10, 2014 or the repayment of the Tranche B Loan, Tranche C Loans, Additional Note and Zero Coupon Note and termination of any unused commitments, we must:
  - cause at least 40 percent of our U.S. vehicle sales volumes to be manufactured in the U.S.; or
  - cause the production volume of our U.S. manufacturing plants to be equal to at least 90 percent of the production volume of the U.S. manufacturing plants of Old Carco for the 2008 fiscal year (90 percent of such production volume is 995 thousand vehicles).
  - If an event beyond our reasonable control renders production in one or more facilities uneconomic or a material adverse change in general economic or industry conditions occurs, then either the sales volume ratio or the production ratio may be calculated on an adjusted basis to reflect such event. If, after giving effect to such adjustment, we fail to comply with the vitality covenant for any year, such failure will not result in an event of default if we comply with the vitality covenant in the next fiscal quarter (tested on a trailing 12-month basis).

The following table sets forth calculations showing our compliance with the vitality covenant under the U.S. Treasury first lien credit facility, which we achieved in 2010 by meeting the sales volume ratio:

	Year ended December 31, 2010 (units in thousands)
U.S. sales	1,085
U.S. sales volume manufactured in the U.S.	577
Sales volume ratio	53%
Minimum volume ratio required by vitality covenant	40%

### Or

Baseline 2008 U.S. production volume	1,106
U.S. production volume in 2010	839
Production ratio	76%
Minimum production ratio required by vitality covenant	90%

- *Governance Covenant* – Until the earlier of December 10, 2011 or an initial public offering, we must consult with U.S. Treasury regarding, and obtain its prior approval of, any nomination or renomination of any director originally nominated by the U.S. Treasury or any renomination of any successor or replacement thereof.
- *Compensation and TARP-related Covenants* – We must maintain compensation programs in accordance with the requirements of the EESA, including limits on executive and incentive compensation, and must also maintain a policy on corporate expenses. Further, we are prohibited from owning or leasing any private passenger airplanes. These covenants will survive until the latest of (i) June 10, 2018, (ii) the one year anniversary of the repayment of all obligations under the first lien credit agreement, and (iii) the one year anniversary of the date the U.S. Treasury ceases to own any direct or indirect equity in Chrysler Group, if equity constitutes “outstanding obligations” under EESA section 111.

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On April 20, 2011, we agreed with U.S. Treasury that in the event that the obligations under the U.S. Treasury loan agreement were repaid in full and the commitment under that agreement terminated, we would, in lieu of the vitality covenants, governance covenant and TARP covenants described above agree to continue to comply with the requirements of TARP as though the Company and its subsidiaries remained a TARP recipient receiving exceptional financial assistance through the date on which the U.S. Treasury has sold the Class A membership interest it originally acquired in connection with the 363 Transaction (the “TARP Restricted Period”). Specifically, we agreed to comply with the vitality covenant and covenants substantially similar to the TARP covenants during the TARP Restricted Period. The agreement expressly confirms that these restrictions will not be applicable to Fiat or any of its affiliates (other than Chrysler Group and its subsidiaries) in the event Fiat acquires majority ownership in us.

We were also required to adopt a written policy on lobbying, governmental ethics and political activity with respect to the U.S. government, and this policy may not be changed without the prior consent of the U.S. Treasury. Our first lien credit agreement also includes various negative covenants which restrict and/or limit our operations in certain respects, including, but not limited to, limitations on the incurrence of additional debt, the incurrence of liens and the payment of dividends or the making of distributions to our members or other restricted payments, as well as restrictions on transactions with affiliates that are not in the ordinary course or otherwise on arm’s length terms. As of December 31, 2010, we were in compliance with all covenants under our first lien credit agreement.

Our first lien credit facility also provides for a number of possible events of default, including, but not limited to, interest and principal payment defaults, failure to comply with affirmative and negative covenants (subject to certain notice and cure periods), acceleration of other debt obligations in excess of \$150 million in the aggregate (including the acceleration under the EDC loan agreement for breach of our Canadian vitality covenants described below if the amount outstanding exceeds this threshold), judgments in excess of \$100 million individually or \$200 million in the aggregate that remain unpaid or unstayed for sixty days, certain change of control transactions, and Fiat holding in excess of 49.9 percent of our voting or nonvoting capital stock. If we fail to comply with the vitality covenants under our first lien credit facility, the U.S. Treasury may seek specific performance, including the right to seek a court-appointed monitor to ensure our compliance. In addition, the U.S. Treasury may declare all amounts outstanding under the credit agreement immediately due and payable, terminate the Tranche B Commitment and Tranche C Commitment and seek to realize the value of the collateral pledged to secure amounts outstanding under the U.S. Treasury credit facility.

*Export Development Canada Loan Agreement.* Chrysler Canada entered into a loan and security agreement with the EDC on March 30, 2009, which was subsequently amended on April 29, 2009, pursuant to which the EDC provided a \$1,209 million CAD secured term loan facility known as Tranche X. On June 10, 2009, the EDC loan agreement was amended and restated to increase the secured term loan facility by a CAD equivalent of \$909 million, up to a maximum of \$1,116 million CAD, which can be drawn, subject to certain conditions precedent, during the period ending on the thirty-month anniversary of the restatement date. The increase in the loan facility is known as Tranche X-2. Tranche X was fully disbursed prior to our acquisition of the assets of our predecessor, which assets included the shares of Chrysler Canada, and Tranche X-2 had an initial draw on June 12, 2009 of \$395 million CAD, or the U.S. dollar equivalent of \$355 million. The undrawn commitment under Tranche X-2 as of December 31, 2010 is the Canadian dollar equivalent of \$554 million (subject to a maximum of \$721 million CAD). In addition to the Tranche X and Tranche X-2 loans, Chrysler Canada provided the EDC additional notes of \$80 million CAD. The additional notes were issued prior to the 363 Transaction. The proceeds from the loans are to be used for general corporate and working capital purposes. Both tranches and the additional notes mature on June 10, 2017. Borrowings under Tranche X-2 are intended to be made contemporaneously with certain borrowings under Tranche C of the U.S. Treasury first lien credit agreement in a certain ratio.

The EDC credit facility is secured by a pledge of substantially all of the tangible and intangible assets of Chrysler Canada and bears interest at a rate equal to the three month Canadian dealer offered rate, or CDOR, subject to a floor of 2.0 percent, plus 5.0 percent per annum. CDOR is subject to quarterly reset. Chrysler Group LLC guaranteed the EDC credit facility, on an unsecured basis.

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Chrysler Canada is required to prepay the CAD equivalent of \$500 million on December 10, 2011. Chrysler Canada has the option to reduce such prepayment by up to the CAD equivalent of \$100 million concurrent with the proportionate extension of up to \$400 million of the U.S. Tranche B Loan to the Tranche C maturity date described above. In addition, on June 10, 2016, Chrysler Canada will be required to prepay an amount equal to 50 percent of the Tranche X and Tranche X-2 maximum loan amount, less the amount of previous optional and mandatory prepayments.

We may prepay the EDC loans and reduce any undrawn commitment under Tranche X-2 at our option upon notice to EDC. In general, we are required to prepay loans in a manner similar to the mandatory prepayment requirements under our U.S. Treasury first lien credit facility, on the basis of a certain ratio subject to a maximum prepayment of \$200 million CAD triggered by the issuance of certain new U.S. permitted first lien indebtedness. Amounts repaid on the loans cannot be re-borrowed.

The EDC credit facility includes a number of covenants that are similar in type and scope to those under our U.S. Treasury first lien credit facility, including, but not limited to, financial and operating reporting, compliance and similar requirements. The EDC credit facility also includes covenants that are similar in type and scope to the compensation and TARP-related covenants under our U.S. Treasury first lien credit facility. The covenants also require that we and Chrysler Canada ensure that (i) the ratio of our production volumes in Canada to production volumes in the NAFTA region is at least 20 percent over specified measurement periods and at least 17 percent for each calendar year during which the EDC loans are outstanding, and (ii) on December 31, 2014, our aggregate product-related capital investments in Canada will constitute at least 20 percent of our aggregate NAFTA region product-related capital investment. In addition, we must build vehicles in Canada for final consumer sale outside of the NAFTA region, which we achieved in 2010, and we must distribute Fiat-branded vehicles in Canada through our network. We also have agreed under the EDC loan agreement to maintain a minimum average daily cash balance, over the course of each calendar month, of \$250 million CAD at Chrysler Canada. Our EDC loan agreement also includes various negative covenants which restrict and/or limit our and Chrysler Canada's operations in certain respects, including, but not limited to, limitations on asset sales, the incurrence of additional debt and the incurrence of liens, as well as restrictions on transactions with affiliates that are not in the ordinary course or otherwise on arm's length terms. As of December 31, 2010, we were in compliance with all covenants under the EDC loan agreement. The following table sets forth calculations showing our compliance with the volume ratio required by the EDC credit facility:

	Total Measurement Period (Period from January 1, 2009 to December 31, 2010)	Year Ended December 31, 2010	Year Ended December 31, 2009
			(units in thousands)
NAFTA region production volume	2,526	1,572	954
Canada production volume	790	475	315
Production ratio under EDC credit facility	31%	30%	33%
Minimum production ratio required by volume covenant	20%	17%	17%

Our EDC loan agreement provides for a number of possible events of default that are generally similar in scope and effect to the events of default under our U.S. Treasury first lien credit facility, except that these events of default are applicable primarily to Chrysler Canada and its subsidiaries, including the acceleration of the U.S. Treasury first lien credit facility for breach of the U.S. vitality covenants, which is described above. If Chrysler Canada fails to comply with its vitality covenants under the EDC loan agreement, the EDC is entitled to seek specific performance. In addition, the EDC may declare all amounts outstanding under the EDC loan agreement immediately due and payable, terminate all commitments under the agreement and seek to realize the value of the collateral pledged to secure amounts outstanding under the EDC loan agreement.

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*Mexican Development Banks Credit Facility.* In July 2010, Chrysler de Mexico, our principal operating subsidiary in Mexico, entered into a financing arrangement with certain Mexican development banks (Banco Nacional de Comercio Exterior, S.N.C. and Nacional Financiera, S.N.C.), which provides for a 15-year amortizing term loan facility equal to the Mexican peso equivalent of \$400 million. The facility was fully drawn during July 2010 and was funded in Mexican pesos. The proceeds are to be used to finance capital investments and other expenditures related to the vehicle platform on which the Fiat 500 is based.

The loan bears interest at a rate equal to the 28 day Tasa de Interés Interbancana de Equilibrio, or TIIE, plus 480 basis points. The rate is reset quarterly. Principal payments will be made in equal quarterly installments beginning twenty-four months from the date of the initial disbursement. The loan matures on July 19, 2025.

Chrysler de Mexico placed certain of its assets in a special purpose trust to secure repayment of the loan, including certain receivables, property, plant and equipment and cash. The loan requires compliance with certain covenants, including but not limited to, limitations on liens, incurrence of debt and asset sales.

*VEBA Trust Note.* On June 10, 2009, we issued a senior unsecured note, which we refer to as the VEBA Trust Note, with a face value of \$4,587 million to the VEBA Trust in accordance with the terms of our settlement agreement with the UAW for the purpose of discharging our obligations to provide postretirement health care benefits to certain of our UAW represented retirees, effective January 1, 2010.

The VEBA Trust Note has an implied interest rate of 9 percent per annum and requires annual payments of principal and interest beginning on July 15, 2010 and continuing until maturity on July 15, 2023. As of December 31, 2010, contractual maturities, including principal and interest, for the VEBA Trust Note were as follows (in millions): 2011—\$300; 2012—\$400; 2013—\$600; 2014—\$650; 2015—\$650; and 2016 and thereafter—\$6,246. Scheduled VEBA Trust Note payments through 2012 do not fully satisfy the interest accrued at the implied rate of 9 percent. Accordingly, the difference between a scheduled payment and the accrued interest through June 30 of the payment year will be capitalized as additional debt on an annual basis. The outstanding balance of the VEBA Trust Note was \$4,710 million at December 31, 2010.

The VEBA Trust Note was issued under the terms of an indenture that contains certain negative covenants, including, but not limited to, limits on Chrysler Group incurring debt that is senior in any respect in right of payment to the VEBA Trust Note and limits on the ability of our subsidiaries to incur debt. The terms of a related Registration Rights Agreement provide for certain registration rights that entitle the holder of the VEBA Trust Note to require us to file a registration statement under the Securities Act of 1933, or the Securities Act, for a public offering of the note beginning six months following the earlier of: (i) an initial public offering of our equity securities; (ii) Fiat's acquisition of a majority ownership interest in us; or (iii) June 30, 2012. Refer to Note 12, *Financial Liabilities* and Note 18, *Employee Retirement and Other Benefits*, of our accompanying audited consolidated financial statements for additional information.

*Canadian Health Care Trust Notes.* On December 31, 2010, Chrysler Canada issued four unsecured promissory notes in an initial aggregate face value of \$976 million (\$974 million CAD) to an independent Canadian HCT as part of the settlement of its obligations with respect to retiree health care benefits for the Covered Group. In addition, the notes had accrued interest from January 1, 2010 of \$80 million CAD. The four promissory notes issued are as follows: Tranche A—\$404.9 million CAD unsecured 9.0 percent fixed rate note due June 30, 2017; Tranche B—\$404.9 million CAD unsecured 9.0 percent fixed rate note due June 30, 2024; Tranche C—\$89.6 million CAD unsecured 7.5 percent fixed rate note due June 30, 2024; and Tranche D—\$75.0 million CAD unsecured noninterest bearing note due June 30, 2012.

The scheduled Tranche A and Tranche B note payments through 2012 do not fully satisfy the interest accrued at the stated rate of 9.0 percent per annum. Accordingly, the difference between a scheduled payment and the accrued interest through December 31 of the payment year will be capitalized as additional debt on an annual basis. The Tranche C note's first scheduled payment is in 2020.

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The terms of each of the notes are substantially similar and provide that each note will rank *pari passu* with all existing and future unsecured and unsubordinated indebtedness for borrowed money of Chrysler Canada, and that Chrysler Canada will not incur indebtedness for borrowed money that is senior in any respect in right of payment to the note. Refer to Note 12, *Financial Liabilities* and Note 18, *Employee Retirement and Other Benefits*, of our accompanying audited consolidated financial statements for additional information.

*Auburn Hills Headquarters Loan.* One of the companies we acquired in the 363 Transaction is the owner of our headquarters and technology center property in Auburn Hills, Michigan and is the borrower under a loan agreement with an outstanding balance of \$118 million at December 31, 2010. The loan is secured by a mortgage on the Auburn Hills property and requires monthly principal payments of approximately \$1 million and monthly interest payments at an annual rate of 8.0 percent. The monthly principal payments will increase to approximately \$4 million effective January 2012. The loan matures on December 9, 2013.

