

**GM AND CHRYSLER DEALERSHIP CLOSURES:
PROTECTING DEALERS AND CONSUMERS**

HEARING

BEFORE THE

**COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE**

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

JUNE 3, 2009

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SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

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GM AND CHRYSLER DEALERSHIP CLOSURES: PROTECTING DEALERS AND CONSUMERS

WEDNESDAY, JUNE 3, 2009

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The Committee met, pursuant to notice, at 2:34 p.m., in room SD-106, Dirksen Senate Office Building, Hon. John D. Rockefeller IV, Chairman of the Committee, presiding.

OPENING STATEMENT OF HON. JOHN D. ROCKEFELLER IV, U.S. SENATOR FROM WEST VIRGINIA

The CHAIRMAN. This hearing will come to order. Three weeks ago, Chrysler announced that it was going to terminate 789 franchises on a nationwide basis. I spoke with Pete Lopez, who is here with us. He is an auto dealer from Spencer, West Virginia. It's not the largest city in the world, but it's one of the finest. And it's right in rural West Virginia, and it just sort of sets up the whole tone of this. And he learned that his contract had been terminated with Chrysler. So obviously he was very concerned about that and we talked on the telephone. And he had, you know, a lot of anxiety and concern and worried about his people and, in a sense, in a flash his whole life's work, some 30 years or so, of taking care of people and servicing cars and selling cars both, Chrysler and General Motors, you know just all of the sudden it appeared to be very much in jeopardy. Well, so that was the way he felt. Then compounding that, a few days later Mr. Lopez learned that GM was also going to terminate their franchise with him, and a lot of other folks, putting more of his workers at risk.

This story is obviously not held to Pete Lopez. It's a nationwide tragedy that a lot of us feel very strongly about, something that should not have happened, and can be corrected. It's a story certainly that is echoed throughout West Virginia, and then on a nationwide basis you got nearly 2,000 dealerships that are closed throughout America, 100,000 jobs at risk—those are not unfamiliar figures these days, but nevertheless, 100,000 people potentially out of work—who will probably be out of work and are unhappy. So we have to do better. We can save some of these jobs and we can help some of these communities, and have an obligation to do that.

Let me be very, very clear, I honestly don't believe that companies should be allowed to take taxpayer funds for a bailout, and then leave it to local dealers and their customers to fend for themselves, with no real plan, no real notice, no real help. It's just plain wrong. You don't do that. So we are talking about dealers who have

invested everything they have, many who have been in it for many, many decades—a generational thing within families—some of whom are here today, and they are just looking into a black hole right now. They don't know what's going to happen. They don't know why this had to fall on them. Why were they picked? What was the process? Was it fair? Was it unfair? Was there pressure brought? Was there any politics involved? All this we will get into this afternoon.

We are also talking about the consumer. People who worked just as hard as they can in West Virginia and all of our States here. People work uphill all the time, just striving to make it, to survive. Every penny counts and every mile counts. Every part of a car counts, if it isn't working.

But Chrysler is eliminating 30—40 percent of its dealerships in my State, which is about twice the figure on the national average, and GM, I believe, will eliminate more than 30 percent, which is about 40 percent more than what they are doing—or 60 percent more than what they are doing on a national basis. So this means that some consumers in West Virginia will have to travel much farther distances to get their cars serviced under warranty. Because if you don't have a warranty, you can't get your car serviced. And we are going to talk about that, too, because does that really have to define the terms of the crisis?

Basic economics also says that if you are a dealership, you have those that are left, that are selling Chrysler or GM products, that there is less competition, so the price goes up. That's just economics. I think each company has a responsibility to assure this committee that it is not using this restructuring process to unfairly increase prices on hard working Americans, who have remained loyal to them over many generations.

I want to emphasize today that the consequences of Chrysler and GM's actions are very real to so many people in West Virginia and other states. GM and Chrysler, we're hearing from Americans every day—and we want you to hear, as I am sure you have. We invited you to hear what people have to say. So that's what this hearing is about.

So I am very glad that we have this panel. It gives you a chance to make your case, those of you as auto executives, as to why your companies are taking these actions and to tell us what you're going to do differently as you move forward, if you plan to. My concern runs very, very deep.

I went to West Virginia as a VISTA volunteer. My heart is on Main Street. That's not a political cliché to me, and I really care about what happens to people who work hard. They are always fighting uphill, always fighting uphill, and somehow they never seem to get a fair shake. So these are the most challenging economic times since the Great Depression. We have come together to do everything we can to make sure dealers and employees do all right.

And I do understand the need for Chrysler and GM to reorganize. That's not the question here, but to do this at the expense of workers and consumers in the wrong way is just plain wrong. This committee and the American people will not stand for it.

Thank you. And I call upon the Ranking Member, Kay Bailey Hutchison.

**STATEMENT OF HON. KAY BAILEY HUTCHISON,
U.S. SENATOR FROM TEXAS**

Senator HUTCHISON. Thank you, Mr. Chairman. Mr. Chairman, would you allow me to ask every person in the audience who is a dealer to stand?

The CHAIRMAN. Of course.

Senator HUTCHISON. Thank you very much. We really wanted to see the people who are facing the issues that we're talking about today. I think, Mr. Chairman, first of all, thank you for holding this hearing. I think that after the supplemental appropriation a week before last, just as I was offering my amendment to try to extend the time for these Chrysler dealers, especially, to be able to shut down their businesses in an orderly way, I got word that you were going to set this meeting for this week. And I appreciate it because I think we need to hear what is really happening. It has been about 10 days since we had the debate on the floor, and we had the assurances from Mr. Press, of Chrysler, that there would be contact with the dealers who were being closed. And I want to set the stage, because it was just that week before last that I was contacted by some of the dealers in my state who were affected, and they received a letter from Chrysler, dated May 13, 2009, saying that the agreement would be rejected with these dealers as of June 9. And that meant about 3 weeks notice. Here was the attachment to the letter.

