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NORTHERN IRELAND OFFICE

WHITEHALL

LONDON SW1A 2AZ



Minister of State

The Rt Hon Norman Tebbit MP  
Secretary of State for  
Trade & Industry  
Department of Trade &  
Industry  
1 Victoria Street  
LONDON SW1H 0ET

29 March 1985

*Dear Secretary of State,*

DE LOREAN: POSSIBLE WRIT AGAINST LOTUS CARS

The joint receivers of De Lorean Motor Cars Ltd (DMCL) have very recently obtained legal advice that leads them to the view that they should issue a writ against Lotus Cars Ltd in connection with money paid to Lotus by DMCL over a period beginning on 4 April 1979. There is no certainty that the writ would ever come actually to be served: there is some doubt whether a strong enough case could be mounted, and also whether it is Lotus Cars Ltd or the late Colin Chapman personally who could be held responsible for the suspected misappropriation of funds. But the writ (which, because of the statute of limitations, should be issued by 4 April 1985) would keep open for 12 months the option for the receivers to mount a case at some future point if it is justified. The joint receivers take the view that commercial considerations would direct them to the issue of a writ, thus allowing them time to examine over the next 12 months whether further evidence could be discovered which would justify proceeding with an action. The mere issue of a writ, as opposed to its serving, is simple, inexpensive and commits nobody.

I have no reason to seek to dissuade the joint receivers from that course. Although they would possibly be receptive to our views I believe that this is the kind of decision that they should be left to make on commercial grounds without government intervention. However, I am aware that the issue of a writ by the joint receivers against Lotus, albeit one that might not come to be served, could have a potentially adverse effect on the company.

I appreciate .... /

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I appreciate the time constraints involved but would be grateful if you would confirm by the morning of Tuesday 2 April that you would be content for me not to seek to dissuade the joint receivers from pursuing that course.

I am copying this letter to the Prime Minister, the Attorney General and Sir Robert Armstrong.

*Yours sincerely  
William Tumble  
Private Secretary*

*for* DR RHODES BOYSON

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Secretary of State for Trade and Industry

3 April 1985

Dr Rhodes Boyson  
Minister of State  
Northern Ireland Office  
Whitehall  
LONDON SW1A 2AZ

*D Rhodes.*

DE LOREAN : POSSIBLE WRIT AGAINST LOTUS CARS

In your letter to me of 29 March you ask for confirmation that I would be content for you not to seek to dissuade the joint receivers from issuing a protective writ against Lotus Cars Ltd.

2 The balance of national interest seems to me to point strongly against the issue of such a writ. If the evidence against Lotus Cars was clearly established then we should be prepared to accept the commercial damage that Lotus would suffer from such action. However, as you accept, it seems very unlikely that a case against Lotus could be mounted. Given the numerous investigations that have already been carried out, none of which substantiated any case against Lotus Cars, it must moreover be unlikely that any new evidence is likely to emerge.

3 Although the benefits of a writ are uncertain, its downside risks are considerable. The issue of a writ would I am sure become public knowledge and the Government's approval for it would be assumed. The amount of money involved is of secondary importance: the essential point is that confidence in the company would be dented by what would be perceived as its link with the De Lorean scandal. Commercial damage to Lotus would inevitably result. Contracts would be lost, research and design teams reduced, reputation impaired, and commercial future undermined.

4 To place the position of Lotus at risk purely in the hope that unexpected evidence might emerge linking Lotus with unaccounted payments from De Lorean would surely be wrongly to assess the balance of national advantage.

5 I am copying this letter to the Prime Minister, the Attorney General and Sir Robert Armstrong.

*[Signature]*  
NORMAN TEBBIT

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De Lincan  
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WHITEHALL  
LONDON SW1A 2AZ

SECRETARY OF STATE  
FOR  
NORTHERN IRELAND

The Rt Hon Leon Brittan QC MP  
Secretary of State for Trade and  
Industry  
Department of Trade and Industry  
1-9 Victoria Street  
LONDON  
SW1

12<sup>th</sup> December 1985

*Dear Secretary of State,*

THE DE LOREAN CASE: RECOVERY FROM LOTUS CARS LIMITED  
MR FRED BUSHELL, AND THE ESTATE OF THE  
LATE MR COLIN CHAPMAN

On 29 March Rhodes Boyson wrote to Norman Tebbit about the possible issue of a Writ by the Joint Receivers of De Lorean Motor Cars Ltd (DMCL) against Lotus Cars Ltd. At that time the Joint Receivers had been advised by Leading Counsel, on the basis of the evidence then available as to the disappearance of funds paid by DMCL in 1978 to the Swiss Company 'GDP', that it would be commercially prudent to issue a Writ in anticipation of proceedings later for recovery of the funds. In the event the Joint Receivers decided to stay their hands on the issue of a Writ.

In 1984 Sir Kenneth Cork (one of the Joint Receivers) explained to PAC that most of the \$17.65m paid to 'GDP' for the development of the De Lorean Car had gone 'walkabout'. Whereas, \$8.5m had been traced to the personal benefit of Mr De Lorean most of the balance was unaccounted for.