*Gold Key Lease.* Chrysler Canada holds a portfolio of vehicle leases that were originated in connection with a vehicle lease financing program known as the Gold Key Lease program. These vehicles are leased to Canadian consumers and are financed by asset-backed securitization facilities with an outstanding balance at December 31, 2010 of \$175 million, as well as a \$5,009 million (\$5,000 million CAD) secured revolving credit facility, of which \$443 million was outstanding at December 31, 2010. The asset-backed obligations are satisfied only out of the collections from the underlying securitized assets. In 2010, we utilized available operating lease assets under the Gold Key Lease portfolio to borrow additional funds in the amount of \$266 million under a certain asset-backed securitization facility. These funds were used to repay a portion of the amount outstanding on the secured revolving credit facility. No vehicles were added to the financing portfolio during the year ended December 31, 2010. We are currently winding down the Gold Key Lease financing program, therefore, we anticipate no additional funding will be required.

*Department of Energy Loan.* The DOE is operating a program in which it may provide up to \$25.0 billion in low cost loans to eligible applicants for the costs of re-equipping, expanding, and establishing manufacturing facilities in the U.S. to produce advanced technology vehicles and components for these vehicles. We have pending with the DOE a consolidated application for a loan under Section 136 of the Energy Independence and Security Act of 2007, or the EISA, which seeks approximately \$7 billion in loans to support certain of our advanced technology vehicle and component programs. Our loan application has not been approved by the DOE, although the DOE has provided approximately \$8.4 billion in similar loans to other vehicle manufacturers to date. If our application is approved, the amount of the loan is likely to be significantly less than the amount requested in our application and we will have to negotiate the terms of the loan with the DOE and may need to reach agreement with the DOE and our current lenders with respect to collateral and potentially other matters. There can be no assurance that we will qualify for any remaining Section 136 loans or that even if we qualify we will be able to successfully negotiate terms acceptable to us, the DOE and our other lenders.

*Ally*

On April 30, 2009, in connection with the 363 Transaction, Old Carco and Ally entered into a binding Master Automotive Financing Agreement Term Sheet pursuant to which Ally agreed to make wholesale inventory and retail financing available to our dealers and retail customers. On May 21, 2009, Old Carco, U.S. Treasury, Ally and USDART entered into a master transaction agreement, which we refer to as the Ally MTA, under which Old Carco transferred \$600 million to USDART to be used to reimburse Ally for a majority of certain qualifying losses on loans made to certain dealers prior to November 21, 2009. On June 10, 2009, we assumed Old Carco's rights and obligations under the Ally MTA, and USDART returned \$500 million to us, in accordance with its terms, leaving \$100 million at USDART. The Ally MTA will terminate no earlier than 2013 unless all parties mutually agree to terminate the contract at an earlier date.

If the balance remaining at USDART falls below \$75 million, we are required to transfer funds to USDART to bring the balance to \$100 million, subject to a cap on our obligation to fund USDART of \$350 million in the

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aggregate. Under our first lien credit facilities with the U.S. Treasury, \$350 million of undrawn Tranche C Commitments may only be used to fund these potential payments to USDART. Any amounts drawn on the Tranche C Commitments in order to fund the USDART will result in the forgiveness of an equivalent amount of our debt. Upon termination of the Ally MTA, USDART is required to transfer any unused funds to us, and we are required to pre-pay our Tranche C loans by such amount. In the event that USDART then holds less than \$100 million, our indebtedness under our first lien credit facilities will be reduced by an amount equal to such shortfall. The balance at USDART was \$96 million at December 31, 2010.

On August 6, 2010, we and Ally entered into a definitive Auto Finance Operating Agreement, under which Ally is the preferred lender in North America for our dealers and retail customers, providing wholesale, retail, fleet, remarketing and other services. As of December 31, 2010, Ally was providing wholesale financing to approximately 62 percent of our dealers in the U.S. Our agreement with Ally is described in *Item 1. Business—Distribution—Dealer and Customer Financing*.

*Other Retail Financing Programs*

In addition to our arrangement with Ally, we entered into subvention agreements with Santander Consumer USA, Inc. for loans to sub-prime U.S. retail customers. Additionally, through US Bank, N.A., we offer subvented retail leasing programs. Chrysler Canada has arrangements with a number of financial institutions to provide a variety of retail financing programs to our Canadian retail customers.

*Receivable SPV*

In connection with the 363 Transaction, we purchased the equity of Receivable SPV, a wholly-owned subsidiary of Old Carco, which was a party to a \$1.5 billion loan facility provided by the U.S. Treasury, which subsequently was reduced to \$1.0 billion. Receivable SPV was established as part of the U.S. Treasury Auto Supplier Support Program to facilitate payment of qualified automotive receivables to certain automotive suppliers. During March 2010, we repaid the \$123 million that was outstanding on the facility and all accrued and unpaid interest. The program expired in April 2010 and Receivable SPV was dissolved in December 2010. Refer to Note 4, *Variable Interest Entities*, of our accompanying audited consolidated financial statements for additional information related to Receivable SPV.

*Warranty Commitment Program*

A Warranty Commitment Program was established by the U.S. Government to ensure warranty claims submitted to domestic automakers would be paid to consumers regardless of the automakers' existence. In connection with the 363 Transaction, the Company purchased the equity of Chrysler Warranty SPV LLC, which was party to an Administration Agreement and Account Control Agreement with the U.S. Treasury in connection with the Warranty Commitment Program. Restricted cash of \$318 million was acquired and the liability to repay the U.S. Treasury \$280 million plus interest was assumed in the 363 Transaction. The Warranty Commitment Program was terminated in July 2009, at which time we repaid the U.S. Treasury the \$280 million loan plus all accrued and unpaid interest. Refer to Note 19, *Other Transactions with Related Parties*, of our accompanying audited consolidated financial statements.

*Tax Indemnity Recoverable*

In 2010, we received a \$377 million reimbursement from Daimler related to a tax settlement agreement for Canadian transfer pricing adjustments. During January and February 2011, we received additional reimbursements from Daimler totaling \$373 million.

For further discussion of the tax indemnity recoverable, refer to Note 13, *Income Taxes*, and Note 23, *Subsequent Events*, respectively, of our accompanying audited consolidated financial statements.

[Table of Contents](#)*Cash Management & Risk Management Policies*

Our cash management and risk management activities are governed by internal policies designed to: (i) maintain appropriate internal control over disbursements; (ii) ensure our ability to pay all outstanding obligations when due; and (iii) obtain a reasonable return while maintaining appropriate diversification and minimizing counterparty risk. These policies include permitted investment guidelines, counterparty evaluation and limits, derivative guidelines, funding guidelines, credit and collections guidelines, compliance monitoring, internal control requirements and controls over electronic funds transactions.

*Investments of Corporate Cash*

Cash and cash equivalents are primarily invested in short-term instruments with highly rated counterparties. Counterparties are evaluated in accordance with internal guidelines. Limits are established for each approved counterparty and actual exposures are tracked against the limits.

*Defined Benefit Pension Plan and OPEB Contributions*

**Contributions and Payments.** Our funding policy for defined benefit pension plans and OPEB plans is to contribute at least the minimum amounts required by applicable laws and regulations. Occasionally, additional discretionary contributions in excess of those legally required are made to achieve certain desired funding levels. Based on current estimates, we do not expect there to be minimum required contributions for our major U.S. qualified pension plans in 2011. Since the inception of our various pension plans, contributions have exceeded minimum required funding amounts. These excess amounts are tracked, and the resulting credit balance can be used to satisfy minimum funding requirements in subsequent years. Currently, the combined credit balances for our major U.S. qualified pension plans is approximately \$6 billion. While the usage of credit balances to satisfy minimum funding requirements is subject to our plans maintaining certain funding levels, we expect to be able to utilize the credit balances in 2011 such that no additional cash contributions are required for our U.S. plans, although we may voluntarily elect to make contributions.

The following table summarizes employer contributions made to our defined benefit pension plans or direct benefit payments to plan participants:

	<b>Successor</b>	
<b>Year Ended</b>	<b>December 31,</b>	<b>June 10, 2009</b>
<b>2010</b>	<b>2009</b>	<b>through</b>
		<b>December 31,</b>
		<b>2009</b>
	<b>(in millions of dollars)</b>	
Total employer contributions	\$ 390	\$ 240

In connection with the 363 Transaction, we acquired a \$600 million receivable from Daimler to fund contributions to our U.S. pension plans. We received \$200 million in both June 2009 and June 2010 related to this receivable and the remaining \$200 million is due to us in June 2011. The carrying value of the receivable at December 31, 2010 was \$198 million.

Employer contributions to our funded pension plans are expected to be approximately \$338 million in 2011. Of the employer contributions, \$200 million will be made to the U.S. plans upon receipt of the Daimler receivable noted above and \$138 million is anticipated to be made in cash to satisfy minimum funding requirements for our plans in Canada. Employer contributions to our unfunded pension plans are expected to be \$12 million in 2011, which represents the expected benefit payments to participants.

Employer payments under our OPEB plans are expected to be \$231 million in 2011, which represents the expected benefit payments to participants.



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The following table summarizes net benefit payments expected to be paid, based on the last remeasurement of all of our plans as of December 31, 2010 which reflects estimated future employee service:

	<b>Pension Benefits</b>	<b>OPEB</b>
	<b>(in millions of dollars)</b>	
2011	\$ 2,375	\$ 231
2012	2,302	179
2013	2,241	177
2014	2,186	176
2015	2,140	176
2016 – 2020	10,123	875

During the life of the plans, we intend to primarily utilize plan assets to fund benefit payments of our pension plans and minimize our cash contributions. OPEB payments are currently funded out of our cash on hand.

*Defined Benefit Pension Plans—Funded Status.* The following table summarizes the funded status of our pension plans:

	<b>December 31, 2010</b>	<b>Successor December 31, 2009</b>
	<b>(in millions of dollars)</b>	
Benefit obligation	\$ 29,874	\$ 28,595
Fair value of plan assets	25,865	24,731
Funded status of plans	<u>\$ (4,009)</u>	<u>\$ (3,864)</u>

Our pension plans were underfunded by \$4,009 million at December 31, 2010 and by \$3,864 million at December 31, 2009. The change in funded status was primarily due to service and interest costs of \$1,768 million and changes in discount rates and actuarial assumptions of \$1,641 million during 2010, partially offset by the actual return on plan assets of \$2,929 million and company contributions of \$390 million made during 2010.

Our pension plans were underfunded by \$3,864 million at December 31, 2009 and by \$3,321 million at June 10, 2009. The change in funded status was primarily due to service and interest costs of \$1,036 million and changes in discount rates which had a negative effect of \$2,653 million during the period from June 10, 2009 to December 31, 2009, partially offset by the actual return on plan assets of \$2,934 million and company contributions of \$240 million made during the period from June 10, 2009 to December 31, 2009.

*OPEB Plans—Funded Status.* We provide health care, legal and life insurance benefits to certain of our hourly and salaried employees. Upon retirement from the Company, employees may become eligible for continuation of certain benefits. Benefits and eligibility rules may be modified periodically. A portion of these OPEB benefits are funded through a VEBA Trust. Effective January 1, 2010, and in accordance with terms of the VEBA Settlement Agreement, we transferred \$1,972 million of plan assets to the VEBA Trust and thereby were discharged of \$7,049 million of benefit obligations related to postretirement health care benefits for certain UAW retirees. In connection with the VEBA Settlement Agreement, we recognized a financial liability. Refer to the VEBA Trust Note discussion above for additional information.

On December 31, 2010, and in accordance with the Canadian HCT Settlement Agreement, Chrysler Canada permanently transferred the responsibility of providing postretirement health care benefits for the Covered Group to a new retiree plan that will be funded by the HCT, resulting in the transfer of \$1,213 million of benefit obligations to the HCT on December 31, 2010 and the issuance of the Canadian HCT Notes. Refer to the Canadian Health Care Trust Notes discussion above for additional information.

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The following table summarizes the funded status of OPEB plans:

	Successor	
	December 31, 2010	December 31, 2009
	(in millions of dollars)	
Benefit obligation	\$ 2,636	\$ 10,842
Fair value of plan assets	37	2,009
Funded status of plans	<u>\$ (2,599)</u>	<u>\$ (8,833)</u>

Our OPEB plans were underfunded by \$2,599 million at December 31, 2010 and underfunded by \$8,833 million at December 31, 2009. The change in funded status was primarily due to the transfer of \$7,049 million of benefit obligations related to the VEBA Settlement Agreement and the transfer of \$1,213 million of benefit obligations related to the Canadian HCT Settlement Agreement during 2010, partially offset by the transfer of \$1,972 million of VEBA Trust assets to the VEBA Trust during 2010.

Our OPEB plans were underfunded by \$8,833 million at December 31, 2009 and underfunded by \$6,506 million at June 10, 2009. The change in funded status was primarily due to changes in discount rates and actuarial assumptions of \$2,477 million and service and interest costs of \$548 million during the period from June 10, 2009 to December 31, 2009, partially offset by company contributions of \$526 million made directly to pay benefits and the actual return on plan assets of \$235 million.

For additional information related to defined benefit and OPEB plans refer to Note 18, *Employee Retirement and Other Benefits*, of our accompanying audited consolidated financial statements.

### ***Liquidity and Capital Resources—Old Carco***

#### ***Cash Flows***

**Operating Activities.** For the period from January 1, 2009 to June 9, 2009, Old Carco had negative cash flows from operating activities of \$7,130 million primarily due to: (i) a net loss of \$4,425 million with \$1,594 million in depreciation and amortization expense (including amortization and accretion of debt issuance costs, fair value adjustments and favorable and unfavorable lease contracts); (ii) impairment charges of \$1,235 million; (iii) other non-cash gains on various settlements of \$1,480 million; (iv) non-cash adjustments to pensions, OPEB and restructuring reserves of \$1,120 million; and (v) non-cash reorganization items of \$726 million.

In addition, the business deterioration resulted in accrued expenses and other liabilities decreasing by \$3,265 million, due primarily to: (i) incentive and warranty accruals decreasing with lower shipment and vehicle sales levels; (ii) GDP accruals decreasing with reduced volumes; and (iii) U.S. and foreign income tax accruals decreasing due to lower taxable income. Finally, trade liabilities were lower by \$2,100 million as a result of reduced production, including idling of facilities from the end of April 2009 to June 9, 2009. However, these negative cash flows were partially offset by decreases in inventories and accounts receivable of \$1,701 million as production and shipments declined.

For the year ended 2008, Old Carco had negative cash flows from operating activities of \$5,303 million primarily due to: (i) a net loss of \$16,844 million with \$5,078 million of depreciation and amortization expense (including amortization and accretion of debt discounts and debt issuance costs, fair value adjustments and favorable and unfavorable lease contracts); (ii) impairment charges of \$10,364 million; (iii) a decrease of \$2,794 million in trade liabilities due to significantly lower orders for production material in November and December that were driven by an acceleration and extension of the normal annual holiday plant shutdowns; (iv) a decrease of \$1,438 million in accrued expenses and other liabilities; and (v) a reduction of \$1,642 million due to changes in other

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assets and liabilities related to the significant drop in shipments and vehicle sales at the end of 2008. These negative cash flows were partially offset by a reduction in inventories of \$1,330 million due to the lower production and shipment activity noted above, and a \$500 million cash withdrawal of VEBA funds.