"As a result of its recent bankruptcy filing, Chrysler is unable to repurchase your new vehicle inventory. As a result of its recent bankruptcy filing, Chrysler is unable to repurchase your Mopar parts inventory. As a result of its recent bankruptcy filing, Chrysler is unable to repurchase your Essential/Special tools."

So many of the dealers, some of whom have been in operation and have had the burden of paying the taxes, hiring employees, doing business in a community and being an employer that's providing a part of the economy of this great country, were notified after years of service that they had 3 weeks and basically no obligation from the company. So I did introduce an amendment to just say, 60 days, not 3 weeks, 60 days. Well, then as we started debating this on the floor, all of a sudden I had 5 co-sponsors, and then 10, and then 15, and by the end of the afternoon, as I was talking to the Chrysler executives, we had 38, bi-partisan Democrats and Republicans, cosponsoring the amendment. And the agreement that came forward from that process was that Chrysler would, indeed, do everything possible and make commitments to the dealers that they would take every piece of inventory and specialized equipment that could be transferred by June 9. And so I look forward today to hearing from Mr. Press about the progress on that and I look forward to hearing from the dealers about whether they believe that they have had that kind of outreach from Chrysler.

In addition, just this week, General Motors has begun its process, saying that it would close up to 40 percent of its dealerships, which would be approximately 2,300, give or take, of the dealerships in this country, following on 789 dealerships from Chrysler.

Now just to put this in perspective, these families of these dealers, who have made such an investment and who have taken really the financial burden for these dealerships—they buy the inventory. They take the financial risk. It's a huge burden for those who have stood for those around the country.

But we are also talking about 40,000 employees of these dealerships. So we're talking about 40,000 families, besides the dealers themselves.

And we are talking about communities, because I remember selling ads for the high school football program in my hometown, and who was the first person to buy that high school football program for the students who came in for their first experience selling? It was the auto dealer in town. And in my hometown, we had one. And I remember that, and I know that all over this country people remember that.

Who is there first, supporting the community for those less fortunate? It's the auto dealers and their employees. So they are the backbone of the community, and so every community where these auto dealers are going to be shut down, is going to see a loss; a loss of revenue, of course, because the families are going to have to look for other jobs, but also their own charitable and community events will also suffer.

So I think it is very important that the CEOs who are here of our auto companies realize what is happening with these dealerships. And I, for one, want to know how this process is working. I want to know from GM how it is going to work. And I want to see if there is any mitigation for these communities and these families that will come forward. And it's not our place to change your decision. It is not. But it certainly is our place, especially where there is so much taxpayer money involved, for us to make sure that everyone is treated as well as can be in this circumstance.

And we have heard from the people who make the cars, the workers, we have heard about the bond holders, we have heard about the stockholders, and now, today, we are going to hear about the dealers, because I think they had nothing to do with the design of cars, nothing to do with the cost of the company, and yet, 40,000 people from Chrysler are losing their jobs, and then General Motors is yet to come. And I think it is Congress's responsibility to look at the whole picture of this economic impact.

Thank you, Mr. Chairman.

[The prepared statement of Senator Hutchison follows:]

PREPARED STATEMENT OF HON. KAY BAILEY HUTCHISON, U.S. SENATOR FROM TEXAS

Thank you, Mr. Chairman. Would you allow me to ask every person in the audience who is a dealer to stand. We really wanted to see the people who are facing the issues we're talking about today. I think after the supplemental appropriation the week before last, just as I was offering my amendment to try to extend the time for these Chrysler dealers be able to shut down their businesses in an orderly way, I got word that you were going to set this meeting for this week. I appreciate it because I think we need to hear what is really happening. It's been about 10 days since we had the debate on the floor and we had the assurances of Mr. Press of Chrysler, that there would be contact with the dealers who were being closed. I want to set the stage because it was just the week before last that I was contacted by some of the dealers in my state who were affected and they received a letter from Chrysler dated May 13, 2009 saying that the agreement would be rejected with

these dealers as of June 9th and that meant about 3 weeks notice. Here was the attachment to the letter:

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But we're also talking about 40,000 employees of these dealerships. We're talking about 40,000 families besides the dealers themselves, and we're talking about communities. I remember selling ads for the high school football program in my hometown, and who was the first person to buy that high school football program for the students that came in for their first experience at selling? It was the auto dealer in town. In my hometown, we had one, and I remember that and I know all over this country people remember that. In United Way, who's there first supporting the community for those less fortunate? It's the auto dealers and their employees. So they're the backbone of the community. And so every community where these auto dealers are going to be shut down, it's going to be a loss, a loss of revenue, because the families are going to have to look for other jobs, but also their own charitable and community events will also suffer.

So, I think it is very important that the CEOs, who are here, realize what is happening with these dealerships and I, for one, want to know how this process is working. I want to know from GM how it's going to work and I want to see if there's any mitigation for these communities and these families that will come forward and it's not our place to change your decision, it is not. But it certainly is our place, especially where there is so much tax payer money involved for us to make sure everyone is treated as well as can be in this circumstance and we've heard from the people who make the cars, the workers. We've heard about the bond holders, we've heard about the stockholders. And now today, we're going to hear about the dealers, because I think they had nothing to do with the design of cars, nothing to do with the cost of the company, and yet 40,000 people from Chrysler are losing their jobs and General Motors is yet to come. I think it is Congress' responsibility to look at the whole picture of this economic impact. Thank you Mr. Chairman.

The CHAIRMAN. I thank the Ranking Member and I call upon Senator Klobuchar.

**STATEMENT OF HON. AMY KLOBUCHAR,
U.S. SENATOR FROM MINNESOTA**

Senator KLOBUCHAR. Thank you very much, Mr. Chairman, for holding this hearing. I look forward to hearing from the witnesses. I want to specifically mention my constituent dealers that are here today: Shakopee Chevrolet, GM dealer; Koronis Motors, from Paynesville, a GM dealer; Walser Buick Pontiac in Bloomington, a GM dealer; Scott-Preusse Motors in Redwood Falls, which is a

Chrysler dealer; Nelson Auto Center, in Fergus Falls, which is a GM dealer and Fury Dodge Chrysler, in Lake Elmo.

