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Thought for the Week.....

“The soft landing you are offering dealers is with a parachute full of holes.”

Sen. Frank Lautenberg, D (NJ)

Effort Underway to Amend “Take It or Leave It” Offer to GM and Chrysler Dealers

NADA and Dealers Argue for Clarity and Fairness in Court, on Capitol Hill, in Meetings and Media

Dealers being dropped and going forward with the new Chrysler or the reorganized GM are pushing on multi-fronts to get clarity on the requirements and amend some to make them more realistic.

Chrysler and GM say they are taking the “take it or leave it” approach to rapidly size their dealer networks for maximum profitability and efficiency and with the aim of having their dealers compete against other brand dealers rather than each other, but dealers argue many of the conditions of the dealer network restructuring are needlessly strict and harmful to their businesses, whether they are leaving or going forward. GM dealers in particular are concerned that they are losing state franchise law protection both in winding down their business and going forward through October 2010.



(According to CSM Worldwide, a global firm that analyzes the auto industry, the average Chrysler dealership sold 207 new vehicles last year and the average GM dealership 222 while the average Toyota dealership sold 1,380.)

Among the issues GM and Chrysler dealers want clarity on are:

- Do the exclusivity requirements exclude the possibility of shared service operations?
- Is there a right of appeal on new sales responsibility and inventory requirement?
- Will new standards apply to all dealers?
- Does the “failure to renew provision” of existing franchise agreements apply?
- Can “unassumed” dealers petition for “open points?”

NADA was meeting at week’s end with the leadership team at GM to try and resolve some of these issues and has been in constant contact with Chrysler LLC to resolve some of these matters as well.

Senate Commerce Committee Hearing on Rapid Dealership Closures

Meanwhile on Wednesday of this week, the Senate Commerce Committee held a hearing to ask the chiefs of General Motors Corp. and Chrysler LLC about the rationale for closing so many dealerships and why it had to be done so quickly. John McEleney, chairman of the National Automobile Dealers Association, told the committee “drastic closures of dealerships on the scale that GM and Chrysler announced are bad for the economy, bad for the companies and bad for the consumer,” but Chrysler LLC president Jim Press said the company had little choice and that it was an “absolutely necessary part of our effort to assure the long-term viability of the new Chrysler Group. We are burning through \$100 million a day during our stay in court,” he said.

GM president Fritz Henderson said his company’s plan for dealer attrition is “our last chance to get it right,” but that GM was hearing appeals from terminated dealers and that it had reversed the decision on 11 of 500 requests thus far. He also noted that 640 of the nearly 1,200 dealers it notified have signed their termination agreements and that GM would meet with NADA at the end of the week to discuss the association’s concerns.

Nonetheless, the rationales did not sit well with committee chairman John Rockefeller (D-WVa.) and others and they are requiring GM to provide the committee with the list of terminated dealers and the reason for each individual termination. “We have to do better to save some of these jobs and help the communities these dealerships serve,” Rockefeller said.

WANADA immediate past chairman Jack Fitzgerald was among those at the hearing as he continued his far-flung efforts to undo what he considers unreasonable and unnecessary dealership closures. “Dealers are not a cost to manufacturers,” he told the *Washington Post* in a front page story. “This just isn’t necessary.”

There are two more hearings set for next week on the dealer closure issues, one in the Senate Banking Committee and the other in the Oversight Subcommittee of the House Commerce Committee. It is unclear what can come of the various committees’ actions, however, because the bankruptcy courts are largely controlling the fate of the two companies. Thus far Judge Arthur Gonzales, who is handling the Chrysler LLC bankruptcy, has shown little inclination to modify any of Chrysler’s reorganization efforts. Indeed, in hearings this week to address terminated dealer concerns, he told them that there was a “strong argument” to allow Chrysler to proceed with the closings. “Absent a car manufacturing business, the dealerships would not seem to serve any purpose for Chrysler,” he said. Gonzales intends to rule on all the Chrysler dealer rejection motions next Tuesday.