*Investing Activities.* For the period from January 1, 2009 to June 9, 2009, Old Carco had negative cash flows from investing activities of \$404 million primarily due to: (i) \$600 million in funding transferred to the USDART in support of loans by Ally to Old Carco's dealers; (ii) a settlement payment of \$99 million in connection with our acquisition of certain NSCs from Daimler and (iii) capital expenditures of \$239 million. This was partially offset by proceeds from disposals of equipment on operating leases, net of purchases of such equipment, of \$278 million and a reduction in restricted cash of \$220 million.

For the year ended 2008, Old Carco had negative cash flows from investing activities of \$3,632 million primarily due to: (i) capital expenditures of \$2,765 million; (ii) purchases of equipment on operating leases (net of proceeds from disposals) of \$1,493 million; and (iii) purchase of interest bearing income notes in the amount of \$1.0 billion from a wholly-owned foreign subsidiary of Chrysler Financial, which was funded by a reduction in restricted cash of \$1.0 billion. Partially offsetting these negative cash flows were additional net decreases in restricted cash of \$136 million, and proceeds from the sales of equity investments, preferred stock, and a note totaling \$201 million.

*Financing Activities.* For the period from January 1, 2009 to June 9, 2009, Old Carco had positive cash flows from financing activities of \$7,517 million, primarily due to: (i) a \$4,275 million capital contribution from Chrysler Holding to be used for general corporate and working capital purposes; (ii) loan proceeds of \$3,014 million on the debtor-in-possession financing in connection with its bankruptcy; and (iii) loan proceeds of \$995 million from the EDC. These activities were partially offset by repayments of \$646 million related to the Gold Key Lease financing obligations.

For the year ended 2008, Old Carco had positive cash flows from financing activities of \$1,058 million primarily related to proceeds of \$2.0 billion of previously undrawn amounts on a credit facility from its owners, partially offset by \$1,171 million of net repayments, related to the Gold Key Lease financing obligations.

### *Defined Benefit Pension Plan and OPEB Contributions*

The following table summarizes employer contributions made to Old Carco's defined benefit pension plans or direct benefit payments to plan participants:

	<b>Predecessor A</b>	
	<b>January 1, 2009 through June 9, 2009</b>	<b>Year Ended December 31, 2008</b>
	<b>(in millions of dollars)</b>	
Total employer contributions	\$ 77	\$ 106

*Defined Benefit Pension Plans—Funded Status.* The following table summarizes the funded status of Old Carco's pension plans:

	<b>Predecessor A</b>	
	<b>June 9, 2009</b>	<b>December 31, 2008</b>
	<b>(in millions of dollars)</b>	
Benefit obligation	\$ 27,019	\$ 27,674
Fair value of plan assets	22,629	23,528
Funded status of plans	<u>\$ (4,390)</u>	<u>\$ (4,146)</u>

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Old Carco's pension plans were underfunded by \$4,390 million at June 9, 2009 and underfunded by \$4,146 million at December 31, 2008. The change in funded status was primarily due to service and interest costs of \$817 million, an actuarial loss of \$274 million and special early retirement programs and curtailments of \$239 million during the period from January 1, 2009 to June 9, 2009, partially offset by discount rate changes of \$845 million, plan amendments and benefit changes of \$128 million, company contributions of \$77 million and the actual return on plan assets of \$71 million during the period from January 1, 2009 to June 9, 2009.

**OPEB Plans—Funded Status.** Old Carco provided health care, legal and life insurance benefits to certain hourly and salaried employees. Upon retirement, employees became eligible for continuation of certain benefits. The following table summarizes the funded status of Old Carco's OPEB plans:

	<b>Predecessor A</b>	
	<b>June 9, 2009</b>	<b>December 31, 2008</b>
	<b>(in millions of dollars)</b>	
Benefit obligation	\$ 13,077	\$ 13,265
Fair value of plan assets	1,774	1,686
Funded status of plans	<u>\$ (11,303)</u>	<u>\$ (11,579)</u>

Old Carco's OPEB plans were underfunded by \$11,303 million at June 9, 2009 and underfunded by \$11,579 million at December 31, 2008. The change in funded status was primarily due to company contributions of \$476 million made directly to pay benefits, plan amendments and benefit changes of \$273 million, changes in actuarial assumptions of \$165 million and the actual return on plan assets of \$88 million during the period from January 1, 2009 to June 9, 2009, partially offset by service and interest costs of \$605 million and exchange rate impacts of \$140 million.

### ***Off-Balance Sheet Arrangements and Guarantees Provided to Third Parties***

We have entered into various off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, results of operations or liquidity. These include variable interest entities, or VIEs, and guarantees. As of December 31, 2010, we had guaranteed obligations of others with maximum exposures of \$27 million, related primarily to guarantees for dealership loans and floor plan financing. For a discussion of our VIEs and guarantees refer to Note 3, *Summary of Significant Accounting Policies* and Note 14, *Commitments, Contingencies and Concentrations*, respectively, of our accompanying audited consolidated financial statements.

#### *Arrangements with Key Suppliers*

From time to time in the ordinary course of our business, we enter into various arrangements with key suppliers in order to establish strategic and technological advantages. A limited number of these arrangements contain unconditional obligations to purchase a fixed or minimum quantity of goods and/or services with fixed and determinable price provisions. Purchases under these obligations were \$295 million, \$95 million, \$65 million and \$97 million, respectively, for the year ended December 31, 2010 and for the periods from June 10, 2009 to December 31, 2009 and from January 1, 2009 to June 9, 2009 and the year ended December 31, 2008. Future obligations under these contracts as of December 31, 2010 were as follows (in millions of dollars): 2011 - \$286; 2012 - \$313; 2013 - \$154; 2014 - \$75; 2015 - \$7; 2016 and thereafter - \$3.

Additionally, we enter into similar arrangements containing unconditional obligations to purchase a minimum quantity of goods for which pricing is variable, and therefore do not have fixed and determinable future payment streams. Under these arrangements we are obligated to make payments or will have the right to receive reimbursements if our purchase volumes are outside a specified range of values. Purchases under these

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obligations were \$116 million, \$50 million, \$29 million and \$90 million, respectively, for the year ended December 31, 2010 and for the periods from June 10, 2009 to December 31, 2009 and from January 1, 2009 to June 9, 2009 and the year ended December 31, 2008.

**Contractual Obligations**

The following table summarizes our payments due under our significant contractual obligations and commitments as of December 31, 2010:

	Payments Due by Period				Total
	2011	2012-2013	2014-2015 (in millions of dollars)	2016 and thereafter	
Long term financial liabilities <sup>(1)</sup>	\$ 2,681	\$ 978	\$ 839	\$ 10,105	\$ 14,603
Long term asset-backed notes payable—Gold Key Lease	132	43	—	—	175
Interest on long term financial liabilities <sup>(2)</sup>	1,058	2,060	2,072	4,105	9,295
Capital lease obligations	31	51	56	138	276
Operating lease commitments	128	186	139	249	702
Unconditional purchase obligations	286	467	82	3	838
Other long term liabilities:					
Pension contribution requirements <sup>(3)</sup>	338	—	—	—	338
Total	<u>\$ 4,654</u>	<u>\$ 3,785</u>	<u>\$ 3,188</u>	<u>\$ 14,600</u>	<u>\$ 26,227</u>

- (1) The amounts above exclude unamortized debt discounts of \$1,323 million. For further discussion of our credit facilities, refer to —*Liquidity and Capital Resources* —*Chrysler Group—Credit Facilities and Certain Indebtedness* above.
- (2) Amounts include interest payments based on contractual terms and current interest rates on our debt and capital lease obligations. Interest payments based on variable rates included in the table above were determined using the current interest rate in effect at December 31, 2010.
- (3) Pension contribution requirements are based on an estimate of our minimum funding requirements pursuant to the Employee Retirement Income Security Act, or ERISA regulations. We expect required contributions to be approximately \$338 million in 2011. We may elect to make contributions in excess of the minimum funding requirements in response to investment performance and changes in interest rates, to achieve funding levels required by our defined benefit plan arrangements, or when we believe that it is financially advantageous to do so and based on our other capital requirements. Our minimum funding requirements after 2011 will depend on several factors, including investment performance and interest rates. Therefore, the table above excludes payments beyond 2011, since we cannot predict with reasonable reliability the timing and amounts of future minimum funding requirements. Excluded from the table above are payments of \$12 million and \$231 million due in 2011 with respect to our unfunded pension and postretirement benefit plans, respectively, which represent the expected benefit payments to participants as costs are incurred.

The table above excludes unrecognized tax benefits on uncertain tax positions of \$949 million at December 31, 2010, since we cannot predict with reasonable reliability the timing of cash settlements with the respective taxing authorities. Refer to Note 13, *Income Taxes*, of our accompanying audited consolidated financial statements for additional information.

The table above also excludes payments for product warranty costs. We issue various types of contractual product warranties under which we generally guarantee the performance of products delivered for a certain

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period or term. We also periodically initiate voluntary service and recall actions to address various customer satisfaction, safety and emissions issues related to vehicles we sell. The estimated future costs of these actions are based primarily on historical claims experience for our vehicles. Estimates of the future costs of these actions are inevitably imprecise due to numerous uncertainties, including the enactment of new laws and regulations, the number of vehicles affected by a service or recall action and the nature of the corrective action. It is reasonably possible that the ultimate cost of these service and recall actions may require us to make expenditures in excess of established reserves over an extended period of time and in a range of amounts that cannot be reasonably estimated. As of December 31, 2010, our product warranty reserves were \$3,171 million. Refer to —*Critical Accounting Estimates* and Note 3, *Summary of Significant Accounting Policies*, of our accompanying audited consolidated financial statements for additional information.

For additional information regarding long term financial liabilities, operating lease commitments and employee retirement and other benefits, see Notes 12, *Financial Liabilities*, Note 14, *Commitments, Contingencies and Concentrations* and Note 18, *Employee Retirement and Other Benefits*, respectively, of our accompanying audited consolidated financial statements.

***Ally Repurchase Obligation***

We have also agreed to repurchase certain Ally-financed inventory upon certain triggering events. Under the Ally agreement, we are required to repurchase Ally-financed inventory, with certain exceptions, in the event of an actual or constructive termination of a dealer's franchise agreement (including in certain circumstances when Ally forecloses on all assets of a dealer securing financing provided by Ally). These obligations exclude vehicles that have been damaged or altered, that are missing equipment or that have excessive mileage or that have an original invoice date that is more than one year prior to the repurchase date.

As of December 31, 2010, the maximum potential amount of future payments required to be made to Ally under this guarantee is approximately \$5.2 billion and is based on the aggregate repurchase value of eligible vehicles financed by Ally in our U.S. dealer stock. If vehicles are required to be repurchased under this arrangement, the total exposure would be reduced to the extent the vehicles are able to be resold to another dealer. The fair value of the guarantee was less than \$1 million at December 31, 2010, which considers both the likelihood that the triggering events will occur and the estimated payment that would be made net of the estimated value of inventory that would be reacquired upon the occurrence of such events. This estimate reflects our actual experience. The Ally agreement extends through April 20, 2013, with automatic one-year renewals unless either party elects not to renew.

Refer to Note 14, *Commitments, Contingencies and Concentrations*, of our accompanying audited consolidated financial statements for additional information on guarantees we have provided.

***Quantitative and Qualitative Disclosures about Market Risk***

Due to the nature of our business, we are exposed to a variety of market risks, including foreign currency exchange rate risk, commodity price risk, interest rate risk and counterparty risk. We evaluate these risks on an on-going basis and manage our exposures centrally. Our Foreign Exchange Hedging Committee (FEHC) and Commodity Hedging Committee (CHC) approve derivative hedging strategies to manage our operating risk exposures for foreign exchange and commodities, respectively.

The members of these committees include the Chief Financial Officer, the Treasurer, and other senior operating management of the Company. The Treasury Department executes derivative transactions in accordance with the approved strategies, as well as within our risk management policies.

We use derivatives (primarily forward contracts and swaps) to hedge our financial and operational exposures. We do not enter into derivative transactions for speculative purposes or to hedge our balance sheet translation risk.

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Refer to Note 16, *Derivative Financial Instruments and Risk Management*, of our accompanying audited consolidated financial statements for additional information on our derivatives.

We use sensitivity analyses to quantify the impact of changes in foreign currency exchange rates, commodity prices and interest rates on the fair value of the financial instruments used to hedge these risks. Our models assume instantaneous, parallel shifts in foreign currency exchange rates, commodity prices and interest rate yield curves. We did not have any option contracts or any other instruments with non-linear returns outstanding at December 31, 2010.

*Foreign Currency Exchange Rate Risk*

We are exposed to foreign currency exchange rate risk as a result of sales of vehicles and parts, purchases of components used in our manufacturing operations, debt, and dividend payments from foreign subsidiaries denominated in currencies other than the U.S. dollar. Foreign currency exchange rate risk is the risk that fluctuations in specific currencies against the U.S. dollar will negatively impact our results of operations. To the extent possible, we net sales and purchases in specific currencies against each other and review this net cash flow position for hedging purposes. We are most vulnerable to fluctuations in the Canadian dollar, Mexican peso, Australian dollar and Japanese yen against the U.S. dollar. To manage these exposures, we enter into derivative contracts (primarily currency forward and swap contracts) to hedge a portion of our exposures. We began hedging our foreign currency exchange rate risk in late December 2009. The derivative contracts used to hedge foreign exchange rate risk had a remaining maturity of up to 12 months at December 31, 2010.

The net fair value of foreign currency derivatives was a liability of \$78 million at December 31, 2010. The potential decrease in the fair value of our foreign currency derivatives at December 31, 2010 due to an unfavorable 10 percent parallel shift in all foreign currency exchange rates versus the U.S. dollar would be \$297 million.

In addition, we are exposed to foreign currency exchange rate risk as a result of translating the assets and liabilities of our subsidiaries outside of the United States (primarily Canada, Mexico and Venezuela into U.S. dollars). Refer to Note 3, *Summary of Significant Accounting Policies*, and Note 22, *Venezuelan Currency Devaluation*, respectively, of our accompanying audited consolidated financial statements for additional information on the impact of the devaluation of the Venezuelan bolivar fuerte.

*Commodity Price Risk*

We are exposed to changes in the prices of commodities used in the manufacture of vehicles, such as non-ferrous metals (such as aluminum, lead and copper), precious metals (such as platinum and palladium) and energy (such as natural gas). Commodity price risk is the adverse impact that changes in commodity prices would have on our financial results. To manage this risk, we enter into commodity derivative contracts for a portion of our exposures. We began hedging our commodity exposures in late December 2009. The derivative contracts used to hedge commodity price risk had a remaining maturity of up to 18 months at December 31, 2010.