What is so puzzling for so many of our dealers in Minnesota, is that some of these dealers were actually doing pretty well. Walser Buick Pontiac for 4 out of the past 5 years has been number two in sales for all of Buick Pontiac GMC dealers in Minnesota. Fury Dodge Chrysler set an 85-year record for sales in January, with 103 new cars sold. They beat the record again in May with 113 new car sales. Koronis Motors increased its new car sales by 30 percent last year, and its service work increased by 75 percent, yet these three dealers received termination notices. So understandably, they have questions they want answered today about how these decisions were made, why they were given so little time and if there is any time that can be extended. They feel that these decisions may have been in the boardrooms in Detroit, but they are affecting people in the living rooms in Minnesota. This is about local communities, as Senator Hutchison so eloquently described and Senator Rockefeller described, throughout this country. And it's about homegrown locally-owned businesses, as well as employees and customers who depend on them. Jim and Tom Leonard, who are here today, are co-owners of Fury Dodge Chrysler. The business has been in Lake Elmo for decades, with 40 workers, they are the largest employer.

Because of what was going on, they actually had a rally this Saturday, 400 people showed up. I received 1,200 letters from people in this community, that want this dealership to stay open. And the things we are most concerned about in Minnesota is first of all, why there isn't there some kind of internal appeals process on the Chrysler side for those who think they have been wrongly targeted? You know, when mistakes have been made and acknowledged by the auto industry in the past, one would—it would lead one to believe that there could be mistakes made in decisions about which auto dealerships should be terminated.

We are concerned, as one of the early co-sponsors of this amendment, because we are concerned about the timing. Some of these dealerships have been in business for decades and then they're given 26 days—26 days.

On the GM side they were given longer time, but then some of them have given these letters which only give them until July 12 to make a decision. Not enough time to make decisions, not enough time to make sure that they've sold their parts, not enough time to get their employees some kind of landing ground. And these are employees, just like there are employees in Detroit. They are the heart and soul of so many communities in our state.

So what we would like to see is some fairness injected into this process. Obviously, it is your decision to make. But when we are talking about taxpayer dollars, we're talking about families in a very difficult economic time. We would like whatever fairness we can find to be injected into this process, and that's why we're here today. Thank you very much.

The CHAIRMAN. As we always do, and so people understand, next will be Senator Johanns.

**STATEMENT OF HON. MIKE JOHANNIS,
U.S. SENATOR FROM NEBRASKA**

Senator JOHANNIS. Mr. Chairman, thank you very much. I really appreciate you conducting this hearing and it's good to see you back.

Here is the problem, as I see it. I think everybody has spoken very eloquently about the difficulties that this has caused back home. And we are all getting the phone calls and letters. I have got bullet points from one of your dealers at Chrysler, talking about the jobs that are going to be lost, explaining to me how they don't feel that they are costing Chrysler anything, how unfair it was to have so little time after being a part of the organization for so long. But here is the problem, the deal is done. I never would have believed, as a candidate for the U.S. Senate, that the U.S. Government could buy General Motors without a hearing, with no vote, yes or no, that a dealership plan could be rolled out that literally put people out of work—this was supposed to save jobs, I thought—put people out of work with no oversight. I never would have imagined in a million years that that could be accomplished, and I find that to be extremely bothersome.

There are billions and billions of dollars at stake here. The other thing that I will share with you—I think if I would have called any one of my constituents back in Nebraska on Friday and said to them, "You know, I have been thinking about it, I think that that \$1,000 that you have worked hard to save in your savings account should be invested in General Motors." Do you know what I think the response would have been? They would have laughed at me and hung up. They would have laughed at me and hung up, and yet on Monday our government bought General Motors. And by every definition I can see, that is probably the poorest investment that you could possibly make, and then this on top of all of that, with dealerships closing, people losing their jobs. I don't see how this makes any sense.

So I want to hear today about your role with the Administration. I want to know who had this plan. I'm not saying who had it for approval, but who did you submit it to before you rolled it out that is associated in any way with the Administration?

I also want to just mention as I wrap up my comments today, I am going to speak on the Senate floor about this tomorrow, but I have an amendment that basically says if you are going to use TARP money and you are going to end up with ownership of the stock of a company, you have to get Congressional approval. You see, I think it's time to bring some transparency to this, to shine a bright light on what's going on here. Because it's not fair to these dealers. You know, they see Chrysler going into bankruptcy. They see General Motors going into bankruptcy. And they can't even answer the question if they are going to be one of the ones getting a letter. And that's not fair to them. That simply is not fair.

So I appreciate the Chairman's courage in taking this issue on. I think it's enormously important, not only to folks back home, but how we operate as a Nation and the impact on our economy when we nationalize something like the auto industry. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator, very much. Senator Begich.

**STATEMENT OF HON. MARK BEGICH,
U.S. SENATOR FROM ALASKA**

Senator BEGICH. Thank you very much, Mr. Chairman.

And I appreciate the hearing also, welcome back. Thank you for one of the meetings I was allowed, as were a couple of freshmen, allowed to take the gavel. Don't worry, we are not going to get used to it. But I appreciate the opportunity.

To the folks that are here, thank you for attending. I am not going to go through a long list or speech here on the whole issue, but I do have questions that I want to ask. I am going to ask them in my presentation here so you can start thinking about them, because I think all of us will have issues and concerns. I think Alaska is actually been on the best end of it, if you can call there is any best end, and that is, I think in Chrysler we had none that were requested to close dealers, and in GM, we are not sure yet.

But the issue to me is where do we go from here? How do you ensure the long-term growth of the companies, if at all? How do you expand the dealerships? Because if the assumption is that these companies are to be reorganized and grow, then in theory, dealership growth will occur with it.

