

**Question Presented:**

Has a Failure to Pay credit event occurred with respect to RadioShack Corporation (the “Reference Entity”)?

**Overview:**

On December 1, 2014, an Obligation of the Reference Entity was accelerated and immediate payment in full was demanded. On December 4, 2014, the three day grace period expired without payment thereon having been made. The failure to make this payment when and where due should be deemed a Failure to Pay credit event (as defined in the 2014 ISDA Credit Derivative Definitions (the “Definitions”)) on December 4, 2014.

**Background:**

The Reference Entity is a borrower under a Credit Agreement, dated as of December 10, 2013 (the “Credit Agreement”), among the Reference Entity, certain subsidiaries of the Reference Entity that are designated as credit parties, the lenders party thereto (the “Lenders”) and Salus Capital Partners, LLC, as agent for the Lenders (in such capacity, the “Agent”). A link to the Credit Agreement is attached below.

According to the Reference Entity’s Form 8-K dated December 1, 2014 and filed December 2, 2014 (“Form 8-K Filing”), the Reference Entity received a notice of default and acceleration, dated December 1, 2014 (the “Notice of Default”), from the Agent asserting that events of default have occurred and are continuing under the Credit Agreement. Links to the Form 8-K Filing and Notice of Default are attached below.

The Notice of Default also includes a demand by the Agent for the immediate payment in full by the Reference Entity of the \$250 million term loans outstanding under the Credit Agreement (the “Loans”), together with all accrued and unpaid interest thereon and any other amounts owing to the Lenders thereunder. We note that it has been reported in a Bloomberg article that the Reference Entity will seek a forbearance agreement from the Lenders under the Credit Agreement, which supports the claims in the Notice of Default.

Given that (1) the Loans are Obligations of the Reference Entity, and (2) there has been a Failure to Pay Event following the Agent’s acceleration of the Loans (as detailed in the Form 8-K Filing) and expiration of the relevant Grace Period (discussed below) without payment, a Credit Event occurred on December 4, 2014.

**Relevant Details:**

Loans under the Credit Agreement are Obligations as defined in the Definitions. The definition of Obligations for Standard North American Corporate transaction types refers to the definition of Borrowed Money.

Under the Definitions, “Borrowed Money” means “any obligation (excluding an obligation under a revolving credit arrangement for which there are no outstanding, unpaid drawings in respect of principal) for the payment or repayment of borrowed money (which term shall include, without limitation, deposits and reimbursement obligations arising from drawings pursuant to letters of credit).”

Under Section 4.5 of the Definitions, a Failure to Pay credit event has occurred when, “after the expiration of any applicable Grace Period (after the satisfaction of any conditions precedent to the commencement of such Grace Period), the failure by the Reference Entity to make, when and where due, any payments in an aggregate amount of not less than the Payment Requirement under one or more Obligations, in accordance with the terms of such Obligations at the time of such failure.”

As per Section 1.46 (c) of the Definitions, where “no grace period with respect to payments ... is applicable under the terms of such Obligation,” Grace Period is defined to be three business days. Given that the terms of the Obligations do not provide for a grace period for a principal payment following an acceleration, the applicable Grace Period is three business days as provided in the Definitions.

Payment Requirement is defined under Section 4.9 (d) of the Definitions to be \$1,000,000, which is satisfied by the amount due and payable in this case (i.e., the principal amount of the Loans outstanding is \$250,000,000).

**Discussion:**

There is a concern which has been expressed in the market that the actions taken in connection with the Recapitalization Agreement, Loan Sale Agreement (each as defined in the Notice of Default), and related agreements (together defined as the “Standard General Transactions”), which form the basis of the breaches of the Credit Agreement underlying the acceleration of the Obligations, were structured with a purpose to manipulate the CDS market (i.e., to avoid triggering CDS contracts with a termination date of December 20, 2014), and that but for the Standard General Transactions, the Reference Entity would have already filed for bankruptcy protection. If that is the case, a determination that a Failure to Pay credit event occurred on December 4, 2014 would be not only the correct finding based on the facts, it is the conclusion that would uphold the integrity and efficacy of the credit protection provided by the CDS market.

**Conclusion:**

Upon information and belief, nonpayment of the Loans on or before December 4, 2014, following the acceleration of the Credit Agreement effective as of December 1, 2014 pursuant to the Notice of Default, constitutes a Failure to Pay credit event in respect of the Reference Entity. Accordingly, a Failure to Pay credit event has occurred on December 4, 2014. If the Determinations Committee is unable to make a determination in respect of this question due to the lack of public information, the Determinations Committee should accept this question and await additional information to become public to make its determination, with that determination being effective as of the date hereof.

Please see the Form 8-K Filing

here: <http://www.sec.gov/Archives/edgar/data/96289/000119312514430804/d831275d8k.htm>

Please see the Notice of Default here:

<http://www.sec.gov/Archives/edgar/data/96289/000119312514430804/d831275dex992.htm>

Please see the Credit Agreement here:

<http://www.sec.gov/Archives/edgar/data/96289/000119312513473357/d642536dex103.htm>