The net fair value of commodity derivatives was an asset of \$90 million at December 31, 2010. The potential decrease in the fair value of our commodity derivatives at December 31, 2010 due to a 10 percent decrease in commodity prices would be \$50 million. This amount does not include the offsetting impact of the lower prices we would pay for the underlying commodities.

*Interest Rate Risk*

We are exposed to interest rate risk due to our interest-bearing investment portfolio and financing activities. Interest rate risk is the risk of loss we would incur due to changes in interest rates.

For purposes of sensitivity analyses, we segregated our interest-bearing financial instruments into fixed or floating. For fixed-rate financial instruments, our sensitivity analysis measures the changes in fair value, whereas for floating-rate financial instruments, our sensitivity analysis measures the potential loss in future earnings.

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We had fixed-rate debt of \$5.7 billion at December 31, 2010. The potential increase in the fair value of our fixed-rate interest-bearing financial instruments from a 10 percent decrease in market interest rates would be \$303 million at December 31, 2010.

We also had floating-rate investments and floating-rate debt of \$8.0 billion and \$8.0 billion, respectively, at December 31, 2010, resulting in a naturally hedged position. In addition, we swapped \$173 million of floating-rate debt associated with our Gold Key Lease program at December 31, 2010 to a fixed rate. The net fair value of the interest rate swaps on our Gold Key Lease portfolio at December 31, 2010 was a liability of \$1 million. The majority of our floating rate debt is exposed to changes in three month LIBOR, with a 2 percent interest rate floor.

*Counterparty Risk*

We are exposed to counterparty risk as a result of our investment and derivatives contracts. Counterparty risk relates to the risk of loss which we would incur if a counterparty defaulted on an investment or derivatives contract. Our Treasury Department manages counterparty risk by establishing exposure limits for each counterparty based on credit ratings and financial position, and monitoring utilization against these limits. Counterparty limits and exposure utilization are periodically reviewed with our Treasurer. Substantially all of our counterparties are rated single-A or higher.



[Table of Contents](#)**Item 3. Properties**

At December 31, 2010, we owned 33 manufacturing facilities, of which 22 were located in the U.S., 4 in Canada, 6 in Mexico and 1 in South America. These manufacturing facilities primarily include vehicle assembly plants, powertrain plants, and metal stamping plants. Manufacturing facilities in the U.S. are primarily located in Michigan, Illinois, Indiana, and Ohio. Our Trenton, Michigan facility was awarded a Gold-level LEED certification by the U.S. Green Building Council in 2010. It is one of only four automotive plants in the world, and the only automotive engine plant, to receive this designation.

We own our principal engineering and research facilities and general offices, which are located in Auburn Hills, Michigan and include approximately 5.3 million square feet on 465 acres, including our 4.8 million square foot technology center.

We own proving grounds located in Michigan and Arizona, which allow us to test vehicle performance and safety in a wide variety of environments.

We operate several parts distribution facilities primarily located in the U.S., Canada and Mexico. These locations facilitate the distribution of service and accessory parts to the dealer network and include a combination of owned and leased facilities.

We own or lease various dealership and vehicle storage properties in the U.S., Canada and Japan, which we in turn lease to our dealers. Our warehouses and sales offices are primarily leased and are located in various states throughout the U.S. and in Mexico, Canada and other international locations.

Our principal engineering and research facilities and general offices are encumbered by a mortgage given to secure the Auburn Hills Headquarters Loan. Our owned facilities and principal properties located in the U.S. are encumbered by mortgages given to secure our obligations under our credit facility with the U.S. Treasury. Our owned facilities and principal properties in Canada are encumbered by mortgages given to secure our obligations under our credit facility with the EDC. In relation to a reassessment of taxes related to transfer pricing adjustments, our Canadian subsidiary has granted a lien against the Canadian manufacturing facilities and related assets in the principal amount of approximately \$1.2 billion in favor of the Canadian government and the Ontario government. The government of Canada liens and the Ontario government liens were discharged. Our Saltillo truck plant and engineering lab in Mexico are pledged as collateral to secure the Mexican Development Banks Credit Facility. See *Item 2—Financial Information—Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources—Chrysler Group—Credit Facilities and Certain Indebtedness*.

We believe that our properties are suitable and adequate for the manufacture, assembly, distribution and sale of our products. As part of our strategic planning and operations, we monitor our production capacity in relation to developing and anticipated industry changes and market conditions. We also adjust our capacity by selling, expanding or downsizing various production facilities or by adding or eliminating shifts, subject to restrictions contained in our collective bargaining agreements with unions.

[Table of Contents](#)**Item 4. Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth information with respect to beneficial ownership of our Class A and Class B Membership Interests as of April 22, 2011 for all of our members, including: (i) each person known by us to beneficially own either class of our membership interests; (ii) each director; (iii) each of our named executive officers; and (iv) all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes having voting and/or investment power with respect to the securities. Each of the persons and entities named in the table below have sole voting and sole investment power with respect to the membership interests set forth opposite each person's or entity's name.

As of April 22, 2011, there were 800,000 Class A Membership Interests and 200,000 Class B Membership Interests authorized, issued and outstanding. For a description of certain call options and other rights related to our membership interests, see *Item 11. Description of Registrant's Securities to be Registered*. Unless otherwise indicated, the address for each of the individuals listed in the table is c/o Chrysler Group LLC, 1000 Chrysler Drive, Auburn Hills, Michigan, 48326.

<u>Name and Address of Beneficial Owner</u>	<u>Class A Membership Interests</u>		<u>Class B Membership Interests</u>		<u>Aggregate Percent of Combined Voting Power</u>
	<u>Number of Membership Interests</u>	<u>Percent of Class</u>	<u>Number of Membership Interests</u>	<u>Percent of Class</u>	
UAW Retiree Medical Benefits Trust(1) P.O. Box 14309 Detroit, Michigan 48214	676,924	84.6%	—	—	59.2%
Fiat North America LLC Via Nizza n. 250 10125 Torino, Italy	—	—	200,000	100%	30.0%
The United States Department of the Treasury 1500 Pennsylvania Avenue, NW Washington, D.C. 20220	98,461	12.3%	—	—	8.6%
Canada CH Investment Corporation(2) 1235 Bay Street, Suite 400 Toronto, Ontario, Canada M5R 3K4	24,615	3.1%	—	—	2.2%
<b>Directors and Named Executive Officers:</b>					
C. Robert Kidder	—	—	—	—	—
Alfredo Altavilla	—	—	—	—	—
Governor James J. Blanchard	—	—	—	—	—
George F.J. Gosbee	—	—	—	—	—
Douglas M. Steenland	—	—	—	—	—
Scott M. Stuart	—	—	—	—	—
Ronald L. Thompson	—	—	—	—	—
Stephen M. Wolf	—	—	—	—	—
Sergio Marchionne	—	—	—	—	—
Richard K. Palmer	—	—	—	—	—
Holly E. Leese	—	—	—	—	—
Nancy A. Rae	—	—	—	—	—
Michael Manley	—	—	—	—	—
Directors and Executive Officers as a group, including those named above (13 persons)	—	—	—	—	—

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- (1) Includes 54,153.92 Class A Membership Interests held by UAW VEBA Holdco CH-00, LLC, 54,153.92 Class A Membership Interests held by UAW VEBA Holdco CH-01, LLC, 54,153.92 Class A Membership Interests held by UAW VEBA Holdco CH-02, LLC, 54,153.92 Class A Membership Interests held by UAW VEBA Holdco CH-03, LLC, 54,153.92 Class A Membership Interests held by UAW VEBA Holdco CH-04, LLC, 54,153.92 Class A Membership Interests held by UAW VEBA Holdco CH-05, LLC, 54,153.92 Class A Membership Interests held by UAW VEBA Holdco CH-06, LLC, 54,153.92 Class A Membership Interests held by UAW VEBA Holdco CH-07, LLC, 54,153.92 Class A Membership Interests held by UAW VEBA Holdco CH-08, LLC, 54,153.92 Class A Membership Interests held by UAW VEBA Holdco CH-09, LLC, 54,153.92 Class A Membership Interests held by UAW VEBA Holdco CH-10, LLC, 54,153.92 Class A Membership Interests held by UAW VEBA Holdco CH-11, LLC, and 27,076.96 Class A Membership Interests held by UAW VEBA Holdco CH-12, LLC.
- (2) The following description of the beneficial owner was provided by Canada CH. Canada CH Investment Corporation is a wholly-owned subsidiary of Canada Development Investment Corporation. Canada Development Investment Corporation is a Canadian federal Crown corporation, meaning that it is a business corporation established under the Canada Business Corporations Act, owned by the federal Government of Canada.

[Table of Contents](#)**Item 5. Directors and Executive Officers*****Directors***

The names and ages, as of April 22, 2011, and certain background information relating to our directors are set forth below:

**C. Robert Kidder**

<i>Age</i>	66
<i>Director since</i>	June 2009
<i>Term Expires</i>	June 10, 2011
<i>Principal Occupation</i>	Chairman and Chief Executive Officer of 3Stone Advisors LLC
<i>Recent Business Experience</i>	Mr. Kidder serves as Chairman of the Board of Directors for Chrysler Group LLC. Prior to his current position, Mr. Kidder served as a Principal of Stonehenge Partners, Inc. and as Chairman and Chief Executive Officer of both Duracell International Inc. and Borden Chemical Inc. Mr. Kidder holds a Bachelor of Science Degree in Industrial Engineering from the University of Michigan and a Master of Science Degree in Industrial Economics from Iowa State University.  Mr. Kidder's extensive experience in global manufacturing and his service on the boards of several public companies provide the Board with insight into the operation of manufacturing companies and how boards at other companies address issues similar to those faced by the Company.
<i>Outside Directorships</i>	Mr. Kidder currently serves on the boards of Morgan Stanley & Co., Inc., Merck & Co., Inc. and Microvi Biotech Inc. He is also on the Board of Trustees of Nationwide Children's Hospital and the Wexner Center Foundation, both in Columbus, Ohio. In addition, he serves on the Board of Trustees of Ohio University. Mr. Kidder has previously served as a director of Electronic Data Systems Corporation and General Signal Corporation.
<i>Arrangements</i>	Mr. Kidder was appointed as a director by the U.S. Treasury in accordance with the terms of the LLC Operating Agreement.

**Sergio Marchionne**

<i>Age</i>	58
<i>Director since</i>	June 2009
<i>Term Expires</i>	June 10, 2012
<i>Principal Occupation</i>	Chief Executive Officer, Chief Operating Officer and President of Chrysler Group LLC and Chief Executive Officer of Fiat S.p.A.
<i>Recent Business Experience</i>	Mr. Marchionne serves as Chief Executive Officer of Fiat Group Automobiles S.p.A. and has held that role since February 2005. Prior to joining Fiat, Mr. Marchionne served as Chief Executive Officer of SGS SA, Chief Executive Officer of the Lonza Group Ltd., and Chief Executive Officer of Alusuisse Lonza (Algroup). He also served as Vice President of Legal and Corporate Development and Chief Financial Officer of the Lawson Group after serving as Vice President of Finance and Chief Financial Officer of Acklands Ltd. and Executive Vice President of Glenex

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Industries. Mr. Marchionne holds a Bachelor of Laws from Osgoode Hall Law School at York University in Toronto, Canada and a Master of Business Administration from the University of Windsor, Canada.

Mr. Marchionne's extensive experience at Fiat provides the Board with expertise in the automotive industry, especially with respect to the cost discipline and collaboration strategies with Fiat needed to achieve our Company's business plan.

*Outside Directorships*

Mr. Marchionne serves on the Board of Directors of Philip Morris International Inc. and as Chairman of SGS SA headquartered in Geneva. Additionally, Mr. Marchionne serves as Chairman of Fiat Industrial S.p.A. and as a director of Exor S.p.A., a shareholder of Fiat and Fiat Industrial. Mr. Marchionne also serves as a director of certain Fiat and Fiat Industrial affiliates. He is a member of the General Council of Confindustria (the employers association of Italy), of Assonime (the association of Italian joint stock companies), and of ACEA (European Automobile Manufacturers Association). Mr. Marchionne previously served as appointed non-executive Vice Chairman and Senior Independent Director of UBS AG.

*Arrangements*

Mr. Marchionne was appointed as a director by Fiat in accordance with the terms of the LLC Operating Agreement.

Alfredo Altavilla*Age*

47

*Director since*

June 2009

*Term Expires*

June 10, 2012

*Principal Occupation*

Chief Executive Officer of Iveco S.p.A. and Executive Vice President of Corporate Development for Fiat S.p.A.

*Recent Business Experience*

Mr. Altavilla has served as Executive Vice President of Corporate Development for Fiat since 2009, after serving as Senior Vice President of Business Development for Fiat Group Automobiles S.p.A during the prior five years. In addition, Mr. Altavilla served as Chief Executive Officer of Fiat Powertrain Technologies S.p.A. for five years beginning in 2006. Mr. Altavilla has also served as Chief Executive Officer of Turk Otomobil Fabrikasi A.S., a Fiat joint venture with Koç Group in Turkey. Mr. Altavilla holds a bachelor degree in Economics from La Cattolica University in Milan, Italy.

Mr. Altavilla's broad experience in negotiating and managing international industrial alliances and joint ventures and his management experience in the automotive industry provide the Board with an unique executive and technical perspective on implementation of the Company's business plans in leveraging the Fiat alliance.

*Outside Directorships*

Mr. Altavilla has served and continues to serve as a director of various Fiat and Fiat Industrial affiliates.

*Arrangements*

Mr. Altavilla was appointed as a director by Fiat in accordance with the terms of the LLC Operating Agreement.

[Table of Contents](#)James J. Blanchard

<i>Age</i>	68
<i>Director since</i>	July 2009
<i>Term Expires</i>	June 10, 2012
<i>Principal Occupation</i>	Partner and Co-Chairman, Government Affairs Practice Group at DLA Piper
<i>Recent Business Experience</i>	<p>Governor Blanchard has served as the U.S. ambassador to Canada and was elected to two terms as Governor of the State of Michigan and four terms as a member of the U.S. House of Representatives. As a member of Congress, he sponsored the successful Chrysler Loan Guarantee Act of 1980 and served as Chairman of the Sub-Committee on Economic Stabilization. He was also Assistant Attorney General of Michigan. Governor Blanchard has a Bachelor of Arts in Social Science and a Masters of Business Administration from Michigan State University, as well as a Juris Doctor from the University of Minnesota Law School.</p> <p>Governor Blanchard's experience as Governor of Michigan and member of the U.S. House of Representatives provides the Board with familiarity with labor and public policy issues relevant to the U.S. automotive industry.</p>
<i>Outside Directorships</i>	Governor Blanchard currently serves on the Board of Enbridge Inc., as well as on the Board of Directors of the Foundation for the National Archives. Governor Blanchard is also the Chairman of the Board of Trustees of the Meridian International Center, a leading non-profit public diplomacy institute in Washington, D.C.
<i>Arrangements</i>	Governor Blanchard was appointed as a director by the VEBA Trust with the consent of the UAW in accordance with the terms of the LLC Operating Agreement.