Evidence now available shows that almost all the unaccounted for balance, namely \$8.2m was diverted to the personal accounts of Colin Chapman, Fred Bushell and private companies controlled by them. Leading Counsel has now advised the Joint Receivers to take action to recover \$5.15m from Lotus Cars, Mr Bushell and the estate of Colin Chapman. He was asked specifically to advise whether Lotus Cars should or could be omitted from the action but his unequivocal opinion is that the nature of the arrangements made by Mr Chapman and Mr Bushell bound Lotus into the conspiracy to defraud and that the company should not be omitted from the action.

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/We....



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We have given very careful thought to the position of Lotus which we, like you, would wish to see prosper unhindered. We have also taken note of financial support from which I believe Lotus will benefit over the next few years under the Support for Innovation and other Schemes. Nonetheless, I have no doubt the Joint Receivers should be allowed to proceed. If they are inhibited from taking their action we should expect the French Government in support of Renault (an unsecured De Lorean creditor owed £10m) may well intervene and encourage instead an action by the Joint Liquidators of the Company. We would have virtually no influence in an action taken by the Joint ~~Receivers~~<sup>Liquidators</sup>. Further, the new evidence will in any event gradually filter out in American proceedings. I do not think it is in the widest interest of the Government to allow a situation to develop where Mr De Lorean would be able to allege that the Government had allowed a cover-up of the Lotus. Chapman and Bushell involvement in the fraud for which he faces a criminal Federal Grand trial - due to start next Spring. It is also worth noting that an undertaking was given in the Government's Minute of response to the PAC that Government is determined that all available steps will continue to be taken to recover as much of the De Lorean loss as possible.

I should add that the Joint Receivers and their legal advisers believe the evidence is so strong that an early settlement with Lotus must be a possibility. Our assessment is that the Company has considerably improved its commercial position in recent years and has strong investment backing and management. We would expect therefore that any setback arising from an action would be short term. Indeed the longer term interests of the Company will be best served by dealing now with this very grey cloud, which has been overhanging them for so long.

I wish to tell the Joint Receivers as soon as possible that they can go ahead with their action unless colleagues can see any overwhelming reason why they should not proceed.

A copy of this letter goes to the Prime Minister, the Attorney-General, the Chancellor of the Exchequer, the Foreign Secretary and Sir Robert Armstrong.

Yours Sincerely  
NB Howard  
(Private Secretary)

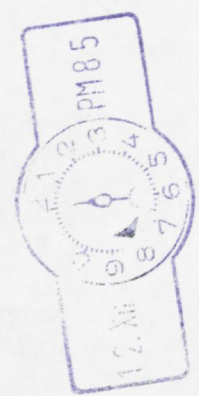
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(Approved by the Secretary of State and signed in his absence)



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COPY No. 46

**DE LOREAN MOTOR CARS LIMITED**

**Report to**

**THE SECRETARY OF STATE  
FOR NORTHERN IRELAND**

**11 FEBRUARY 1981**

Coopers  
& Lybrand



DE LOREAN MOTOR CARS LIMITED

SUMMARY REPORT  
dated 11 February 1982

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This report summarises the main findings from our investigation of De Lorean Motor Cars Limited and of the De Lorean Motors Corporation. The full report will follow.



DE LOREAN MOTOR CARS LIMITED

SUMMARY

Introduction

1 In accordance with the letter of instruction from the Department of Commerce, Belfast ("DOC") dated 29 January 1982 we have carried out an investigation of De Lorean Motor Cars Limited ("Cars") and of the De Lorean Motor Company ("DMC"). The instructions we received included reference not only to a review of the financial position and future prospects of Cars and DMC, but also to advice sought by H M Government on the following specific topics:-

- (a) the original capitalisation and financing of the companies, and whether commitments given by the various parties have been met;
- (b) a trace of the use to which all funds invested in Cars by both DOC and the Northern Ireland Development Agency have been put;
- (c) whether Cars can be maintained as a viable operation at all, and if so, at what level;
- (d) what restructuring and rationalisation might be necessary if Cars is to be maintained as a viable unit;
- (e) the likelihood of the production facilities of Cars being adapted for use by other manufacturers;
- (f) an investigation of the ownership of the rights of manufacture and sale of the DMC 12; and advice on the feasibility of transferring these rights to a receiver/manager, if appointed, or to Cars; and



(g) in the event that we recommend the appointment of a receiver/manager, advice on how best this might be achieved.

2 In the course of our work we have visited the premises of Cars at Dunmurry, Belfast and of DMC in New York and Los Angeles. We have had discussions with Mr De Lorean, Mr Brown, the Vice President of DMC with responsibility for sales, and Mr Lander, the managing director of Cars, as well as with numerous other executives and staff on both sides of the Atlantic.

3 It will be appreciated that the urgency of the investigation has led to pressures by us on De Lorean staff, particularly at Dunmurry. They have responded well to these pressures, but there are inevitably items of information required by us which they have been unable to produce. We have had to make our own assessment of prospects, based on discussions with management, and in doing so have had to make some broad estimate of demand, which it is unusually difficult to do at present.