MD Attorney General Gansler Says Fiat Will Honor Chrysler "Lemon Law" Obligations

Seeks State Law Protection for Terminated Dealers

Fiat has agreed to honor the "Lemon Law" rights of Chrysler buyers after the Italian automobile manufacturer Fiat effectively takes control of the U.S. automaker. That was the word from Attorney General Douglas F. Gansler this week who also announced that Maryland has joined with other states to oppose Chrysler's efforts to terminate dealerships in violation of State law.

Fiat agreed to honor the right to seek and obtain a refund or replacement vehicle if consumers' vehicles have a significant or recurring problem to which Chrysler consumers would have been entitled following negotiations with a group of state attorneys general. The agreement has been included in an order issued by the Bankruptcy Court judge.

Maryland joined objections filed by Ohio and Illinois to Chrysler's proposed termination of a number of Chrysler dealer franchises in their states on the grounds that "Chrysler should only be allowed to restructure in bankruptcy consistent with state laws." Gansler said in the state's filing that "the proposed terminations fail to recognize protections provided for dealers under Maryland law."

A hearing on the States' objections to the proposed terminations is scheduled for Tuesday, June 9th in the U.S. Bankruptcy Court in New York.

Penske Saturn's New Owner

Plans to Provide Vehicles for Network from Multiple Sources

Auto entrepreneur Roger Penske's Penske Automotive Group has signed an agreement to purchase Saturn Corp. from General Motors by the end of the third quarter of this year.

The deal will save nearly 350 dealerships and about 13,000 jobs related to Saturn.

Penske said he will partner with GM to keep the Aura sedan and the Vue and Outlook crossovers in the lineup for at least two years and then begin to bring in other vehicles from worldwide manufacturers to broaden the lineup. These would include Renault Samsung Motors vehicles built in South Korea.

Penske is the exclusive U.S. distributor of Smart mini-cars, but he said Saturn will be run independently of that company. He said he would also ask Jill Lajdziak, the current head of the company, to join its management team.

Bloomberg News reported Penske is paying between \$100 million to \$200 million for the Saturn franchise.



Tentative Sale of Hummer to Chinese Equipment Maker

The future of the Hummer franchise looks a bit brighter now that GM has a tentative buyer in Chinese equipment maker Sichuan Tengzhong Heavy Industrial Machinery Co., Ltd, a privately held maker of heavy-duty industrial equipment. The little known company says it intends to remain in the U.S. and sell all existing models in the Hummer line-up as well as produce the vehicles in Louisiana.



The sale needs the approval of China's central government, however, and it has said it wants to see consolidation in the Chinese automaker community and a focus on smaller, fuel efficient vehicles for the domestic market which is expected to become the largest in the world.

Still, Tengzhong CEO Yang Yi says there is a need and market for Hummer products in China's mining and farming regions and that in any case the company intends to invest heavily in fuel efficient and alternative power systems.

Yi said it was his intention that the existing franchise holders will continue on with the company.

Montgomery County Will Pay for Youth Employees

Montgomery County is offering county dealers an opportunity to provide work experiences for youth 14-24 for six weeks at no cost to you. The county will pay wages through the Reinvestment and Recovery Act dollars. The program kicks-off July 7 and will run from July 12 through August 21. If you are interested, please contact Janelle Cauthen, the Director of the Maryland Multicultural Youth Center at janelle@layc-dc.org, Phone: 301-495-0441 Ext. 223 or Fax: 301-585-0115.



"Cash-for-Clunkers" Stalls in Senate

House Version also tied up.

A move by Sen. Debbie Stabenow (D-Mich.) and Sen. Sam Brownback (R-Kan.) to tie a cash-for-clunkers measure to a Food and Drug Administration (FDA) reauthorization bill was withdrawn late this week as resistance built to using TARP monies to fund the measure. A similar measure in the House was also sidetracked leaving in doubt whether any such measure will pass this year despite the support of the president. Cash-for-clunkers measures have proven successful in Europe and are projected to boost auto sales in the U.S. by at least a million units this year.