What you doing with regards to dealerships—and I can't remember the exact dates—but in June, when they are no longer an authorized dealer and they still have inventory? Are there situations where you are going to allow them to extend their time, so they can sell off that inventory in order to recoup their cost and investment?

Are you doing any mitigation? Just as you would do in a layoff situation or a furlough, you might give a package to the employee.

What are you doing for the dealerships to ensure that they have capacity to deal with the transition they may have to make?

How do you ensure that the individuals that have warranties in small towns have a place to go to get their work done?

Are there ideas that the companies are considering to be even a hybrid of some of these dealerships, to make sure that there are warranty dealerships available to communities that may have to go several miles—in my community it could be hundreds of miles—to get a vehicle taken care of?

To me, those are the issues I am looking to. What's the forward? I can complain a lot about what happened; where we are, who caused it. The people who are paying the price now are a lot of dealers who sitting in this room, a lot of employees of those dealerships. I know in my community, dealers are the back bone of a lot of our nonprofit work, or community work. They are the ones you see at the Rotary's, the Lions Club. They are the people out there making the community happen. They are the people that, I know as a former mayor, they would go to and they would be the first on deck to help us to make a difference in their community.

So I'm interested in what you are doing to help this transition, but also how are you going to grow your business to ensure more dealers in the future exist. And also, what mitigation are you going to do to help these folks through this transition, knowing that you would do very similar things for employees when you are doing layoffs, what are you doing in this situation?

I have many other questions, but my time is out. These are the questions I am going to ask, so that gives you a little food for thought, again, as we move to the question period.

Thank you very much.

The CHAIRMAN. Thank you, Senator Begich. Senator Lautenberg.

**STATEMENT OF HON. FRANK R. LAUTENBERG,
U.S. SENATOR FROM NEW JERSEY**

Senator LAUTENBERG. Thanks, Mr. Chairman, and to those of you at the witness table who have leadership positions in your respective industries, must have a terrible conscience right now when you think about what's being done to dealers, small businesses, typically family business, businesses that have been endured for years. In Mercer County, New Jersey, for instance, Bill Coleman was informed less than 3 weeks ago by Chrysler that his dealership would be closed. His father started the family business 22 years ago. And people are losing their jobs, and left wondering if they are next across New Jersey, 30 dealerships will all face the same fate.

I want to be clear because there is—has been double dealing here. There was an imposition placed on dealers by Chrysler, Mr. Press, who said that they had to buy, in January of this year, that dealers collectively would have to sell—take another 78,000 cars to be sold in the month of February to help Chrysler protect its viability and to get additional loans from the government. I remind you that \$4 billion went to Chrysler in December, \$3 billion in financing helped in March. When Chrysler restructures, \$4.5 billion is committed to restart operations. And frankly I think it's pretty simple. And the bankruptcy proceeding, what ought to happen is a plan there to say to the dealers, "OK, we shoved this down your throat, and now we will take them back." That's part of the—what ought to be done to relieve the dealers of additional burdens beside closing their businesses and smashing their dreams and hopes.

So, it's tough, and I know you don't like it, but whether or not you like it, the burden that you are passing on to the dealer network is absolutely unconscionable. And you ought to be figuring out a way to redeem the problems that you have turned to the dealers, Chrysler and General Motors, all of you who are part of the bankruptcy process for which the U.S. Government and its taxpayers is providing the way out.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Lautenberg.
Senator Dorgan.

**STATEMENT OF HON. BYRON L. DORGAN,
U.S. SENATOR FROM NORTH DAKOTA**

Senator DORGAN. Mr. Chairman, thank you very much. This is about the restructuring and we have heard a lot about restructuring recently, restructuring the financial industry, restructuring the auto industry, and watching it all, I am wondering who is making the decisions in this country about who is too big to fail and who is too small to matter?

The decisions about the auto dealership network, those decisions belong to the manufacturer, not the government. I understand that. I don't think that's the point of this hearing to decide that we want

to create some sort of vision of your network, but there are questions it seems to me, serious questions that are in order.

I understand a desire to eliminate overlapping dealerships of the same brand of automobile, so that you don't have two dealers competing against each other to drive down your price for the same car. I understand that.

What I don't understand is how the decisions have been made, especially with respect to rural areas. Now among the questions, I think, is how does it square that auto manufacturers that have been losing a great deal of money have ordered the closing of dealerships that have been making profits? It seems strange to me.

And in rural states, the important question is what is the impact, the real impact on smaller automobile dealerships? What is the impact on consumers? With respect to the dealerships, what's the impact with respect to inventories? Automobiles that they have on the lot, parts inventories. Some dealers have shown me that in January of this year, they were encouraged by their particular manufacturer to buy more cars, get more cars on the lot; do that; it's very important that we be able to move cars out and have them on your lot. So now they discover, wait a second—so I brought the cars onto the lot and now I am told that I am not to exist anymore.

What about customers in rural states? In my state, a customer that has bought a pickup truck, for example, or a car, and did so because they are brand loyal. They have been doing that for years. Their parents did it for years. They bought it from a small dealer that's been around for 70 years, selling the same car. And they bought it with a warranty. And now the question is who is going to service the warranty? And at least with respect to the closure of two dealerships in North Dakota, it appears to me that those folks will get in their pickup trucks and their cars and drive a three-mile round trip—excuse me—a 3-hour round trip—we don't consider three miles very much—a 3-hour round trip to get service.

I just think those questions need to be asked of you. Did you consider all of that? And finally, is there a process for a dealer, having heard from on high at 30,000 feet, that your view of the ground was as you describe it? Is there a process for a dealer on the ground to say to you, "You know what? You made a mistake this time." And I want to make that case to you. Is there a process for them to make that case, because perhaps you have made some mistakes. I think it's important for us to have you answer those questions for those dealers, many of whom have been loyal for many, many, many decades to the automobile companies represented here.

The CHAIRMAN. Thank you, Senator. Senator Snowe.