4 Our normal practice is to confirm the factual content of our reports with the management of the company or business under investigation. This has not been done on this occasion because of the time constraints imposed on the production of the report and because in this case it might not have been appropriate to do so.

5 The contents of this summary are solely for the information and use of H M Government and their advisers. We accept no responsibility to any other party who may be given access to this document. The full report will follow.

#### Our approach to the task

6 We decided that, in carrying out our task, it would be appropriate to look at the short-term view, and also to assess the longer term prospect if further funds were made available for the enterprise to continue.



7 Our starting point was to examine the causes for the disastrous financial outcome to date, which has produced a situation of insolvency; this in spite of a major injection of public money well in excess of the original plan.

8 The conclusions we have reached are summarised later in this memorandum. Broadly, our view is that the plans were impracticable from the start, both in terms of producing the car within the timetable set and in terms of finding an outlet for the volume of cars predicted in the scheme. The car market in the United States is fiercely competitive and furthermore has been depressed in recent years. No doubt there is a special position for a car of this type, but at a price of \$26,000 the sector of demand must be severely narrowed. In the event the financial problems have engulfed the group before the first full selling season had started, but our view is that demand would in any case have failed by a significant margin to meet expectations held out in the original scheme and the level of output for which the factory has been manned.

9 The company now faces a situation where it requires some £20/25 million of new financial support to enable it to meet its overdue commitments and to trade through the current year. Decisions would also need to be taken about expenditure on updating the present model and developing a sedan version at some point in the future and there could be no certainty that the costs would be met wholly from internal cash flow.

10 Against this background we conclude that:

- (i) no reconstruction of the existing company by way of capitalising debts or changing the structure of the group would resolve Cars difficulties, unless it was coupled with a substantial injection of further equity;
- (ii) there is no prospect of raising private funds for the existing group; and



(iii) there are no commercial grounds for recommending the injection of further public funds into the existing group of companies.

11 In these circumstances we feel the appropriate course of action is for receivership to take place so as to enable a new company freed of Cars' debts and suitably refinanced to carry on the project. This would allow the major creditor, the government, to achieve a major curtailment of its involvement. Later in this memorandum we examine how the receivership might be brought about and what might emerge from such action. First, however, we must recall the history of the enterprise and the causes of its downfall.

#### Events to date

12 We set out below a calendar of the major events in the life of Cars:-

|  |                |
|--|----------------|
| Project introduced to Northern Ireland   | June 1978      |
| Formation of De Lorean Motor Cars Limited  | June 1978      |
| Master Agreement signed  | 29 July 1978   |
| At this point, two prototypes were in existence. The Master Agreement provided, inter alia, for equity participation by the Northern Ireland Development Agency ("NIDA") and the advance of loans and grants by the Department of Commerce to Cars. It also set out the terms and conditions applicable thereto. |                |
| Formation of De Lorean Research Limited Partnership ("DRLP")   | September 1978 |
| This company was formed to enable private individuals ("the limited partners") to invest in development of the DMC 12  |                |
| Granting Agreement signed  | September 1978 |
| Under this agreement rights held by De Lorean Motor Company were assigned to DRLP  |                |
| Licence Agreement signed   | September 1978 |
| DRLP licensed all the assigned rights to DMC   |                |
| Technical Assistance Agreement signed  | September 1978 |
| This agreement provided for technical assistance to be supplied by DMC to Cars and passed to Cars the rights to manufacture licensed by DRLP to DMC  |                |



|  |               |
|--|---------------|
| Commencement of factory construction   | October 1978  |
| Contract signed by Cars and DRLP with GPD Services Inc   | November 1978 |
| GPD retained the services of Lotus to develop the prototypes through to the series production stage. |               |
| Commencement of series production  | March 1981    |
| First shipment and sale by Cars to De Lorean Motor Company   | April 1981    |

13 Since the De Lorean project was introduced to Northern Ireland in the summer of 1978 much has been accomplished. The achievements in physical and human terms are impressive and include:-

- (a) the design and construction of a new factory of over 500,000 square feet in Dunmurry, Belfast;
- (b) the design and development of the DMC 12 sports car, up to the point at which it was in series production;
- (c) the recruitment and training of a labour force of 2,600 men and women - in an area with no history of motor industry employment;
- (d) the development and introduction of new methods for the semi-mass manufacture of fibre-glass body shells.

14 To go from a green field site in late 1978 to a factory in effective production three years later with a new model and a new labour force, is something few organisations could do. However, it is evident and is acknowledged that the concentration on physical achievement had the effect that little attention was paid to production costs.



15 Under the Master Agreement, DMC and Cars were obligated to carry out the project in accordance with a corporate plan which had been tabled before the Agreement was signed. The actual progress of Cars has been very different from that held out in the plan. For example, it was envisaged that volume production would commence in December 1979: in practice, it began in March 1981. The market projections of 20,000 car sales in the first year of production and of 30,000 units in the second year were also far from the reality.