George F.J. Gosbee

<i>Age</i>	41
<i>Director since</i>	July 2009
<i>Term Expires</i>	June 10, 2012
<i>Principal Occupation</i>	Chairman, President & Chief Executive Officer of AltaCorp Capital Inc.
<i>Recent Business Experience</i>	<p>Before founding the investment firm AltaCorp in 2010, Mr. Gosbee was Managing Director of Macquarie Capital Inc. Mr. Gosbee was also Chairman, President &amp; Chief Executive Officer at Tristone Capital Global Inc., a global energy investment dealer. Mr. Gosbee left Tristone in 2009 after the firm was purchased by Macquarie Bank. Prior to joining Tristone, Mr. Gosbee was a Managing Director at Newcrest Capital and Peters &amp; Co. Limited and has 19 years of investment industry experience. Mr. Gosbee holds a Bachelor of Commerce Degree from the University of Calgary, where he specialized in Finance and Petroleum Land Management.</p> <p>Mr. Gosbee's extensive experience in finance and investment banking provides the Board with valuable insights on financial and strategic planning matters, and developments in the energy industry that may affect our business.</p>
<i>Outside Directorships</i>	Mr. Gosbee currently serves as Vice Chair of Alberta Investment Management Corp. (AIMCO) in Edmonton. He is an advisor on the Government of Canada's Economic Advisory Council, a member of the Canadian Council of Chief Executives, Director of the Libin Cardiovascular Institute of Alberta, and an Advisor to the School of Public Policy at the University of Calgary.

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<i>Arrangements</i>	Mr. Gosbee was appointed as a director by Canada CH Investment Corporation in accordance with the terms of the LLC Operating Agreement.
<u><b>Douglas M. Steenland</b></u>	
<i>Age</i>	59
<i>Director since</i>	July 2009
<i>Term Expires</i>	June 10, 2011
<i>Principal Occupation</i>	Retired
<i>Recent Business Experience</i>	<p>Mr. Steenland served as the Chief Executive Officer and President of Northwest Airlines Corporation from 2004 to 2008 when Northwest merged with Delta Air Lines. While CEO, he oversaw the voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code of Northwest in 2005 and its emergence from bankruptcy protection in 2007. Before becoming CEO in 2004, Mr. Steenland held a variety of positions at Northwest including President, Executive Vice President and Chief Corporate Officer, and General Counsel. Prior to joining Northwest, Mr. Steenland worked as a Senior Partner in the Washington D.C. law firm of Verner, Liipfert, Bernhard, McPherson and Hand (now part of DLA Piper). Mr. Steenland also currently serves as a Senior Advisor to the Blackstone Group. Mr. Steenland holds a Bachelor's Degree in history from Calvin College (Michigan) and a Juris Doctor from George Washington University Law School.</p> <p>Mr. Steenland's experience in the transportation industry, as well as his particular experience in leading a major airline through and following bankruptcy restructuring, provide the Board with valuable experience in global management and corporate restructuring.</p>
<i>Outside Directorships</i>	Mr. Steenland serves on the boards of several public companies, including Delta Air Lines Inc., American International Group Inc. and its subsidiary International Lease Finance Corporation, and Digital River, Inc. Mr. Steenland also serves on the boards of Hilton Worldwide and Performance Food Group. Mr. Steenland previously served on the board of Northwest Airlines Corporation.
<i>Arrangements</i>	Mr. Steenland was initially appointed as a director by the U.S. Treasury in accordance with the terms of the LLC Operating Agreement.
<u><b>Scott M. Stuart</b></u>	
<i>Age</i>	51
<i>Director since</i>	July 2009
<i>Term Expires</i>	June 10, 2011
<i>Principal Occupation</i>	Founding Partner of Sageview Capital LLC
<i>Recent Business Experience</i>	Mr. Stuart is a founding partner of Sageview Capital LLC, an investment firm with over \$1 billion of assets. Prior to starting Sageview in 2005, Mr. Stuart spent 19 years at Kohlberg Kravis Roberts & Co., where he was a partner and a member of the firm's investment committee. During his tenure there, he was involved with

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investments in the consumer products, media, industrial and power sectors. Mr. Stuart graduated from Dartmouth College in 1981 with a Bachelor of Arts in English Literature. He also earned a Master's degree in 1986 from Stanford University Graduate School of Business.

Mr. Stuart's prominent financial experience, as well as his many years of private equity experience in industrial and consumer products companies, provide the Board with a capital markets perspective and insight into a consumer-driven, industrial company. In addition, his past service on several boards of directors provides valuable corporate governance and oversight experience.

*Outside Directorships*

Mr. Stuart currently serves on the board of EverBank Financial Corp., Community Bancorp LLC, and the Memorial Sloan Kettering Cancer Center. Previously, he served on the corporate boards of Borden Holdings Inc., DPL Inc., Duracell International Inc., RJR Nabisco Inc., Boyds Collection Ltd, Aveos Fleet Performance Inc. and Sealy Corporation.

*Arrangements*

Mr. Stuart was initially appointed as a director by the U.S. Treasury in accordance with the terms of the LLC Operating Agreement.

Ronald L. Thompson*Age*

61

*Director since*

July 2009

*Term Expires*

June 10, 2011

*Principal Occupation*

Retired

*Recent Business Experience*

Until 2005, Mr. Thompson owned and operated the Midwest Stamping Company of Maumee, Ohio, a manufacturer of medium and heavy gauge metal components for the automotive market. Mr. Thompson was a faculty member at Old Dominion University, Virginia State University and the University of Michigan. Mr. Thompson holds a Bachelor of Business Administration from the University of Michigan, and a Master of Science and a Ph.D. in Agricultural Economics from Michigan State University.

Mr. Thompson's breadth of experience in leading industrial and financial companies, as well as his background serving on various board of directors, provide the Board with valuable corporate governance, oversight and industry experience, including restructuring.

*Outside Directorships*

Mr. Thompson serves as Chairman of the Board of Trustees for Teachers Insurance and Annuity Association and as a Member of the Board of Trustees of Washington University in St. Louis. Mr. Thompson has served on the boards of several companies, including Commerce Bank of St. Louis, GR Group (U.S.), Illinova Corporation, Interstate Bakeries Corporation, McDonnell Douglas Corporation, Midwest Stamping Company, Ralston Purina Company and Ryerson Tull, Inc. He was also a member of the Board of Directors of the National Association of Manufacturers.

*Arrangements*

Mr. Thompson was initially appointed as a director by the U.S. Treasury in accordance with the terms of the LLC Operating Agreement.



[Table of Contents](#)Stephen M. Wolf

<i>Age</i>	69
<i>Director since</i>	July 2009
<i>Term Expires</i>	June 10, 2012
<i>Principal Occupation</i>	Managing Partner of Alpilles LLC
<i>Recent Business Experience</i>	<p>Mr. Wolf has served as Managing Partner of Alpilles LLC, a private investment company, since 2003. He has previously served as Chairman and Chief Executive Officer of US Airways Group, Inc. and US Airways, Inc. and oversaw the voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code of U.S. Airways Group, Inc. in 2002 and its emergence from bankruptcy protection under a plan of reorganization in 2003. Before joining US Airways, Mr. Wolf was Senior Advisor to the investment banking firm Lazard Frères &amp; Co. LLC. Other prior roles include Chairman and Chief Executive Officer of UAL Corporation and United Airlines Inc., Chairman and Chief Executive Officer of Tiger International, Inc. and The Flying Tiger Line, Inc., President and Chief Executive Officer of Republic Airlines and President and Chief Operating Officer of Continental Airlines. Mr. Wolf holds a bachelor's degree in sociology from San Francisco State University.</p> <p>Mr. Wolf's experience in the transportation and finance industries, as well as his particular experience in leading a major airline through and following bankruptcy restructuring, provide the Board with valuable experience in global management and corporate restructuring.</p>
<i>Outside Directorships</i>	<p>Mr. Wolf serves as a member of the Board of Directors of Philip Morris International and Chairman of the Board of R. R. Donnelley &amp; Sons Company. Mr. Wolf also serves as Chairman of the Advisory Board of Trilantic Capital Partners, previously Lehman Brothers Merchant Banking. Mr. Wolf had served as Chairman of Lehman Brothers Private Equity Advisory Board.</p>
<i>Arrangements</i>	Mr. Wolf was appointed as a director by Fiat in accordance with the terms of the LLC Operating Agreement.

[Table of Contents](#)**Executive Officers**

The names and ages, as of April 22, 2011, of our executive officers and their positions and offices are as follows:

<b>Name (Age)</b>	<b>Chrysler Group LLC position (and date of initial election)</b>	<b>Other principal positions held during the past five years</b>
Sergio Marchionne (58)	Chief Executive Officer, Chief Operating Officer and President (2009)	See <i>Directors</i> , above
Richard K. Palmer (44)	Senior Vice President and Chief Financial Officer (2009)	<ul style="list-style-type: none"> <li>• Chief Financial Officer of Fiat North America LLC (2009)</li> <li>• Chief Financial Officer of Fiat Group Automobiles S.p.A. (2006)</li> <li>• Chief Financial Officer of Iveco S.p.A. (2005)</li> </ul>
Holly E. Leese (55)	Senior Vice President, General Counsel and Secretary (2009)	<ul style="list-style-type: none"> <li>• Senior Vice President, General Counsel and Secretary of Chrysler LLC (2008)</li> <li>• Assistant General Counsel and Assistant Secretary of Chrysler LLC (1998)</li> </ul>
Nancy A. Rae (55)	Senior Vice President – Human Resources (2009)	<ul style="list-style-type: none"> <li>• Senior Vice President – Human Resources of Chrysler LLC (2000)</li> </ul>
Michael Manley (47)	Senior Vice President - International and Head of Jeep Brand (2009)	<ul style="list-style-type: none"> <li>• Executive Vice President – International Sales and Global Product Planning Operations of Chrysler LLC (2008)</li> <li>• Executive Vice President – International Sales, Marketing and Business Development of Chrysler LLC (2007)</li> <li>• Vice President – Sales Strategy and Dealer Operations of Chrysler LLC (2006)</li> <li>• Vice President – Dealer Operations of Chrysler LLC (2003)</li> </ul>

**Family Relationships**

No family relationships exist among any of the directors or executive officers.

[Table of Contents](#)**Item 6. Executive Compensation****Compensation Discussion and Analysis****Overview**

The compensation provided to our named executive officers for 2010 is set forth in detail in the 2010 Summary Compensation Table and other tables and the accompanying footnotes and narrative material that follow this section. This section explains the approved compensation for each of our named executive officers in 2010, our compensation structure components and the process for making our 2010 compensation decisions. Our named executive officers for 2010, which consist of those individuals who appear in the 2010 Summary Compensation Table, were Sergio Marchionne, our Chief Executive Officer, Chief Operating Officer and President, Richard Palmer, our Senior Vice President and Chief Financial Officer, Holly Leese, our Senior Vice President, General Counsel and Secretary, Nancy Rae, our Senior Vice President, Human Resources and Michael Manley, our Senior Vice President—International and Head of Jeep Brand.

Prior to June 10, 2009, each of Chrysler Group's named executive officers (other than Messrs. Marchionne and Palmer) was employed and compensated by its predecessor, Old Carco. Pursuant to the terms of the master transaction agreement, employees of Old Carco became employees of Chrysler Group and Chrysler Group assumed certain employee benefit plans, programs, policies and arrangements (and related assets and liabilities) from Old Carco, subject to the condition that such assumed plans, programs, policies and arrangements comply in all respects with EESA, as amended by the American Recovery and Reinvestment Act of 2009, or the ARRA, as it may be amended, and any guidance issued by a regulatory authority thereunder and any other applicable law in effect currently or in the future. With limited exceptions related to contractual retirement benefits, at the time of the 363 Transaction in June 2009, Chrysler Group did not assume any individual agreements (including employment, severance, change in control or retention agreements) with the top 25 most highly compensated employees, including Milles. Leese and Rae and Mr. Manley.

In addition, in connection with the 363 Transaction and our credit agreements with the U.S. Treasury and the EDC, we agreed to comply with the restrictions on executive privileges and compensation established under section 111 of EESA. Under the terms of each credit agreement, these restrictions will apply until the latest of (i) June 10, 2018, (ii) the one-year anniversary of the repayment of all obligations under the first lien credit agreement and (iii) the one-year anniversary of the date that the lender ceases to own any direct or indirect equity in Chrysler Group, if, in the case of the U.S. Treasury, such equity constitutes "outstanding obligations" under section 111 of EESA. In particular, under the credit agreements, Chrysler Group agreed:

- to (i) take all necessary action to ensure that specified benefit plans comply in all respects with the EESA and any applicable executive compensation standards, and (ii) not adopt any new specified benefit plan (x) that does not comply with such standards or (y) that does not condition all payments on compliance with the EESA and the applicable executive compensation standards;
- to forego any deduction for executive compensation in excess of the limits imposed by Section 162(m)(5) of the Internal Revenue Code;
- to not pay or accrue any bonus or incentive compensation to any of the top 25 most highly compensated employees, except as may be permitted under the EESA or the applicable executive compensation standards;
- to not adopt or maintain any compensation plan that would encourage manipulation of Chrysler Group's reported earnings to enhance the compensation of any of its employees; and
- to maintain all restrictions on contributions to specified benefit plans that were in place or initiated as of June 10, 2009.

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The EESA, as amended by ARRA, required the Secretary of the U.S. Treasury to establish standards related to executive compensation and corporate governance for financial institutions receiving financial assistance under TARP, or the TARP Compensation Standards, which were issued in June 2009. As an exceptional financial assistance recipient under TARP by virtue of receiving financial assistance under the Automotive Industry Financing Program, Chrysler Group is subject to the TARP Compensation Standards, which impose strict, legally mandated limits on the structure and amounts of compensation it may pay to its “senior executive officers” and certain other highly compensated employees. The Office of the Special Master for TARP Executive Compensation, or the Special Master, has the authority to review and approve the amount and form of compensation awarded to our five “senior executive officers” and the next 20 most highly compensated employees for purposes of the TARP Compensation Standards, and to review and determine the form of compensation for the remainder of the Company’s 100 most highly compensated employees.

In 2009, Chrysler Group engaged directly with the Special Master to ensure that the amount and form of compensation awarded would advance Chrysler Group’s long-term interests while complying with both the spirit and substantive requirements of TARP. After extensive discussions with the Special Master regarding executive compensation, this process resulted in our named executive officers receiving a portion of their 2009 total direct compensation in the form of a limited cash salary, and deferred phantom shares and long-term incentives in the form of restricted stock units, both tied to the value of the Class A Membership Interests (on a fully diluted basis after conversion of the Class B Membership Interests). In 2010, we designed our compensation program consistent with the program approved by the Special Master for 2009 and the principles reflected in the TARP Compensation Standards. The 2010 total direct compensation determinations for our five “senior executive officers” and the next 20 most highly compensated employees, which included the named executive officers, were publicly announced by the Special Master in March 2010 and are available at [www.treasury.gov](http://www.treasury.gov).