**STATEMENT OF HON. OLYMPIA J. SNOWE,
U.S. SENATOR FROM MAINE**

Senator SNOWE. Thank you, Chairman Rockefeller. Welcome back and thank you for holding this very critical hearing today, Mr. Chairman, because obviously, we are all grappling with the devastating effects and the sad state of affairs when it comes to the domestic auto industry, its failures in past leadership that did not provide the requisite leadership, vision, ingenuity to transform the industry, and that ultimately has led us, as taxpayers to provide

a massive infusion of more than \$70 billion to Chrysler and General Motors.

And now we are confronting the stark reality with the worst economic recession since the Depression, and of course, we are now hearing the news that more than 2,000 auto dealerships that are facing closure nationwide. More than 18 in my state are going to be disenfranchised, arbitrarily, through no fault of their own. They are loyal, and in many instances, longstanding small businesses in the communities, as you have already heard. Yet the companies represented here this afternoon have provided no clarity with respect to exactly how or why they've come to the specific decisions that they have made; let alone provide any transparency with respect to these decisions or the arbitrariness of the timeframe in which these auto dealers are compelled to make these decisions. So it's a very heavy handed approach without question.

Moreover, the companies aren't providing any significant assistance in winding down. As we have heard, Chrysler is providing 3 weeks for dealers. Three weeks. And as you heard from Senator Dorgan, he's absolutely right. A lot of our dealers were asked would you buy more Chryslers last year, so that we can avoid bankruptcy? And they did. And look where they stand today; they are asked to close their doors. And Senator Hutchison has mentioned, and we thank her for her amendment that she offered a couple of weeks ago on the floor, to give a little bit more breathing room to the auto dealers, at least 60 days. But where does that put them at the end of this whole process, where they have no idea what their futures are?

General Motors has stated, for example, in its wind-down agreement, that they will not be buying back tools or parts from the dealerships that they are closing. And I got a copy of the wind-down agreement last night. It's 12 pages, single spaced. It would take a team of lawyers that obviously devised it, to make it as difficult and as dense as possible, so no one could possibly make a decision within the 10 days they were required to make a decision. They have to sign it within the 10 days or they close down with no assistance whatsoever.

There has been no detailed accounting or disclosure from the companies that will result in dramatic savings. It's interesting to note that the Washington Business Journal, for example, noticed dealers pay for the inventory, shipping of the inventory, front the cost of warranty work, purchase the repair equipment and parts. They also state that cutting costs was not a major factor in Chrysler's decision. The automaker would save some additional expenses by having small dealer network and administrative costs to oversee, but that's about it.

And I know you, Mr. Henderson, have claimed in an interview yesterday that there was economic rationale for these actions. Well, it has been reported in neither the White House nor the Auto Task Force where the economic rationale behind the closings or precisely how they were determined.

So what exactly is the rationale for shutting a dealership, like the one in Sebago Lake, Maine? I had a conversation with a dealer last night, a heartbreaking story, heartbreaking conversation. He had one of the most thoroughly trained work forces, highest cus-

tomers service index in the State, and according to a letter from General Motors, they could no longer maintain a productive business relationship. Well, why? This is a business that has been in partnership with General Motors for 80 years, third generation. And GM asked this dealer to pack up and relocate, and now they are targeted for closure, due, in part, to that relocation. This is a dealership that serves an area more than a 100,000 people, sells over more than \$2 million in parts. And confidentially, dealers have informed me that several populous areas in the State of Maine, entire counties, will go from multiple GM dealerships to absolutely none, leaving geographic areas without any dealers, without customers have to rely on getting the service that they depend upon, having to drive a hundred miles or more for service.

Well, if you don't have service, you're not going to have any sales. I do not know how you re-emerge from bankruptcy and re-establish viability on that basis when you are reducing your market share to virtually nothing.

The American taxpayer has provided billions of dollars, and ultimately the auto dealers are now on the front lines, with the harsh consequences of failure at the top. And they deserve better, far better than what they're getting. And I hope that we can address the ramifications of these decisions that have an enormous impact all across the country.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Snowe. Senator Isakson.

**STATEMENT OF HON. JOHNNY ISAKSON,
U.S. SENATOR FROM GEORGIA**

Senator ISAKSON. Thank you very much, Mr. Chairman. You know I ran a company for 22 years. I had 800 sales people in the real estate brokerage business. They were very much like automobile dealers. They were franchisees. They made money if they sold. It seems like to me when you close your dealerships, you are firing your sales force. The dealers are not a liability, they are an asset, and I really don't understand the pervasiveness of the closures that are taking place.

But I have two questions in case we to go too long and I have to leave. I want to make sure these two questions get answered. So I will ask them now.

Mr. Press, on February 5, 2009, you were quoted in appealing to your dealers to make 15,000 additional purchases of Chrysler products in order to save the company. And you said the following, "You have two choices. You can either help us or you can burn us down. Think of it this way, we are a bucket brigade. Right now 70 percent of the positions are filled. If we don't fill the other 30, we are going to burn down. If you decide not to do that, we've got a good memory of who helped us and who didn't."

And I think that recognizes the fact that the dealers are your asset and that you depended on them and now so many of them are being closed.

And for General Motors, I have not seen the list, Mr. Henderson, and I appreciate the times you have visited my office along the way. But in the phone calls I have had in the last 3 days, it appears what Mr. Dorgan referred to, Senator Dorgan referred to is

correct, that there is a disproportionate closure of rural dealerships, at least that's the way it appears to me.

So I think the question of are they being disproportionately being closed in rural areas, number one? And number two, what is the rationale to fire your sales force?

They need to be answered in this hearing. And Mr. Chairman, I look forward to hearing the answers to both.

Thank you.

The CHAIRMAN. Thank you, Senator Isakson. Senator Martinez.

**STATEMENT OF HON. MEL MARTINEZ,
U.S. SENATOR FROM FLORIDA**

Senator MARTINEZ. Mr. Chairman, thank you very much and thank you, and Ranking Member Hutchison, for holding this hearing at a very, very important time. I will echo the remarks of many of my colleagues about the importance of leadership of dealerships to communities, and also the very question that Senator Isakson just asked, without a sales force, how do you remain viable?