16 By way of comparison Jaguar, with models in the \$29,000 - \$31,000 range, sold 5,100 cars in 1981 and Porsche, with models in the \$16,000 - \$39,000 range, sold 11,200 cars in the same year.

Car production and sales

17 The number of units produced and sold in the 10 months since volume production started in March 1981 is as follows:-

|                     | <u>Produced</u> | <u>Sold to<br/>DMC</u> | <u>Sold to<br/>dealers</u> | <u>Retail<br/>sales</u> |
|---------------------|-----------------|------------------------|----------------------------|-------------------------|
| To 30 November 1981 | 6,481           | 6,186                  | 3,601                      | 2,367                   |
| December 1981       | 1,200           | 780                    | 897                        | 642                     |
| January 1982        | 652             | 435                    | 616                        | 338                     |
|                     | <u>8,333</u>    | <u>7,401</u>           | <u>5,114</u>               | <u>3,347</u>            |

18 The above table not only demonstrates the discrepancy between actual retail sales in the 10 months and the figure of 20,000 units in the first year after launch projected in the corporate plan, but also points to the inventory problem facing the group. With 8,333 units produced and 3,347 units sold to the ultimate customers, De Lorean is left with nearly 5,000 cars in the hands of either Cars, DMC or the dealers.



Trading losses

19 The total losses/(profits) incurred by Cars and DMC since their formation are summarised below:-

|                           | <u>Cars</u> | <u>DMC</u>    | <u>Total</u> |
|---------------------------|-------------|---------------|--------------|
|                           | £ million   | £ million     | £ million    |
| Pre-production            | 5.8         | 14.3          | 20.1         |
| Post launch               | 19.9        | (3.8)         | 16.1         |
| Total to 30 November 1981 | 25.7        | 10.5          | <u>36.2</u>  |
| December 1981             | 0.2         | Not available |              |
| January 1982              | 0.7         |               |              |
|                           | <u>26.6</u> |               |              |

Notes: (1) DMC losses converted to sterling at \$2 = £1

(2) The post launch profit of DMC of £3.8 million is misleading in that it is after taking credit for an exchange profit of £6½ million which is arguably refundable to Cars (see paragraph 31(a) below).

20 The main reasons for these losses are as follows:-

- (a) delay in reaching series production, already commented upon;
- (b) problems caused by rushing into the launch of the car. The effect of this in terms of subsequent engineering changes, allied to the problems of inexperienced labour, was to give rise to serious



production inefficiencies and major quality defects. The latter have rebounded on Cars in the form of substantial claims from the Quality Assurance Centres and warranty claims from dealers;

- (c) a general lack of control over certain indirect costs.

21 We believe the following costs were unnecessarily high:

- (a) the cost of the DMC head office function;
- (b) the costs incurred in hiring management for the UK;

Effective control of expenditure has been weakened by the fact that virtually the whole of the finance was provided by government, which was called on to provide further funds to meet each crisis, while management was wholly in the hands of the executive directors of DMC and Cars.

#### Unit costs

22 The planned hours of direct labour for the manufacture of the car were 140 man hours per car at the end of 1981. As was to be expected, there was a steep learning curve. The average number of hours of direct labour per car exceeded 300 hours per unit in the quarter from March to May 1981. In the most productive month so far, October 1981, it has been down to 180 hours per car, still substantially in excess of the planned level.

23 A further, in our view avoidable, costly problem arose from the decision to work a second shift at Dunmurry from July 1981, leading to high inventory levels, further serious quality problems and subsequent need for redundancies. It is relevant to note that considerably lower forecasts of sales prospects at the prices being contemplated by DMC were available when this decision was put into effect.

#### Potential savings

24 There are various measures which either could be, or are being, taken to stem the losses arising in the UK and in the USA. These include:



- (a) redundancy of 1100 employees at Dunmurry effective from 12 February 1982;
- (b) further stock reduction through restricting purchases and the working of only 1 day per week; and
- (c) closure of the offices in New York and of the QAC centre at Troy, Michigan.

25 We deal later in the document with long-term viability: the above measures do not of themselves offer more than a breathing space to the company.

#### Marketing strategy

26 We noted several areas in which the marketing strategy of DMC seemed to be deficient:-

- (a) the target market had not been clearly identified;
- (b) the sales effort was weakened by the split between marketing on the west coast and advertising/publicity in New York;
- (c) the advertising of the product did not seem to promote the attractions of the product to the potential customer;
- (d) the dealer network has not been adequately trained in product knowledge and sale techniques appropriate to a high-priced sports car.

#### Management

27 We have recorded a number of areas in which management decisions and action have contributed to the adverse financial position of the group. We also recognise what has been achieved. Our general conclusion



on management is that the over-optimistic view taken of the project has affected the judgment of management in key areas and has led to a level of production and of costs which cannot be supported by existing sales volumes.

28 At the operating level we met a number of managers in key departments who displayed a satisfactory level of competence; many of them have considerable experience in the motor trade. Mr Lander, the managing director at Cars, who was previously with Chrysler, seemed to us to approach the task of directing the business at Dunmurry in its present difficult situation in a calm and sensible manner. Mr Brown who is responsible for the sales function has impressed us by his clear understanding of the market needs and his control of the organisation which he set up.