### **2010 Compensation Principles**

Chrysler Group is committed to designing and implementing responsible compensation practices that allow the Company to attract and retain capable and experienced professionals and motivate them to help the Company achieve long-term growth and appreciation in value. These objectives must be balanced, however, with the covenants in our U.S. Treasury first lien credit agreement and the TARP Compensation Standards that constrain the form and amount of compensation paid to our top employees. The TARP Compensation Standards provide that compensation programs for the Company’s senior employees, including the named executive officers, must not be inconsistent with the following six principles, which the Company’s Compensation and Leadership Development Committee, or the Compensation Committee, considered when designing the Company’s compensation structure and awarding compensation to our employees:

- *Risk.* The compensation structure should avoid incentives that encourage employees to take unnecessary or excessive risks that could threaten the value of the Company;
- *Taxpayer Return.* The compensation structure and amount payable should reflect the need for the Company to remain a competitive enterprise and to retain and recruit talented employees so that the Company will be able to repay its TARP obligations;
- *Appropriate Allocation.* The compensation structure should appropriately allocate total compensation to fixed and variable pay elements resulting in an appropriate mix of salary and long- and short-term compensation elements based on the specific role of the employee and other relevant circumstances;
- *Performance-based Compensation.* An appropriate portion of compensation should be performance-based over a relevant performance period;
- *Comparable Structures and Payments.* The compensation structure and amounts payable should be consistent with the compensation structures and amounts payable for employees in similar positions or roles at similar entities that are similarly situated; and

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- *Employee Contributions to Chrysler Group's Value.* The compensation structure and amount payable should reflect the current or prospective contributions of the individual employee to the Company's value.

These principles are intended to be consistent with sound compensation practices appropriate for TARP recipients. The Special Master has discretion to determine the appropriate weight or relevance of a particular principle depending on the facts and circumstances surrounding the compensation structure or payment under consideration for a particular employee, such as whether a payment occurred in the past or is proposed for the future, the role of the employee within the TARP recipient, the situation of the TARP recipient within the marketplace, and the amount and type of financial assistance provided.

***Approved Compensation***

Although the Compensation Committee is responsible for approving the design of the Company's executive compensation program, the Special Master has the authority to review and approve the amount and form of compensation awarded to our five "senior executive officers" and the next 20 most highly compensated employees for purposes of the TARP Compensation Standards. The Special Master also has the authority to review and determine the form of compensation for the remainder of the Company's 100 most highly compensated employees.

The following supplemental table shows the approved 2010 total direct compensation for the Company's named executive officers as approved by the Compensation Committee and the Special Master. This presentation is different from the basis required in the 2010 Summary Compensation Table that follows this Compensation Discussion and Analysis. Some of the differences are that the following table (1) reports only direct compensation, consisting of base salary, annualized stock salary in the form of deferred phantom shares and long-term incentives in the form of restricted stock units, and does not report indirect compensation such as retirement benefits, welfare benefits and perquisites and (2) presents the grant date fair value for long-term incentives in the form of restricted stock units approved for service in 2010 as if the grant occurred in 2010, even though it actually occurred in January 2011, while the 2010 Summary Compensation Table presents the grant date fair value for long-term incentives in the form of restricted stock units approved for service in 2009 and granted in March 2010 (which incentives are not reflected in the table below).

**Approved 2010 Total Direct Compensation**

<b>Name</b>	<b>Cash Salary (<u>\$</u>)</b>	<b>Annualized Stock Salary in the Form of Deferred Phantom Shares (<u>\$</u>)</b>	<b>Long-Term Incentives in the Form of Restricted Stock Units<sup>(1)</sup> (<u>\$</u>)</b>	<b>Total (<u>\$</u>)</b>
Sergio Marchionne <i>Chief Executive Officer; Chief Operating Officer and President<sup>(2)</sup></i>	—	—	—	—
Richard K. Palmer <i>Senior Vice President and Chief Financial Officer</i>	500,000	180,000	340,000	1,020,000
Holly E. Leese <i>Senior Vice President, General Counsel and Secretary</i>	485,000	145,500	315,250	945,750
Nancy A. Rae <i>Senior Vice President, Human Resources</i>	455,000	150,150	302,575	907,725
Michael Manley <i>Senior Vice President—International and Head of Jeep Brand</i>	410,000	135,300	272,650	817,950
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- (1) The amounts reported in this column reflect the value of the long-term incentives in the form of restricted stock units approved by the Special Master for service provided in 2010. This grant was made in January 2011. In accordance with SEC regulations, the 2010 Summary Compensation Table and the 2010 Grants of Plan-Based Awards table do not reflect these grants because they were not granted in 2010. Instead, the Summary Compensation Table and the Grants of Plan-Based Awards table prepared for 2011 will include the grant date fair value of these awards (if the named executive officers also are named executive officers at the time such disclosure is prepared).
- (2) As described further below, Mr. Marchionne elected to receive no direct compensation from Chrysler Group for his services on behalf of Chrysler Group in 2010 and, accordingly, the Special Master was not asked to approve any compensation for his services in 2010.

### ***Compensation Components***

Consistent with the six compensation principles guiding our compensation program, our 2010 compensation arrangements for our named executive officers (other than Mr. Marchionne), as approved by the Compensation Committee and the Special Master, included the following components:

- cash base salary;
- stock salary in the form of deferred phantom shares;
- long-term incentives in the form of restricted stock units;
- retirement benefits; and
- other benefits and perquisites.

The TARP Compensation Standards prohibit the payment of any cash incentive or bonus to our five “senior executive officers” and any of the next 20 most highly compensated employees until Chrysler Group has no remaining obligations under TARP. Accordingly, our named executive officers did not participate in any annual cash incentive compensation plan in 2010 and did not receive any cash compensation other than the base salaries described below.

Approximately half of each named executive officer’s total 2010 direct compensation is comprised of cash base salary, and half is comprised of restricted stock unit and deferred phantom share awards (assuming any applicable performance goals are achieved). We believe that this mix of cash/non-cash and short-term/long-term incentives provides an appropriate balance between our longer-term business objectives and shorter-term retention and competitive needs.

Mr. Marchionne is the Chief Executive Officer of Fiat and Chairman or Chief Executive Officer of several significant business units within Fiat and Fiat Industrial, including Fiat Group Automobiles, Case New Holland and Iveco trucks, and elected to receive no direct compensation from Chrysler Group for his services on behalf of Chrysler Group in 2010. His compensation from Fiat is publicly disclosed in Fiat’s annual report.

#### *Cash Base Salary*

We provide our named executive officers (other than Mr. Marchionne) and other employees with a cash base salary to compensate them for services rendered on a day-to-day basis during the year. Base salaries provide stable compensation to our top employees, allow us to recruit and retain highly talented and dedicated employees and, through periodic merit increases, provide a basis upon which our top employees may be rewarded for individual performance.

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Our Compensation Committee reviews base salary levels of our named executive officers annually to determine whether an adjustment is warranted or necessary. The Compensation Committee takes into account numerous factors in making its determination, none of which are dispositive or individually weighted, including our financial performance, the state of our industry and local economies in which we operate, the named executive officer's relative importance and responsibilities, the named executive officer's location, the named executive officer's track record in meeting his or her performance objectives and comparable salaries paid to other executives with similar experience in our compensation peer group, as described below.

In 2009, the Special Master required that cash salaries generally target the 50th percentile of comparable salaries because such levels of cash salaries balance the need to attract and retain talent with the need for compensation structures that reflect the circumstances of an exceptional financial assistance recipient. The Special Master's determination was aided by analysis from a number of internal and external sources, including competitive market data provided by Chrysler Group in connection with its submissions to the Special Master (which was based on the compensation peer group described below), information on comparable compensation structures extracted from the U.S. Mercer Benchmark Database-Executive and information on comparable compensation structures extracted from Equilar's ExecutiveInsight database (which includes information drawn from publicly filed proxy statements) and Equilar's Top 25 Survey Summary Report (which includes information from a survey on the pay of highly compensated employees). The Special Master also determined that cash base salary should not exceed \$500,000, except in exceptional circumstances where good cause can be shown. The base salaries paid to our named executive officers during 2010, which were the same as the cash base salaries approved by the Special Master in 2009, are reported in the *2010 Summary Compensation Table*, below.

*Stock Salary in the Form of Deferred Phantom Shares*

In addition to cash base salary, we pay our named executive officers (other than Mr. Marchionne) a portion of their total annual compensation in stock salary. So-called stock salary is a form of compensation permitted under the TARP Compensation Standards that is intended to be delivered throughout the course of the year on each monthly payroll date much like cash base salaries. However, instead of being paid immediately as cash, stock salary is awarded as units the value of which is determined based on the value of our Class A Membership Interests, as described below.

Chrysler Group's stock salary is in the form of deferred phantom shares which, as required by the TARP Compensation Standards, are fully vested upon grant. Each deferred phantom share represents a unit, or a Chrysler Group Unit, equal to 1/600th of the value of a Class A Membership Interest on a fully diluted basis after conversion of the Class B Membership Interests, assuming that Fiat's ownership interest does not increase as a result of the occurrence of the Class B Events described in *Item 11. Description of the Registrant's Securities to be Registered—Ownership*. The value of a Chrysler Group Unit is based on the fair value of our membership interests. Since there is currently no observable publicly traded price for our membership interests, the calculation of the fair value of our membership interests is determined using a discounted cash flow methodology. We believe that the use of equity compensation as a component of total compensation provides our top employees, including our named executive officers, with a strong link to our long-term performance, creates an ownership culture and helps to align the interests of our top employees and our members. Because the Company was organized as a limited liability corporation after the 363 Transaction, Chrysler Group Units were issued to our top employees to replicate the alignment incentives presented by equity ownership.

Stock salary is determined as a dollar amount with the number of Chrysler Group Units determined based on the fair value of the Class A Membership Interests, as described above, on the date of the award. The value of the deferred phantom shares generally results in our named executive officers placing at or below the 50th percentile of total direct compensation for persons in similar roles at similar entities based on the compensation peer group described below. The Special Master determined that paying stock salary in the form of deferred phantom shares was not inconsistent with the public interest if structured in the long-term interest of members by aligning the compensation with long-term value creation rather than short-term profits. As a result, although fully vested upon

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grant, deferred phantom shares, except for the deferred phantom shares granted to Mr. Marchionne (as described below), are paid in three equal installments at the end of the quarter in which the second, third and fourth anniversaries, respectively, of the monthly grant occur. Each installment may be paid one year earlier than scheduled if the Company's TARP obligations have been repaid. Payments under the Deferred Phantom Share Plan are made in cash and are based on the fair value of Chrysler Group's Class A Membership Interests as of the most recently completed valuation at the time of payment, and are made regardless of employment status at the time of payment.

In order to align Mr. Marchionne's interests with the Company's members, on December 24, 2009, the Compensation Committee approved a deferred phantom share grant for Mr. Marchionne with a \$600,000 grant value for his service as a director from June 2009 through June 2012, which has been approved by the Special Master. Because the grant was made subject to (i) the amendment of the Deferred Phantom Share Plan to allow for such grant under the plan, which amendment was approved by the Compensation Committee on January 14, 2010, and (ii) the amendment of the Company's LLC Operating Agreement to allow compensation to be paid to employee directors, which amendment was approved by the Board on January 29, 2010, the grant did not occur until January 2010.

For more information regarding the deferred phantom shares granted in 2010, see —*Compensation of the Named Executive Officers—2010 Grants of Plan-Based Awards*, —*Compensation of the Named Executive Officers—Options Exercised and Stock Vested in 2010* and —*Compensation of the Named Executive Officers—Nonqualified Defined Contribution and Other Nonqualified Deferred Compensation Plans*, below.

### *Long-Term Incentives in the Form of Restricted Stock Units*

Although no bonus, retention award or incentive compensation may be paid or accrued in respect of the five "senior executive officers" and the next 20 most highly compensated employees under the TARP Compensation Standards, long-term incentives may be paid in the form of long-term restricted stock units with a value of up to one-third of a named executive officer's total 2010 annual direct compensation. Each restricted stock unit represents one Chrysler Group Unit. The Special Master determined the maximum amount of these awards, and the Compensation Committee reserves discretion to award lesser amounts based on the individual's or the Company's performance. We believe that long-term incentives are a critical component of our executive compensation program and our restricted stock units are the primary vehicle for offering long-term incentives to our top employees. While we do not believe that formal stock ownership guidelines for the named executive officers are appropriate at this time, we believe that equity grants provide our top employees, including our named executive officers, with a strong link to our long-term performance, create an ownership culture and help to align the interests of our top employees and our members.

In November 2009, the Compensation Committee considered whether to grant any of this allowable incentive compensation to top employees for their services during the six-month period following the Company's emergence from bankruptcy in June 2009 and, as a result of such consideration, Chrysler Group granted restricted stock units to the named executive officers (other than Mr. Marchionne) for such service. After a subsequent comprehensive review of employee performance during such six-month period, it was determined that the November 2009 grant did not adequately reflect the employees' current or prospective contributions to the value of the Company and that an additional grant of restricted stock units would be appropriate and not inconsistent with the TARP Compensation Standards. In March 2010, after receiving approval from the Special Master, Chrysler Group made an additional grant of restricted stock units to the named executive officers (other than Mr. Marchionne) in respect of their services in 2009 based on employee performance.

The restricted stock units granted in November 2009 and March 2010 vest in two tranches: 25 percent of the Chrysler Group Units related to the award, or the Service RSUs, will vest if the holder is continuously employed by us through the third anniversary of the grant date and the Modified EBITDA target threshold for 2010 of \$2.5 billion is achieved, and 75 percent of the Chrysler Group Units related to the award, or the IPO RSUs, will vest if



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the holder is continuously employed by us through the later of: (i) the third anniversary of the grant date; and (ii) the date on which an initial public offering by Chrysler Group, or the Chrysler Group IPO (as defined in the LLC Operating Agreement) occurs. The Modified EBITDA target threshold for 2010, which was achieved, was developed and reviewed in consultation with the Special Master and was based on the Company's 2010 business plan, which we believed to be an appropriate metric to align employee compensation with the Company's corporate performance. All unvested restricted stock units will become fully vested upon the holder's death or permanent disability. Unvested restricted stock units as of the date of termination of employment for any reason (other than retirement, as described below) are forfeited. See *Item 2. Financial Information—Non-GAAP Financial Measures—Modified EBITDA* for a reconciliation of our Net Loss per our audited consolidated financial statements to Modified EBITDA.

In May 2010, after re-considering the vesting provisions of the restricted stock units, the Compensation Committee amended the retirement provisions of the restricted stock units, with the Special Master's approval, to provide that if the holder of restricted stock units granted in November 2009 and March 2010 retires on or after the second anniversary of grant, then such holder will continue to be considered employed for vesting purposes for both Service RSUs and IPO RSUs; however, no portion of the IPO RSUs will become vested following a holder's retirement if the Chrysler Group IPO does not occur on or before June 10, 2017. For purposes of all restricted stock units, the holder will be treated as having retired upon a termination of employment after reaching age 55 and completing 10 years of service with Chrysler Group or a predecessor company (or after satisfying other applicable retirement criteria).