What I want to zero in on, and the questions that I would like answered are very, very, specific, which are two examples of dealerships that are closed in the State of Florida. One is, Mr. Press, in Miami, Tamiami Chrysler Jeep Dodge. Mr. Planas has told me that his dealership was perhaps the top seller in the South Florida area, one of the top one hundred in the country. It seems to me the kind of dealership you would want to see continue.

The other one is in Central Florida, GM, Mr. Henderson, Holler. Holler Chevrolet—I have grown up in Central Florida, and lived there all of my life. Holler is synonymous with Chevrolet in the central Florida region. Until Bill Heard Chevrolet ceased to exist, they were number 2. I presume now, since they are no longer around, they would be the number 1 dealer in the Central Florida region.

How in the world does it make sense for a dealership like that to also be on the list of closures? In addition to the fact that they're the one of the top sellers you have in Florida, they also have excellent customer service and everything else. They know how to do this business. They have been in it all of their lives.

So the specifics of this is what rhyme or reason is there to this, because it is peoples' livelihoods? It is peoples' businesses. So we need to understand this so we can answer these questions from our constituents. I think they deserve to understand the rationale, why a dealership like Tamiami or Holler would be closed in these two communities where these dealers, to anyone who would see it, would seem to be incredibly successful dealers, the kinds of dealers you would want for your future company if you are going to make it.

That's all I have. Thank you.

The CHAIRMAN. Thank you, Senator Martinez. Senator Brownback.

**STATEMENT OF HON. SAM BROWNBACK,
U.S. SENATOR FROM KANSAS**

Senator BROWNBACK. Thank you, Mr. Chairman. I want to associate myself with the comments made so far, and also I want to

thank the panelists for being here. This is a tough time for you, too. I am sure these decisions aren't easy ones that you've made nor that you make lightly. And I think everybody is pretty frustrated about what is happening and what is taking place.

I do have some questions that haven't made quite made sense to me yet. I've have a number of dealers in my state say, "We don't cost GM or Chrysler anything, so why are they cutting us off?" And it seemed to me to be a legitimate question to ask. If your sales force isn't costing you anything, why would you cut them off?

The second piece of that, though, I am sure you must have some numbers that say, "Here is why we are doing this." I would like to know what it is that when you look at those numbers, that if you radically downsize your distribution network, that you are going to be able to be more profitable in the future by doing that? Because I understand you got more dealerships than Toyota, Honda, others that may have built their dealership network a later date than what you did, but if by downsizing that radically, do you substantially upscale your ability to be profitable? That's the question I have, if your dealership network, by what the dealers are saying, it really doesn't cost you that much. I would really like to understand those numbers on a better basis.

The second piece is you're operating off of one of difficult car markets we have had in 50 years and you're looking at \$9.6 million in annual sales right now. I think you—and Mr. Henderson, thank you for coming by my office and saying that \$10.1 million was the latest monthly figure that you are running at.

But a normal year would be a \$14 million, \$15 million, at least, in car sales. And my colleagues, we are putting up, Senator Stabenow and I, a scrappage bill, that in other countries, when they have put this forward, have increased sales of automobiles anywhere from 10 to 30 percent in months period of time.

So if you get back anywhere close to a normal car sales market, do you need this sort of scrunching down of dealership, if you get back somewhere close to normal? This is an extraordinary situation we are in.

If we help further with a scrappage program, do you really need to push down that dealer network?

And just finally, we've got a lot of rural dealers in my state. They have been very loyal to American brands. Mr. Henderson, you noted that you have a 10-percent market penetration advantage in rural areas. You know, I would hope one would look at that as an asset and not a liability, and say, "This is where we would really like to maintain that market share." Wal-Mart did very well going into rural areas, and then into the urban areas with market advantage, and here's a place where you've got market advantage. I would hope that you would give some deference to those dealerships in particular.

Thank you, Chairman.

The CHAIRMAN. Thank you very much, Senator Brownback. Senator Warner.

**STATEMENT OF HON. MARK WARNER,
U.S. SENATOR FROM VIRGINIA**

Senator WARNER. Thank you, Mr. Chairman. Welcome back. I want to follow up on Senator Brownback's comments, and one, echoing my other colleagues' concerns about the real human effects these decisions have had upon your dealer networks and their employees and families across the country. But also recognizing, as Senator Brownback did, the economic reality I think in the last couple years, national auto sales hit about 17 million units. They are down to about 10 million. The economic reality means you have got to shrink.

I also have to say, that at some level, as someone who has spent 20 years in the business sector before I went into public service, if I would have ever thought in my business life that I would see a group of Senators trying to micro-manage the workings of American industry like GM and Chrysler, I would have said, "It never could happen." So if there was any more impetus to try to get back the profitability and get the government out of your business as soon as possible so that these kind of sessions don't have to happen, going forward, today's session ought to be that impetus. But recognizing some consternation about asking some of these questions, there are, as shareholders, as the American taxpayer being a shareholder, we now have that right and responsibility to ask these questions.

So, Mr. Press, one of the things I have heard from some of our Chrysler dealers is not only is it a short timeframe, but then if you want to make an appeal, that there was this window only between May 15 and the end of the month. And the notion of a dealer trying to put together a whole appeal process or try to make the case back to corporate that maybe the wrong decision was made, it just seems a bit unreasonable.

Mr. Henderson, again, I come from Virginia. We have a broad dealer network and an awful lot of concern about your requirement. I believe you—the document that you sent out, it has to be signed by June 12. And my question is not so much to, perhaps not only second guess the reason why you've got to shrink, but my understanding of this document will require basically in Virginia, we got a right to—if the dealer has got a problem with the manufacturing, you can go to the dealer board and try to have some kind of adjudication rights. Signing this document gets rid of those rights. Going forward, a dealer that signs up on this June 12 date would lose any ability to have a say if you choose to put some other dealer in on top of them, no ability to control the level of inventory coming in. And from a business guy to business guy, my question would be if somebody signs up to this new June 12-type agreement, what incentive would I have as a local dealer, ever to reinvest in my business, and try to build up my business if you, at any point could do away with my due process, put another competitor right on top of me, or force me to take inventory, even if it's not a good business decision?