Here is how the current proposal would work:

	Passenger Car	Light-Duty Truck	Large Light-Duty Truck (6,000 – 8,500 pounds)	Heavy-Duty Truck (8,500 – 10,000 pounds)
<i>Minimum Fuel Economy for New Vehicle</i>	22 mpg (EPA combined)	18 mpg (EPA combined)	15 mpg (EPA combined)	
\$3,500 Voucher	Mileage improvement of at least 4 mpg	Mileage improvement of at least 2 mpg	Mileage improvement of at least 1 mpg or trade-in of a Work Truck	Trade-in must be at least pre-2001
\$4,500 Voucher	Mileage improvement of at least 10 mpg	Mileage improvement of at least 5 mpg	Mileage improvement of at least 2 mpg	

Dealers would be reimbursed by the federal government within 10 days. All vehicles, regardless of their final assembly point, would be eligible. The "clunkers" must be scrapped. While there is no income threshold, vehicles must be less than \$45,000 MSRP. The program would be retroactive to March 30, 2009 and would last for one year.

A Young Man Makes His Mark

How Bankruptcy Became a Viable Option for Chrysler and GM



This is Brian Deese. He is 31, works in the White House and decided Rick Wagoner was wrong about bankruptcy not being good for GM.

Deese works for the Automotive Task Force and while he doesn't make the decisions there, he apparently was the lead advocate for the structured bankruptcy approach for GM and Chrysler LLC adopted by the Obama administration, according to an article in the New York Times.

Deese, one of the first employees of the auto task force argued early on that giving Chrysler LLC 30 days to work out an arrangement with Fiat was worth the risk to avoid a very costly liquidation of the company, and that employing a structured bankruptcy for GM was the only way to save that company and avoid an even more catastrophic hit to the U.S. economy.

At the first meeting with Rick Wagoner, we were in a very different place Deese says in the article, noting that Wagoner felt bankruptcy was not a viable option. It was a long process getting everyone to look at the options differently," he is quoted as saying.

Deese has no background in the auto industry and is trying to finish up his law degree from Yale law school.

Comparative Worth

Ferrari vs. Viper



A legendary pontoon-fender 1957 Ferrari 250 Testa Rossa went on the auction block recently. It sold for \$12.2 million, a world-record price. That was \$2.2 million more than Chrysler LLC has been asking for the



rights to the Dodge Viper brand **AND** the plant to build it in. So far, Chrysler has no takers.

Finding you Inner self

Best Selling Author Lets WANADA Members in on His Secret at Dealer Briefing



Author - Keith Ferrazzi

Nearly 200 WANADA members turned out for an inspirational hour of self discovery this week at a seminar led by bestselling author Keith Ferrazzi. Organized by WANADA Chairman Tamara Darvish and held at the Bullis School in Potomac, Md, attendees learned the secrets that distinguish highly successful people from everyone else; the way they use the power of relations so that everyone wins.

Ferrazzi, the former chief marketing officer at Starwood Hotels and the author of *Never Eat Alone* and *Who's Got Your Back* also impressed on the audience the importance of mutual support and accountability, a great message particularly for the stressful times WANADA members and the auto industry find themselves in today.

In accordance with his customary practice, Mr. Ferrazzi donated his speaker fee for the session to a charity, in this instance Georgetown Hospital's Pediatric Oncology Department via the WANADA Community Support Foundation.

NADA Seminars – Skills for Challenging Times

Maximize Your Business in a Challenging Environment

June 4, 11, and 18. The sessions will cost \$199 per computer connection—the regular NADA price—if purchased separately. Participants can also register for all three sessions for just \$448, a savings of nearly \$150. The series will be presented by Howard Polirer, director of industry relations for AutoTrader.com.

Dealer Survival: Improving Your Cash Flow in Tough Times

June 18, 1–3 p.m. NADA Dealer Academy Instructor Steve Lane will teach participants how to measure and reduce frozen capital and free up cash in the dealership.

Register at www.nada.org