Other matters we have reviewed

29 We deal briefly here with diverse issues which we believe are of interest to the government:-

- (a) we have traced the use of funds invested by DOC and NIDA and we draw attention below to a number of matters which have come to our notice. These points need to be seen in the context of Cars as a company with a minority shareholder: DMC and Cars do not form a group with shareholders in common, even though directorships were held in common. The directors of Cars had a duty to deal with DMC on an arms length basis and DMC had a responsibility to fund its own activities;
- (b) we have given special consideration to the contract with GPD Services Inc. for the development of the DMC 12. The contract with GPD is a complicated affair which involved payments not only by Cars, but also by the De Lorean Research Limited Partnership ("DRLP"). It is not appropriate to give a full account here of all the issues but we note the following:-
  - (i) GPD is a Panamanian company which appears to have acted as an agent in retaining the services of Lotus Cars Limited, and specifically Mr A C B Chapman, to develop the DMC 12 prototype to productie diness;



- (ii) the manner in which Cars entered into an open ended commitment to GPD was unusual but may have been dictated by the pressure to achieve early production;
- (iii) the substantial additional engineering work required on the original prototype raises questions about its viability and the value of research carried out prior to September 1978; the additional costs have been funded by Cars, with total payments by Cars to GPD amounting to £ 14 million;
- (iv) to date, we cannot be satisfied that the cost charged by GPD was reasonable and how much of the cost went to parties other than Lotus. Similarly we cannot be satisfied that the split of this cost between DRLP and Cars was reasonable.

30 The position on the rights to manufacture and sell the DMC 12 will be set out in detail in our main report. The situation is complex. The interpretation to be placed on the facts is currently being considered by NIDA's legal advisers in the UK and in the United States. In brief the rights to manufacture were made available to Cars under the Technical Assistance Agreement and it is not clear whether or not selling rights lie with Cars. The fact that Cars has funded most of the development work may support Cars' contention that it has an equitable claim on the rights both to manufacture and sell.

31 There are certain other matters which are a cause for concern and which will need to be pursued so as to ensure fair dealing between the various parties:-

- (a) loans by Cars to DMC amounting to £6.5 million have been cleared by DMC retaining the benefit of exchange gains which arguably should have been to the credit of Cars. We are not satisfied that this transaction was appropriate on an arms length basis;



- (b) the management fees paid by Cars to DMC, currently at the rate of £1.8 million per annum, and charged since October 1978, appear to be excessive by any standards;
- (c) the arrangements for payment by Cars to DMC for the services of the Quality Assurance Centres seem to be unfairly weighted against Cars;
- (d) 1,215 cars have been shipped to DMC but finance has been withheld by the Bank of America for reasons explained in paragraph 34. In consequence, assets have been transferred to the United States without payment, which is contrary to the Master Agreement.



Financial situationFunds invested in the project

32 Total funds invested in Cars are as follows:-

|  | £ million | £ million |
|--|-----------|-----------|
| Original share capital contributed by:-  |           |           |
| DMC<br>546,000 'B' ordinary shares with<br>90 votes per share                              | 0.5       |           |
| NIDA<br>17,757,000 'A' redeemable participating<br>preference shares with 1 vote per share | 17.8      | 18.3      |
| Grants from Government:  |           |           |
| for buildings and equipment  | 19.6      |           |
| for employment and training  | 10.9      | 30.5      |
| Loans from DOC:  |           |           |
| for buildings  | 6.7       |           |
| for additional assistance  | 14.0 *    | 20.7      |
| Other borrowings:  |           |           |
| Barclays/Citibank (guaranteed by DOC)  | 9.5 *     |           |
| Other Citibank   | 0.4       | 9.9       |
| TOTAL  |           | 79.4      |

\* The loan of £14 million from DOC was advanced between September and December 1980. The guarantee by DOC of a total facility of £10 million from Barclays Bank Limited and Citibank was provided in February 1981. These sources of finance were arranged when the initial funding package proved insufficient.



33 It has been reported that Mr De Lorean feels that the DOC and/or NIDA has failed to honour its promises to provide additional help in recent months. We found no evidence during our review of board minutes and other documents that either DOC or NIDA had made any offer of additional funds to Cars, for whatever reason, which had subsequently not been paid or satisfied. In this connection, Mr De Lorean signed a document which renounced any claim for further assistance when DOC agreed to guarantee short term borrowing facilities from banks.

34 The major sources of funds for DMC have been Cars, in the period prior to sales commencing, and sales revenue and the Bank of America, in the more recent period. There has been an arrangement with Bank of America whereby cars were financed to a proportion of the retail price on shipment from Northern Ireland. The cars financed in this way had to be matched by orders from dealers, but the decline in orders and sales resulted in the facility reaching its limit. In recent weeks, the Bank of America has ceased to finance any new car shipments.