Payment of the Service RSUs granted in November 2009 will be on the later of: (i) the calendar year after the year in which vesting occurs; and (ii) when at least 25 percent of the Company's TARP obligation is repaid. Payment of the Service RSUs granted in March 2010 will be on the later of: (i) the calendar year in which vesting occurs; and (ii) when at least 25 percent of the Company's TARP obligation is repaid. Payment of the IPO RSUs granted in either November 2009 or March 2010 will be on the later of: (i) March 15 of the year following the year in which the IPO RSUs vest; and (ii) when 100 percent of the Company's TARP obligation is repaid. Payment for vested restricted stock units is made in cash prior to a Chrysler Group IPO, and on and after a Chrysler Group IPO, in cash or shares of Chrysler Group's publicly traded stock in the Company's sole discretion. Payment for vested restricted stock units will be made regardless of employment status at the time of the scheduled payment. For more information regarding the restricted stock units granted in 2010, see *—Compensation of the Named Executive Officers—2010 Grants of Plan-Based Awards* and *—Compensation of the Named Executive Officers—Outstanding Equity Awards at December 31, 2010*, below.

The named executive officers (other than Mr. Marchionne) also received a portion of their 2010 total direct compensation in the form of restricted stock units, the grant of which was based on the achievement of a Modified EBITDA target threshold for 2010 and 13-month average month end cash balance developed and reviewed in consultation with the Special Master. The Modified EBITDA target for 2010 for this purpose was \$2.8 billion (which reflects the Compensation Committee's decision to set this target \$0.3 billion higher than the Modified EBITDA target threshold used for purposes of the vesting of the Service RSUs granted in November 2009 and March 2010) and the 13-month average month end cash balance was \$5.7 billion. Both performance goals were based on the Company's 2010 business plan, which we believed to be appropriate metrics to align employee compensation with the Company's corporate performance. The Company achieved the performance goals, which entitled the named executive officers to receive the maximum long-term incentive award value approved by the Special Master. Accordingly, the Company made the following restricted stock unit grants to the named executive officers (other than Mr. Marchionne) in January 2011, which represent one-third of a named executive officer's total 2010 annual direct compensation. This is the same portion of annualized direct compensation that restricted stock units granted in respect of their services in 2009 represented.

[Table of Contents](#)**Restricted Stock Units Granted in January 2011**

<b>Name</b>	<b>Approved Restricted Stock Unit Value<sup>(1)</sup> (S)</b>	<b>Number of Restricted Stock Units<sup>(2)</sup> (#)</b>
Sergio Marchionne	—	—
Richard K. Palmer	340,000	42,768
Holly E. Leese	315,250	39,655
Nancy A. Rae	302,575	38,060
Michael Manley	272,650	34,296

(1) The amounts reported in this column reflect the value of the long-term incentives in the form of restricted stock units approved by the Compensation Committee and the Special Master for service provided in 2010.

(2) The number of restricted stock units was determined by dividing the value of restricted stock units approved by the Compensation Committee and the Special Master in March 2010 by the Chrysler Group Unit fair value, which was \$7.95 per Chrysler Group Unit based on the December 31, 2010 valuation of the Class A Membership Interests.

Vesting of the 2011 restricted stock units is not split into two vesting tranches, one based on service and one based on the occurrence of an IPO, like the restricted stock units granted in 2009 and 2010. Instead, the 2011 restricted stock units will vest if the holder is continuously employed by us through the third anniversary of the grant date. If the holder retires on or after the second anniversary of the grant date, the individual will continue to be considered employed for vesting purposes. All unvested restricted stock units will become fully vested upon the holder's death or permanent disability. Unvested restricted stock units as of the date of termination are forfeited. Payment of the 2011 restricted stock unit awards will be no later than March 15, 2015 unless payment must be delayed to comply with the TARP Compensation Standards. For more information regarding the value of the restricted stock units approved for 2011, see —*Compensation Discussion and Analysis—Approved Compensation*, above.

*Retirement Benefits*

The named executive officers (other than Mr. Marchionne) participate in the Chrysler Group retirement plans (both defined benefit and defined contribution plans) that provide employees with tax-advantaged savings opportunities and income after retirement from the Company on the same terms and conditions as those made available to other eligible U.S. employees, subject to satisfying any eligibility requirements and applicable law. Under the TARP Compensation Standards and the Special Master's determinations, our named executive officers are allowed to continue to participate in both tax-qualified defined benefit and defined contribution retirement plans.

Under the Chrysler Group Salaried Employees' Savings Plan, or the Savings Plan, the Company's tax-qualified defined contribution 401(k) elective savings plan, employees are able to elect to defer a portion of their eligible compensation (up to the limits set by the Internal Revenue Service). For 2010, the Company did not make a matching contribution to the Savings Plan based on the amount of the employees' deferrals. We do not currently provide employees, including our named executive officers, with the opportunity to defer any compensation in excess of the amounts that are legally permitted to be deferred under the Savings Plan.

Subject to the satisfaction of age and service requirements, Mlles. Leese and Rae and Mr. Manley are eligible for pension benefits under the Chrysler Group LLC Executive Salaried Employees' Retirement Plan, or the Executive Salaried Employees' Retirement Plan, a contributory tax-qualified defined benefit pension plan, and the Chrysler Group LLC Supplemental Executive Retirement Plan, or the Supplemental Executive Retirement

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Plan, a contributory nonqualified defined benefit pension plan, on the same terms and conditions as offered to other U.S. non-bargaining unit employees hired prior to January 1, 2004. The Executive Salaried Employees' Retirement Plan and Supplemental Executive Retirement Plan provide a retirement benefit based on years of service and final average salary. However, as a result of the determinations of the Special Master, no additional amounts may accrue under the Supplemental Executive Retirement Plan for the named executive officers after October 22, 2009. For more information regarding the defined benefit pension benefits provided to our named executive officers, see —*Compensation of the Named Executive Officers—2010 Pension Benefits*, below.

Messrs. Marchionne and Palmer are not eligible to participate in the Executive Salaried Employees' Retirement Plan or the Supplemental Executive Retirement Plan. On October 1, 2010, Mr. Palmer became eligible to participate in the Chrysler Group LLC Employee Managed Retirement Plan, or the Employee Managed Retirement Plan, a non-elective tax-qualified defined contribution plan for employees hired after December 31, 2003 who are not eligible to participate in the Executive Salaried Employees' Retirement Plan and Supplemental Executive Retirement Plan. The Company makes an annual contribution to the Employee Managed Retirement Plan equal to a fixed percentage of the employee's compensation and the Social Security wage base. For more information regarding the contribution on behalf of Mr. Palmer to the Employee Managed Retirement Plan, see —*Compensation of the Named Executive Officers—2010 Summary Compensation Table*, below. Mr. Marchionne does not participate in any Chrysler Group retirement plans.

### *Other Benefits and Perquisites*

The named executive officers are eligible to participate in the Company-sponsored U.S. health and welfare benefit programs for active employees on the same terms and conditions as those made available to U.S. salaried employees or expatriates generally, subject to satisfying any eligibility requirements and applicable law. Basic health benefits, life insurance, disability benefits and similar programs are provided to ensure that employees have access to healthcare and income protection for themselves and their family members.

We do not have a formal perquisite policy, but provide perquisites for our employees in locales where there is a recognized market practice among our competitors to provide such perquisites. Under the TARP Compensation Standards and the Special Master's determinations, perquisites and other compensation (excluding cash base salary, stock salary in the form of deferred phantom shares, long-term incentives in the form of restricted stock units and tax-qualified retirement benefits) provided to a named executive officer may not exceed \$25,000 annually, except in exceptional circumstances for good cause shown (*e.g.*, payments related to expatriate assignments). For 2010, the Special Master approved additional compensation of up to \$275,000 per person annually under the Company's expatriate assignment program. For more information regarding the perquisites provided to our named executive officers, see —*Compensation of the Named Executive Officers—2010 Summary Compensation Table*, below.

### *Process for Compensation Decisions*

*Role of the Compensation and Leadership Development Committee.* The Senior Vice President, Human Resources works with Chrysler Group's executive compensation team to develop compensation structures and amounts for the named executive officers. These structures and amounts are further refined after being reviewed with the Chief Executive Officer and are then presented to the Compensation Committee for its consideration. The Compensation Committee is composed of independent directors with extensive senior executive leadership experience. The Compensation Committee also oversees the Company's leadership development and succession planning programs. Compensation Committee meetings are typically held every other month and generally are attended by internal legal and human resources employees and other top employees as necessary depending upon agenda items, although an executive is not present when the Compensation Committee is discussing such executive's compensation.

As discussed above, the Compensation Committee must balance the need to provide competitive compensation and benefits with TARP Compensation Standards. Moreover, the Special Master must approve the compensation

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structure applicable to our top employees. Working with the Special Master, the Compensation Committee reviewed and approved corporate goals and objectives related to compensation and set individual compensation amounts for our named executive officers.

The Compensation Committee met and determined the Company's 2010 compensation structure in January 2010, including the maximum value of restricted stock units granted in January 2011. The Company's 2010 compensation structure was based, in large part, on the compensation structure established for the portion of 2009 that Chrysler Group was in existence. The Compensation Committee also met with the Company's senior risk officer, Mr. Palmer, to ensure that compensation arrangements did not create incentives that encourage employees to take unnecessary or excessive risks that could threaten the value of the Company. Shortly after the Compensation Committee made its determination, it submitted the proposed compensation structure to the Special Master for approval. The Company received the Special Master's approval for its proposal (with only minor changes from the Compensation Committee's original submission) in March 2010.

The Compensation Committee is charged with determining the compensation of the Company's Chief Executive Officer. As described above, Mr. Marchionne, however, elected to receive no compensation from the Company for his services as Chief Executive Officer, Chief Operating Officer and President in 2010, and as such, no determinations for the Chief Executive Officer, Chief Operating Officer and President were necessary.

*Compensation Consultants.* The Company engaged Meridian Compensation Partners LLC, or Meridian, as consultants for certain limited aspects of executive compensation analysis and planning. In particular, Meridian worked with the Company to determine the appropriate peer group of companies for benchmark studies of competitive executive compensation and provided data analyses, market assessments, and preparation of related reports. Executive compensation consultants from Meridian also assisted with the development of stock salary and long-term restricted stock unit plans that complied with the TARP Compensation Standards. In addition, in previous years, Meridian reviewed competitive market data for compensation analyses used by the Company to assist the Company with establishing compensation for salaried employees at all levels of the Company. In its capacity as advisor to the Company, Meridian did not attend Compensation Committee meetings.

Prior to November 2010, the Compensation Committee did not engage its own independent compensation consultant. In November 2010, the Compensation Committee independently engaged Meridian as consultants to assist the Compensation Committee as necessary pursuant to the Compensation Committee's direction with respect to matters related to executive compensation planning and analysis. As it was only engaged in late 2010 in its capacity as advisor to the Compensation Committee, Meridian provided only limited advice related to compensation matters being considered by the Compensation Committee for 2011.

During 2010, the Company paid Meridian \$25,438 in consulting fees directly related to executive compensation services performed for the Compensation Committee and \$106,963 in consulting fees directly related to executive compensation services performed for the Company. The Company did not pay Meridian any consulting fees in 2010 for services unrelated to executive compensation.

*Consideration of Competitive Compensation Levels.* The Compensation Committee believes that use of a compensation peer group is the most effective method for providing a competitive market context as the Compensation Committee evaluates and sets the compensation needed to attract, motivate and retain the executive talent needed to manage the Company's businesses and operations successfully. In 2010, the Compensation Committee considered compensation information compiled by Meridian, the independent compensation consultant retained by the Company, based on a wide range of large companies. A compensation peer group of 31 companies was selected based on their annual revenues (annual revenues ranged from \$9.4 billion to \$425.1 billion), complexity of business operations, and global span of business enterprises. Meridian assisted Chrysler Group in selecting the compensation peer group by gathering relevant financial and business data for companies being considered for inclusion in the peer group and then by providing the Compensation

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Committee with recommendations for peer group members. For 2010, the compensation peer group consisted of the following companies, which remained the same as in 2009:

3M Company	E.I. du Pont de Nemours and Company	International Business Machines Corporation
Altria Group, Inc.	Eastman Kodak Company	Johnson & Johnson
AT&T Corp.	Eaton Corporation	Johnson Controls, Inc.
The Boeing Company	Exxon Mobil Corporation	Lockheed Martin Corporation
Cardinal Health, Inc.	Ford Motor Company	Northrop Grumman Corporation
Caterpillar Inc.	General Dynamics Corporation	The Procter & Gamble Company
Deere & Company	General Electric Company	TRW Automotive Holdings Corp.
Dell Inc.	General Motors Company	United Parcel Service, Inc.
DPH Holdings Corp. (formerly Delphi Corp.)	The Goodyear Tire & Rubber Company	United Technologies Corporation
The Dow Chemical Company	Honeywell International Inc.	Verizon Communications Inc.
		Xerox Corporation

*Consideration of Risk Management.* As required by the TARP Compensation Standards, the Compensation Committee reviewed the compensation arrangements of the named executive officers with the Company's senior risk officer, Mr. Palmer, to ensure that the compensation arrangements did not encourage named executive officers to take unnecessary or excessive risks that could threaten the value of the Company and concluded that they did not.

*Deductibility of Executive Compensation and Other Tax Considerations.* As a recipient of funds under TARP, the Company is subject to Section 162(m)(5) of the Internal Revenue Code, which imposes a cap of \$500,000 on the income tax deductibility of any compensation paid to named executive officers, including any "performance-based" compensation. We take this limitation into account in structuring compensation paid to our named executive officers. In addition, we also take into account certain other tax considerations, including Section 409A of the Internal Revenue Code, which governs the form and time of payment of nonqualified deferred compensation, and could result in significant additional taxes and penalties on a recipient of nonqualified deferred compensation that does not comply with Section 409A.

*Accounting Considerations.* In making decisions about executive compensation, we also consider how various elements of compensation will affect our financial reporting. For example, we consider the impact of the accounting guidance related to stock compensation, which requires us to recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant date fair value of those awards.

### ***Other Policies and Considerations***

*Recovery of Incentive Awards.* The TARP Compensation Standards require that all incentive compensation payable to the named executive officers be subject to "clawback" if it is later determined to have been based on materially inaccurate financial statements or any other materially inaccurate performance metrics or if the named executive officer is terminated due to misconduct that occurred during the period in which the incentive award was earned.

*Expense Policy.* In June 2009, in order to assist the Company's efforts in ensuring that all expenses incurred by its employees in the course of their duties are reasonable and appropriate, the Company adopted an expense policy, which is available on our website, [www.chryslergroupllc.com](http://www.chryslergroupllc.com). The policy governs certain corporate expenditures, including entertainment and events, office and facility renovations, aviation and other transportation services and other similar items, activities and events. The policy establishes internal reporting and oversight mechanisms including expense account reviews in order to ensure that the policy is followed.