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Warner. Senator McCaskill.

**STATEMENT OF HON. CLAIRE McCASKILL,
U.S. SENATOR FROM MISSOURI**

Senator McCASKILL. First, welcome back. We missed you, Mr. Chairman.

This is painful. There is a great deal of anger and despair, and it shouldn't shock anybody in this room that we are all looking for bad guys. And who we see as the bad guy depends on where we sit, and other considerations. Some are going to say the companies have been the bad guys, for creating a business model that depended on creating artificial demand. Some will say it's the unions that are the bad guys, for working to get agreements that allowed them and their families to aspire to a comfortable place in our middle class, that has allowed us to consume a lot of goods in this country, that has allowed us to have the trajectory of economic growth that we have had. Some will say it's the President. Some will say it's Congress for authorizing the funds in the first place, that are being utilized to invest in these companies. Some will say it's the people who promoted and sold sub-prime mortgages to people who couldn't afford them. The bottom line is we are going to indulge today in a little Monday morning quarterbacking.

The alternative to what has happened is a much more drastic result. And if we are all honest about it, we would have to acknowledge that if the actions had not been taken over the last 30 days that have been taken, two giant American manufacturers would cease to exist. And there would be no dealers left standing and there would be no families that would go to work proudly on the line, making an American automobile for these two proud companies that have such a tradition in our country. And I think all of us are trying to struggle with how we work through this situation, full of pain and despair and anger, to come out at the other end with companies that are free of government interference, and profitable. We want you guys to make some money, but this hearing is very important today so that we understand the processes that occurred better.

These people deserve a full vetting of what happened and why. And most importantly, we need to understand a lot better than we understand right now, what happened so we make sure we have not set a precedent.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator McCaskill. Senator DeMint.

**STATEMENT OF HON. JIM DEMINT,
U.S. SENATOR FROM SOUTH CAROLINA**

Senator DEMINT. Thank you, Mr. Chairman. It is good to have you back.

I think it is starting to hit all of us in the face what government-managed economies feel like. If this was a normal bankruptcy situation, it would be none of our business what you did with your union contracts or dealers or whatever. But this is a political bankruptcy and the government has been a part of picking winners and losers. And so we are concerned, but we are also very much to blame for the process that has taken place.

If we wanted to look at who to blame as far as how we ended up with two great companies in bankruptcy, we certainly have to

look at management, maybe we look at the government policies, high levels of taxation at Federal and State levels, regulations that we put on our companies. Certainly union contracts have to be in with that mix, because some of it got way overboard, as far as what was affordable.

We can see those are a mix that maybe caused some of the problems. But we can't blame the stockholders, the ones who believed in your companies and put their money in it. We can't blame the customers who trusted the brands and bought the cars. We certainly can't blame the dealers, who invested their life savings, their sweat equity, generations of family work. These were private companies out there, extending the value of your companies.

And now we look at the winners and losers as the private doors open up. Those that caused the problem are owning 80 percent now, nearly 80 percent of General Motors. Those that believed in the risk and paid into it, the stockholders and customers, the dealers, they lose everything. That's what political decisionmaking does. Because that's not an economic decision.

And again, I wish it was none of my business, but I am afraid that the political side of this has made it our business, and now I've got the same questions everyone else has. Some of you made a case that the dealers do cost you money because of incentives and money you put through their co-op plans and other things. If that's true, cut it out and give these dealers the option to keep their business and what they have invested in.

We have all gotten calls like I got yesterday. They just moved into—one dealer in South Carolina just moved into a new \$4.5 million showroom that General Motors had encouraged them to build, and they got the letter yesterday that they were losing the brands that they were going to put in there. That's political decisionmaking there because this is a dealer who is selling a whole lot of cars and investing a whole lot of money.

So my questions are to this panel, too, obviously, is there anyway to take a look at this, that would actually reward those who have made the businesses work, and maybe take a little more out of those that have brought the company down? But it hurts me to look at this pie chart. It shows the ownership of General Motors today and see that those that really helped the company on the outside are not even in that pie.

So, Mr. Chairman, I am just outraged out, as one of my constituents said, so I yield it back to you.

The CHAIRMAN. Thank you, Senator DeMint. Senator Wicker.

**STATEMENT OF HON. ROGER F. WICKER,
U.S. SENATOR FROM MISSISSIPPI**

Senator WICKER. Thank you, and I am sure our witnesses realize that eventually they're going to get a chance to speak also.

By the way of opening statement, I want to read an e-mail that I got last week from a dealer in Mississippi, and I won't read all of it, Mr. Chair, but it dramatically outlines the real-life situation that this hearing is about. The e-mail says, "I learned on May 14 that Chrysler is terminating my franchise and giving me less than 30 days to sell off an inventory that is bloated as a result of ordering cars at their request to keep them afloat. They are not buying

back inventory, parts, special tools or specialized service equipment that I was required to buy. This is in violation of state laws in all 50 states, but is being done under bankruptcy because they can get away with it. My brother has a Chrysler Jeep next door and stands to be handed my franchise for free that I have spent 21 years developing.

This is not the way free enterprise is supposed to work. I am solvent, well-capitalized, profitable, and employ over 50 people. I have millions in investment in dealership specific real-estate to sell and service Dodge vehicles. I have been the number one Dodge dealer in Mississippi for 15 straight years." This is a dealership that is been terminated. "Have an open floor plan line with J.P. Morgan, Chase, profitable, well-capitalized nearly all new facilities, great location and have won every major award from Chrysler over the past 20-plus years. We are currently five star certified."

So I would just simply add that he is certainly hoping to be pulled off "the rejected list." He wants to be given time for his brother and him to work out a reasonable deal between them, and operate the three brands under one roof.