#### The current financial position

35 The financial situation can be put as follows:-

- (a) share capital has been totally eroded by losses;
- (b) borrowings in the UK are at the limit of the available facility;
- (c) overdue creditors exceed £20 million;
- (d) as noted above, the Bank of America has ceased to provide facilities on new car shipments to DMC. There are still amounts outstanding to the bank on earlier shipments: until they have been cleared there will be no income from US sales available to either DMC or Cars;
- (e) the business needs funds for on-going development of the DMC 12 and for a proposed new model, the Sedan. The present estimated



requirement for this model is some £40 million between now and May 1985.

36 It is clear that, so far as the immediate situation of Cars is concerned, the company is insolvent, although new credit is not being incurred.

#### Financial projections

37 In the course of our work we tried to estimate the scale of funds which would need to be provided both in the current year and, with less certainty, over the subsequent few years in order to put Cars on to a viable basis. The assessment of prospects which we made is highly sensitive to changes in sales volumes, exchange rates, production efficiencies and quality of output. Our findings were as follows:-

#### Trading results

- (a) the trading loss after interest on existing and new advances for the 10 months to November 1982 would amount to £3 - 4 million if retail sales reach a level of 7500 units. (We would regard this as a reasonable target in normal circumstances although the uncertain future of the business may have an adverse effect in the market place);
- (b) the trading results for 1983 would be significantly improved as stocks were cleared out and production stepped up. Given the high fixed cost of the factory, it is probable that the break even point would be reached at a level around 8500 units, which should be attainable in normal circumstances. Results would also benefit from any improvement in production efficiency and quality which might be looked for then. However, at this level of output the business would not be generating any funds to finance development.

#### Working capital

- (c) Our calculations show that borrowings would have to increase by some £20/25 million in the next month or so to relieve creditor



pressure. Thereafter the cash flow of Cars should be in balance, but development costs and tooling of the Sedan model would require an extra £9 - 10 million in 1982/83 if proceeded with as planned. Thereafter spending on the Sedan project would continue on a rising trend.

#### Courses of action

38 There is in our view no commercial case for financial assistance from the Government to Cars to make it a viable vehicle producer. Firstly as explained earlier in this memorandum, the relationship of Cars to Mr De Lorean's companies is such that the benefits derived from the assistance might flow into the wrong hands. The present equity shareholders in Cars have in practice lost their investment and, in our view, the proper course is to withhold further assistance and let Cars go into receivership. There are dangers in this course. Receivership is widely misunderstood, particularly abroad and creditors in the UK might apply pressure on the government to settle the company's debts. We have assumed however that the government will let matters take their course although this is a matter for political decision.

39 It occurs to us that on social grounds a case could be made for committing further government funds to the project to preserve the underlying business and to avoid immediate redundancy of the work force. But we cannot from our standpoint judge the strength of such arguments and only mention them as a matter of record.

40 We now go on to examine the powers which exist for appointing a receiver and the courses of action open to him following appointment.

#### The power to appoint a receiver

41 DOC holds a fixed charge secured loan of £6,780,000 over land and premises at Dunmurry with the right, if Cars is in default in making any payments secured by the charge, to appoint a Receiver or Receivers having power to grant leases or sell the property. Interest of £440,000 payable on 1 December 1981 remains outstanding and the right to appoint a receiver exists. He would however be a fixed charge receiver without power to manage the business of the company.



42 The other charge, held by DOC, to secure a loan of £14 million, is a fixed charge over the land and buildings at Dunmurry and over certain specified assets and a floating charge over Cars' "undertaking and all its property whatsoever and wheresoever". The charge gives power, if there is default in making repayment of the loan in circumstances where the whole amount with interest becomes instantly repayable, to appoint "a Receiver or Receivers of the said lands and premises, plant, machinery, property assets and other assets and other equipment or any part thereof". No interest or repayments are due on this loan until November 1982.

43 It is the view of the solicitors in the Northern Ireland Treasury Department that since "property assets" includes the undertaking and since the Receiver is made agent of the company, the Receiver will have power to manage, but that the matter is not wholly free from doubt.

44 There appears to be no power to appoint at the request of the directors and at present it seems to us that DOC will have to rely on breaches of covenants which cause the debt to become wholly repayable, such as the company threatening to cease to trade or having a Receiver appointed under DOC's other charge. We consider that legal opinion should be taken on DOC's power to appoint.

45 In view of the uncertainties over the DOC's power to appoint and the Receiver's power to manage we would, if a partner of the firm were to be appointed under the floating charge, require an indemnity from the DOC to cover these matters.

#### Conduct of receivership

46 Since Sir Kenneth Cork will be putting his views on this matter in a separate letter, we restrict ourselves to the following observations:-

- (a) there would inevitably be a period of considerable turmoil with creditors and with the group's US interests and negotiations with the latter are likely to be protracted. Six weeks has been allowed



in our estimates of costs to achieve some commonsense solutions.  
Further trading would have to be funded from trading income or from  
additional government subventions;

- (b) we would hope that the retail outlets in the US for the DMC 12 could be induced to continue handling the sale of the car at least for the time being;
- (c) we would expect the receiver to cut activity at Dunmurry to a low level, but not to cease all activity if (b) can be arranged;
- (d) the production facilities of Cars may be of interest to other manufacturers but there can of course be no assurances until the market has been tested;
- (e) the receiver will wish to restrict the risks associated with continued trading. He will wish to be fully indemnified against potential claims which could arise, either from existing connections of the company or from future customers for the cars.