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*Severance Policy.* The Company maintains a Termination Allowance Plan that provides severance benefits to a broad group of our employees. The TARP Compensation Standards, however, provide that none of the named executive officers nor the next five most highly compensated employees may receive severance or other “golden parachute payments” on account of their termination. If any of our named executive officers (other than Mr. Marchionne) becomes no longer subject to the restrictions under the TARP Compensation Standards, he or she may be eligible for severance benefits under the Company’s Termination Allowance Plan. See —*Compensation of the Named Executive Officers—Potential Payments upon Termination or Change in Control*, below, for additional discussion of the Termination Allowance Plan.

*Stock Ownership Guidelines and No-Hedging Policy.* We do not have formal stock ownership guidelines in place for our named executive officers at this time since we do not believe they are appropriate while we are a private company. We do, however, believe that a culture of ownership within our executive group is paramount to our long-term success, and as such provide a portion of our named executive officers’ total compensation in the form of equity-based awards the value of which is determined based on the value of Class A Membership Interests of the Company. As the Company’s membership interests are not currently publicly traded, there is not an active market for Company derivative securities, and as such a no-hedging policy is not necessary. Once the Company’s equity interests are traded on an exchange, though, the Compensation Committee will reconsider the necessity for stock ownership guidelines and a no-hedging policy.

**Conclusion**

Chrysler Group’s success depends on the appropriate alignment of interests between Chrysler Group’s members and employees. As such, management and the Compensation Committee continue to work to design and implement compensation programs that will recognize the contributions of the Company’s employees and will attract new employees to the Company, within the guidelines of TARP Compensation Standards and consistent with the determinations of the Special Master.

[Table of Contents](#)**Compensation of the Named Executive Officers**

The following tables contain compensation information for the Company's Chief Executive Officer, Chief Financial Officer and the Company's three most highly paid executive officers, other than our Chief Executive Officer and Chief Financial Officer, who were serving as our executive officers on December 31, 2010. These officers are referred to as the "named executive officers." All dollar amounts are in U.S. dollars. See —*Compensation Discussion and Analysis* for additional details regarding our compensation practices.

**2010 Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards <sup>(1)</sup> (\$)	Stock Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings <sup>(2)</sup> (\$)	All Other Compensation <sup>(3)</sup> (\$)	Total (\$)
Sergio Marchionne <sup>(4)</sup> <i>Chief Executive Officer, Chief Operating Officer and President</i>	2010	—	—	600,000 <sup>(5)</sup>	—	—	—	—	600,000
Richard K. Palmer <i>Senior Vice President and Chief Financial Officer</i>	2010	500,000	—	253,500	—	—	—	289,394	1,042,894
Holly E. Leese <i>Senior Vice President, General Counsel and Secretary</i>	2010	485,000	—	192,770	—	—	365,450	7,925	1,051,145
Nancy A. Rae <i>Senior Vice President, Human Resources</i>	2010	455,000	—	191,863	—	—	345,405	15,170	1,007,438
Michael Manley <i>Senior Vice President—International and Head of Jeep Brand</i>	2010	410,000	—	161,072	—	—	35,450	18,131	624,653

(1) The amounts reported in this column represent the grant date fair value of the deferred phantom shares and restricted stock units, which represent the right to receive Chrysler Group Units, granted to each of the named executive officers in 2010, calculated in accordance with the accounting guidance related to stock compensation. That value is calculated by multiplying the fair value per Chrysler Group Unit (as described in —*Compensation Discussion and Analysis—Stock Salary in the Form of Deferred Phantom Shares*, above) as of the grant date of the award (determined in accordance with the accounting guidance related to stock compensation) by the number of Chrysler Group Units related to the deferred phantom shares or restricted stock units awarded. Regardless of the value on the grant/vesting date, the actual value will depend on the fair value of our Class A Membership Interests on a date in the future when an award vests or is paid. For a discussion of the deferred phantom shares and the restricted stock units granted to each of the named executive officers as compensation for services in 2010, see —*Compensation Discussion and Analysis—Stock Salary in the Form of Deferred Phantom Shares*, —*Compensation Discussion and Analysis—Long-Term Incentives in the Form of Restricted Stock Units* and —*Compensation of the Named Executive Officers—2010 Grants of Plan-Based Awards*.

In accordance with SEC regulations, this column does not reflect awards granted for services in 2010 that were granted in January 2011 after fiscal year-end; the grant date value of these awards will be reflected in the Summary Compensation Table and Grants of Plan-Based Awards table for 2011 (if the named executive officers also are named executive officers at the time that disclosure is prepared). For a discussion of the restricted stock units granted as compensation for services in 2010, see —*Compensation Discussion and Analysis—Approved Compensation* and —*Compensation Discussion and Analysis—Long-Term Incentives in the Form of Restricted Stock Units*.

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- (2) The amounts reported in this column represent the increase in the present value of the accrued defined benefit pension benefits for each named executive officer, including those accrued under the Executive Salaried Employees' Retirement Plan and Supplemental Executive Retirement Plan. No amount is included with respect to nonqualified deferred compensation earnings, because there were no above-market earnings on nonqualified deferred compensation.

The amounts reported for 2010 are determined by subtracting (i) the present value of each named executive officer's accrued benefits as of December 31, 2009 from (ii) the present value of such named executive officer's accrued benefits as of December 31, 2010, which are reported in the Pension Benefits table below, and are computed in the manner explained in the narrative disclosure to the Pension Benefits table. This increase in present value is not a current cash payment, since pension benefits are paid only after retirement, but represents the change in the value of the named executive officers' pension benefits over the previous year-end because: (i) an additional year of contributory service was included in the computation of pension benefits under the Executive Salaried Employees' Retirement Plan and the Supplemental Executive Retirement Plan; (ii) the "final average earnings" used in the computation of the pension benefits increased over the "final average earnings" used in the computation of the pension benefits as of the previous fiscal year-end; and (iii) the normal retirement age, the assumed commencement age of benefits, was one year closer. The present value of the accrued defined benefit pension benefits can also increase or decrease in value due to changes in actuarial assumptions. Between December 31, 2009 and December 31, 2010, the mortality table changed to reflect improvements in life expectancy, which had the effect of increasing the present value. The discount rate used to determine benefit obligations also changed during this same period from 5.5 percent to 5.4 percent, which had the effect of increasing the present value. No other actuarial assumptions changed between December 31, 2009 and December 31, 2010.

Messrs. Marchionne and Palmer are not eligible to participate in the defined benefit pension plans. On October 1, 2010, Mr. Palmer became eligible to participate in the Chrysler Group LLC Employee Managed Retirement Plan, or the Employee Managed Retirement Plan or the EMRP, our non-elective tax-qualified defined contribution plan for employees hired after December 31, 2003 who are not eligible to participate in the defined benefit pension plans. The amount contributed in 2010 by Chrysler Group to the Employee Managed Retirement Plan is reported in the "All Other Compensation" column of the 2010 Summary Compensation Table.

- (3) The amounts reported in this column include the incremental cost of providing the perquisites and other benefits received by our named executive officers, as well as contributions on behalf of Mr. Palmer to the Employee Managed Retirement Plan, in each case without taking into account the value of any income tax deduction for which Chrysler Group is eligible. Incremental costs to Chrysler Group for these items were determined as the actual amounts credited to or paid to or on behalf of the named executive officers. The following table provides additional detail regarding the amounts reported in the "All Other Compensation" column of the 2010 Summary Compensation Table for the year ended December 31, 2010:

Name	Company Vehicle Programs <sup>(a)</sup> (S)	Financial Counseling <sup>(b)</sup> (S)	Tax Preparation Services <sup>(b)</sup> (S)	Medical Evaluations <sup>(c)</sup> (S)	Housing Expenses/ Expatriate Allowances <sup>(d)</sup> (S)	EMRP Contributions <sup>(e)</sup> (S)	Total All Other Compensation (S)
Sergio Marchionne	—	—	—	—	—	—	—
Richard. K. Palmer	6,800	—	—	801	274,997	6,796	289,394
Holly E. Leese	6,800	—	1,125	—	—	—	7,925
Nancy A. Rae	6,800	7,500	—	870	—	—	15,170
Michael Manley	6,800	7,500	2,950	881	—	—	18,131

- (a) The amounts reported in this column represent the incremental cost to the Company for one product evaluation vehicle and one company furnished vehicle. We calculate the incremental cost of providing the Company vehicles by comparing the cost of production against the value received upon the disposal of the vehicle plus the cost of maintenance and repair, insurance, licensing and registration fees. The cost of the product evaluation vehicle also includes fuel. Participants in the product evaluation vehicle program are required to evaluate the vehicle, thus providing feedback about our products. The named executive officers are taxed on the imputed income attributed to personal use of company vehicles and do not receive tax assistance from the Company.
- (b) The amounts reported in these columns represent the incremental costs to the Company associated with either (i) financial counseling and estate planning services or (ii) tax preparation services. The named executive officers are permitted to elect either financial counseling and estate planning services or tax preparation services provided by one of several vendors approved by Chrysler Group. Messrs. Marchionne and Palmer are not eligible for these benefits. The named executive officers are taxed on the imputed income attributed to such services and do not receive tax assistance from the Company.
- (c) The amounts reported in this column represent the incremental costs to the Company for medical services incurred by Chrysler Group in providing executive health evaluations with one of several providers approved by Chrysler Group.
- (d) Mr. Marchionne's principal place of business is not the Company's Auburn Hills, Michigan headquarters. Mr. Marchionne purchased a condominium near our corporate headquarters in Auburn Hills, Michigan to use when he is there on business. The Company reimburses Mr. Marchionne for a variety of the expenses he incurs related to the condominium, including cleaning, utility services, insurance, security and association fees. We believe that there is no incremental cost to the Company as a result of such reimbursement because the costs incurred by us are comparable to or less than the costs we would have incurred for Mr. Marchionne to stay in local area hotels during his visits to our headquarters. In connection with his relocating to our corporate headquarters, Mr. Palmer receives standard expatriate benefits under the terms of our international expatriate assignment policy, including housing, home leave, tax protection and educational assistance, which are reported in this column.



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- (e) Chrysler Group makes a contribution to Mr. Palmer's account under the Employee Managed Retirement Plan equal to the sum of 4 percent of his monthly salary and, once his salary exceeds 75 percent of the Social Security wage base (\$106,800 in 2010), 4 percent of the excess of his monthly salary over 75 percent of the Social Security wage base. Only salary up to the Internal Revenue Service's covered compensation limit (\$245,000 in 2010 and 2011) is taken into account for this purpose.
- (4) Mr. Marchionne is the Chief Executive Officer of Fiat and Chairman or Chief Executive Officer of several significant business units within Fiat and Fiat Industrial, including Fiat Group Automobiles, Case New Holland and Iveco trucks and did not receive direct compensation from Chrysler Group for his services on behalf of Chrysler Group in 2010. For a discussion of the deferred phantom share amounts reported in the "Stock Awards" column, see —*Compensation of the Named Executive Officers—2010 Grants of Plan-Based Awards*, —*Compensation of the Named Executive Officers—Options Exercised and Stock Vested in 2010* and —*Compensation of the Named Executive Officers—Nonqualified Defined Contribution and Other Nonqualified Deferred Compensation Plans*, below. Mr. Marchionne's compensation from Fiat is publicly disclosed in Fiat's annual report.
- (5) Represents deferred phantom shares granted to Mr. Marchionne in connection with his service as a director. On December 23, 2009, the Special Master approved the grant of deferred phantom shares for Mr. Marchionne, which was made by the Company in January 2010.

**2010 Grants of Plan-Based Awards**

The following table sets forth information about the non-equity incentive awards and equity-based awards granted by Chrysler Group to each of our named executive officers in 2010. In accordance with SEC regulations, this column does not reflect awards granted for services in 2010 that were granted in January 2011 after fiscal year-end. The grant date value of these awards will be reflected in the Grants of Plan-Based Awards table for 2011 (if the named executive officers also are named executive officers at the time that disclosure is prepared). For a discussion of the restricted stock units granted as compensation for services in 2010, see —*Compensation Discussion and Analysis—Approved Compensation* and —*Compensation Discussion and Analysis—Long-Term Incentives in the Form of Restricted Stock Units*.

Name	Award Type <sup>(1)</sup>	Grant Date	Approval Date <sup>(2)</sup>	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares or Units	All Other Option Awards: Number of Securities	Exercise or Base Price of Option Awards (\$/Share)	Grant Date Fair Value of Stock and Option Awards <sup>(3)</sup>
				Threshold	Target	Maximum	Threshold	Target	Maximum				
				(\$)	(\$)	(\$)	(#)	(#)	(#)	(#)	(#)	(\$)	(\$)
Sergio Marchionne	DPS	1/31/2010	12/24/2009	—	—	—	—	—	—	361,446.0	—	—	600,000
Richard K. Palmer	DPS	1/31/2010	1/14/2010	—	—	—	—	—	—	5,121.0	—	—	8,500
	DPS	2/28/2010	1/14/2010	—	—	—	—	—	—	5,121.0	—	—	8,500
	RSU	3/12/2010	1/14/2010	—	—	—	—	44,277.0	—	—	—	—	73,500
	DPS	3/31/2010	1/14/2010	—	—	—	—	—	—	5,121.0	—	—	8,500
	DPS	4/30/2010	1/14/2010	—	—	—	—	—	—	20,782.7	—	—	34,500
	DPS	5/31/2010	1/14/2010	—	—	—	—	—	—	9,036.1	—	—	15,000
	DPS	6/30/2010	1/14/2010	—	—	—	—	—	—	9,036.1	—	—	15,000
	DPS	7/31/2010	1/14/2010	—	—	—	—	—	—	5,033.6	—	—	15,000
	DPS	8/31/2010	1/14/2010	—	—	—	—	—	—	5,033.6	—	—	15,000
	DPS	9/30/2010	1/14/2010	—	—	—	—	—	—	5,033.6	—	—	15,000
	DPS	10/31/2010	1/14/2010	—	—	—	—	—	—	5,033.6	—	—	15,000
	DPS	11/30/2010	1/14/2010	—	—	—	—	—	—	5,033.6	—	—	15,000
	DPS	12/31/2010	1/14/2010	—	—	—	—	—	—	5,033.6	—	—	15,000
								<b>Total:</b>	<b>44,277.0</b>	<b>84,419.5</b>			<b>Total:</b>
Holly E. Leese	DPS	1/31/2010	1/14/2010	—	—	—	—	—	—	7,304.0	—	—	12,125
	DPS	2/28/2010	1/14/2010	—	—	—	—	—	—	7,304.0	—	—	12,125
	RSU	3/12/2010	1/14/2010	—	—	—	—	28,476.0	—	—	—	—	47,270
	DPS	3/31/2010	1/14/2010	—	—	—	—	—	—	7,304.0	—	—	12,125
	DPS	4/30/2010	1/14/2010	—	—	—	—	—	—	7,304.0	—	—	12,125
	DPS	5/31/2010	1/14/2010	—	—	—	—	—	—	7,304.0	—	—	