#### Conclusion

47 This summary answers most of the points outlined in the letter of instruction dated 29 January 1982. The full report which will follow provides the back-up to the views herein expressed.





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DEPARTMENT OF TRADE AND INDUSTRY  
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TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

20 December 1985

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The Rt Hon Tom King MP  
Secretary of State for  
Northern Ireland  
Northern Ireland Office  
Whitehall  
LONDON  
SW1A 2AZ

Prime Minister 2  
To note that a writ is  
likely soon to be  
issued against  
Lotus, among others.

*[Handwritten signature]*

2 Tom,

DRJ  
7/1

THE DE LOREAN CASE AND LOTUS CARS

In your letter of 12 December you noted that the Joint Receivers have been advised by Leading Counsel to take legal action to recover \$5.15m from Lotus Cars, Mr Bushell and the estate of Mr Chapman. The advice was that the nature of the arrangements made bound Lotus Cars into a conspiracy to defraud and that the company should not be omitted from the action.

The Joint Receivers must be left to conduct any actions as they see fit without interference from us and if they have evidence which points to Lotus Cars having taken part in a conspiracy to defraud then they will wish to take appropriate steps to recover those funds.

My officials have been in touch with the Treasury Solicitor to ask for confirmation that the Joint Receivers have had, and are satisfied with, advice from Counsel that such evidence did in fact exist, and I would be grateful for any reassurance you can give me that clear evidence does exist which would justify taking steps which would be bound to result in commercial damage to what is one of our prestige specialist car and engineering companies.

I am copying this letter, as you did yours, to the Prime Minister, the Attorney General, the Chancellor of the Exchequer, the Foreign Secretary and Sir Robert Armstrong.

*[Handwritten signature]*

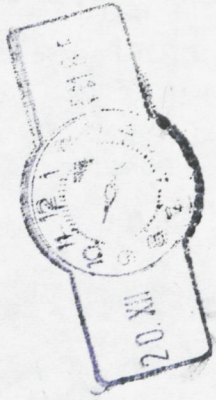
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IRELAND: De Lorean. July 1980





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CBG



Minister of State

NORTHERN IRELAND OFFICE  
WHITEHALL  
LONDON SW1A 2AZ

The Right Hon Leon Brittan QC MP  
Secretary of State for Trade &  
Industry  
Department of Trade & Industry  
1/9 Victoria Street  
London  
SW1

6 January 1986

*Dear Secretary of State,*

PROPOSED LEGAL ACTION BY THE JOINT RECEIVERS OF DELOREAN MOTOR CARS LTD, (DMCL) AGAINST LOTUS CARS LTD, MR FRED BUSHELL AND THE ESTATE OF THE LATE MR COLIN CHAPMAN

Thank you for your letter of 20 December to Tom King who is abroad at present. I can assure you that the Opinion given to the Joint Receivers by eminent Leading Counsel rests on a firm basis of clear evidence. The Treasury Solicitor, who has been advising my Department on many aspects of the DeLorean case, can see no reason to question any aspect of the Opinion which concludes that it would not be satisfactory to omit any of the proposed Defendants from the proposed action. I understand your officials have also studied the Opinion.

The degree of financial/commercial damage Lotus Cars and the private individuals face in relation to this matter, is clearly a matter of judgement. It would be wrong to assume that if the case were fought to a finish through the Courts that, the maximum damages awarded would be limited to \$5.15m. This was merely the amount that DeLorean Motor Cars Limited actually paid to GPD in Switzerland in 1978. An award of interest, because of the lapse of time and the nature of the tort, could almost double the amount awarded. Clearly, Lotus Cars would undoubtedly suffer a financial blow if the assets of Mr Bushell and the Chapman Estate proved insufficient to satisfy the damage awards particularly if other creditors such as the private American investors who also suffered a loss mounted successful legal actions.

Most of the evidence as to the fraud has been in the public domain for some time and the further evidence will become available to other creditors very quickly. We cannot take any steps to prevent this happening. This has been explained to your officials and as Tom King's letter of 12 December 1985 pointed out if the Joint Receivers fail to act we believe the

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Joint Liquidators (in the UK) would step in without hesitation. We think early action by the Joint Receivers could inhibit the Joint Liquidators from taking independent legal action. It ought to be noted that if we ask the Joint Receivers not to act they will seek an indemnity from the Government in relation to any damages which could well be awarded against them for their failure to act. Further, as you know a claim has been made against Arthur Anderson (AA), DMCL's accountants for damages for negligence and negligent misrepresentation by the Department of Economic Development for Northern Ireland (DED). There is a clear duty on the DED to mitigate their loss in order to reduce the claim against AA as far as possible. Any action by HMG to inhibit the Joint Receivers' proposed claim against Lotus and the other proposed defendants would be a clear breach of their duty and would be a justifiable cause of complaint by AA in both the US and British proceedings.

We have given considerable and careful thought to the many aspects of this particular litigation including the strongly adverse publicity for the Government which would almost certainly occur if we ask the Joint Receivers not to go ahead with their proposed action. We would find it very difficult to justify and publicly defend such an intervention. We are therefore grateful for your agreement that the Joint Receivers should be free to deal with this matter without interference from us and I understand the Treasury takes the same view. My officials will therefore be informing the Joint Receivers accordingly. We would expect they will not delay issuing a Writ.

A copy of this letter goes to the Prime Minister, The Attorney-General, the Chancellor of the Exchequer, The Foreign Secretary and Sir Robert Armstrong.

*Yours sincerely  
William Tomlin  
Private Secretary*

*for* DR RHODES BOYSON MP

[Approved by the Minister  
and signed in his absence]

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DB WORGAN

11/11/80





JU116  
Secretary of State for Trade and Industry

CCBG

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9 January 1986

**CONFIDENTIAL**

Dr Rhodes Boyson MP  
Minister of State  
Northern Ireland Office  
Whitehall  
London SW1A 2AZ

NBP

2 Rhodes,

DE LOREAN: PROPOSED LEGAL ACTION AGAINST LOTUS CARS

Thank you for your letter of 6 January. *with pen*

I appreciate the arguments you have presented and as I said in my letter of 20 December agree that the Joint Receivers should be free to deal with this matter without interference from us provided clear evidence does indeed exist against Lotus Cars. I am grateful for your assurance that the opinion given to the Joint Receivers by leading Counsel rests on a firm basis of clear evidence and I take it that this refers to evidence against Lotus Cars as well as Mr Chapman and Mr Bushell. For the avoidance of doubt and in view of the serious consequences which could result for Lotus Cars, which you clearly recognise, I would value an early and quick word with Sir Kenneth Cork before a Writ is issued. This would give him the opportunity to assure me that the evidence is so incontrovertible that no purpose would be served by excluding Lotus Cars at this stage with the option of joining them in the action later should that prove to be necessary. Perhaps you would ask Sir Kenneth to get in touch as soon as possible as I appreciate the need for urgency.

A copy of this letter goes to the Prime Minister, the Attorney General, the Chancellor of the Exchequer, the Foreign Secretary and Sir Robert Armstrong.

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L



IRELAND  
DE LOREAN  
7/80





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NORTHERN IRELAND OFFICE  
WHITEHALL  
LONDON SW1A 2AZ

SECRETARY OF STATE  
FOR  
NORTHERN IRELAND

The Rt Hon Leon Brittan QC MP  
Secretary of State for Trade  
and Industry  
Department of Trade and  
Industry  
1-19 Victoria Street  
LONDON  
SW1H 0ET

16 January 1986

*De Leon,*

*NBM*

DE LOREAN : PROPOSED LEGAL ACTION BY THE JOINT RECEIVERS AGAINST  
MR BUSHELL, THE CHAPMAN ESTATE AND LOTUS CARS LIMITED

*at Home*

You wrote to Rhodes Boyson on 9 January asking that arrangements be made to enable you to discuss with Sir Kenneth Cork the question of whether Lotus Cars could, at this stage, be excluded from the proposed legal action with the option of joining them later should that prove necessary.

I am surprised by your proposal which I understand was raised last November by your officials with the Treasury Solicitor. Legal advice then, as it is now is that the Treasury Solicitor is satisfied that Lotus is a necessary and proper party as a defendant in the proposed proceedings. The Treasury Solicitor also advises that to suggest that Chapman's Estate and Bushell should be sued first and Lotus only proceeded against if they failed to satisfy a judgement, would not be prudent and would be contrary to good litigation practice. Such a course would also cause extra and unnecessary expense. I understand that DTI lawyers did not disagree with or dissent from the Treasury Solicitors advice.

I do not believe that the fact that Lotus is a prestige British company is sufficiently strong reason to seek to dissuade the Joint Receivers from the action they proposed. I am satisfied that the Joint Receivers and their eminent and independent legal advisers have made proposals on the basis of sound evidence which ought most properly to be judged by the Courts and that they have fully taken

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into account already our desire to avoid potential damage to Lotus if at all possible. In my view the type of discussion you propose would constitute undue Government interference in a matter which must be decided by the Joint Receivers, who have already demonstrated their capacity for sensitive handling of matters arising in the De Lorean Case.

If they were asked not to proceed against Lotus I believe the Government could face considerable embarrassment when the facts of the case become clear public knowledge. This is because of the Parliamentary interest in this matter, Mr De Lorean's criminal indictment for his part in the fraud, and the fact that the company would not be spared if instead the Joint Liquidators initiated similar action. Further, I can see no benefit to Lotus of having potential litigation hanging indefinitely over the company.

I feel strongly that the Joint Receivers should now be informed by me that they are now free to take their own decision in this matter and proceed as they see fit.

A copy of this letter goes to the Prime Minister, the Attorney-General, the Chancellor of the Exchequer, the Foreign Secretary and Sir Robert Armstrong.

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T K

T K

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