Mr. Chairman, and my colleagues, this is the type of real-life situation that we face today, and I hope the testimony will answer these types of scenarios and I look forward to hearing the information.

The CHAIRMAN. Thank you, Senator. And now, Senator Udall.

**STATEMENT OF HON. TOM UDALL,
U.S. SENATOR FROM NEW MEXICO**

Senator UDALL. Thank you, Mr. Chairman, and also let me say, great to have you back, and Senator Hutchison, thank you for your amendment on the floor, that I think provided a—tried to provide a more orderly process to dealership closings.

I agree we need to ask tough questions regarding dealership closings, and there is no doubt that cars have become an integral part of the American story. I bet if you ask any American, they will remember fondly their first car, even if it was just the old family truck. So it's tough for me to believe that we're here today with two of America's automakers in bankruptcy.

It's more unbelievable, though, for all the folks across the country whose jobs depend on Chrysler and GM. Because of these workers and the thousands of others who depend on the auto industry, I support efforts to get the auto companies back on their feet. But I am concerned about the process. I want to make sure that we're going to save as many American jobs as possible and taxpayers are going to see a return on their investment.

There are towns in New Mexico that depend on local dealerships for jobs and economic activity. We need to keep those communities in mind as we move forward.

I hope that today we can look into the dealership closings with those two goals in mind: saving American jobs and watching out for the taxpayer.

I look forward to hearing from the panelists and having them talk about those issues.

Thank you, Mr. Chairman.

[The prepared statement of Senator Udall follows:]

PREPARED STATEMENT OF HON. TOM UDALL, U.S. SENATOR FROM NEW MEXICO

I want to thank the Chairman and Ranking Member for calling this hearing. I agree that we need to ask tough questions regarding dealership closings.

Cars have become an integral part of the American story. I bet you can ask any American and they'll remember fondly their first car, even if it was just the old family truck.

So it's tough for me to believe that we are here—with two of America's auto-makers in bankruptcy. It's more unbelievable, though, for all the folks across the country whose jobs depend on Chrysler and GM and are wondering what these companies will look like in the future.

Because of these workers—and the thousands of other who depend on the auto industry—I support efforts to get the auto companies back on their feet.

But I am concerned about the process. I want to make sure that that we are going to save as many American jobs as possible and taxpayers are going to see a return on their investment. There are towns in New Mexico that depend on the local auto dealership for jobs and economic activity. We need to keep those communities in mind as we move forward.

I hope that today we can look into the dealership closing with those two goals in mind: saving American jobs and watching out for the taxpayer.

I look forward to hearing our panelists' thoughts on these issues and thank them for joining us today.

The CHAIRMAN. Thank you, Senator Udall. And finally Senator Pryor.

**STATEMENT OF HON. MARK PRYOR,
U.S. SENATOR FROM ARKANSAS**

Senator PRYOR. Mr. Chairman, I want to have mercy on the Committee. I am not going to give an opening statement. I would like to submit one letter from one of my car dealers into the record, if that is possible.

[The information referred to follows:]

RLJ-McLARTY-LANDERS AUTOMOTIVE HOLDINGS
Little Rock, AR, June 2, 2009

Hon. MARK PRYOR,
Washington, DC.

Dear Senator Pryor:

I am writing today in regard to the U.S. Senate Commerce Committee's hearing scheduled for tomorrow June 3, that will address the future of the local auto dealer. As you know I am President of RLJ-McLarty-Landers Automotive Holdings that own 16 dealerships and 32 franchises and I have personally been in the auto industry for over 35 years. It was not easy to see our counterparts lose their sales and service agreements, but Chrysler LLC made the appropriate business decision to move forward with a dealer network that over all can be thriving and profitable.

If this sale is not approved and Chrysler has to liquidate, 3,181 dealerships in the United States won't be selling new Chrysler, Jeep or Dodge vehicles, which would have a devastating effect on both local and national economies. Under this plan, 2,392 U.S. dealers move forward with the new company. It doesn't mean that the 789 rejected dealers will close if this motion is approved by the Court. 44 percent of the 789 "rejected" dealers are dueling with another (competing) new vehicle franchise and can continue to sell those makes of vehicles. 83 percent of the 789 "rejected" dealers sell more used than new vehicles, many of these dealers will continue selling and servicing pre-owned vehicles.

The fact of the matter is the automotive industry cannot support the number of dealers that currently exist. Dealers have known that Chrysler wanted to consolidate dealerships and locate all three brands under one roof; they stalled that process more than 10 years ago.

At all six of RLJ-McLarty-Landers' Chrysler dealerships we have worked to consolidate Chrysler brands so that we carry all three (Chrysler Dodge Jeep). We have invested in exclusive Chrysler facilities at each location.

We understand that the process to evaluate the dealers was a thorough process based on a data-driven metric that included a variety of factors, including a scorecard that measured sales, customer satisfaction and service satisfaction, among

other items; facility; location; the market's total sales potential and if the dealer is dueling with a competing manufacturer.

The roughly 2,400 Chrysler Jeep and Dodge dealers moving forward with the new company account for 84 percent of the company sales volume. The 789 rejected dealers are 25 percent of the dealer body but only account for 14 percent of the sales volume. Of the 789 rejected dealers, 50 percent sold less than 100 new vehicles each in 2008 (fewer than 2 per week). When there are too many dealers competing for the same customers, everyone loses because there aren't enough customers and sales to support the number of dealers in the market.

The move to a more efficient dealer network of 2,392 U.S. dealers will help dealers grow and succeed, so that we can invest in facilities that will improve customer service and make for a more delightful owner experience.

As a dealer moving forward with the new company, I plan to purchase some of the eligible inventory from the rejected dealers that the plants aren't manufacturing. It is our hope that you will support the sale and plan that Chrysler LLC has worked so hard to forge. Thank you for your consideration of our request.

Sincerely,

STEVE LANDERS, SR.,
President.

The CHAIRMAN. Well done.

Senator PRYOR. Thank you. I thought you would like that.

The CHAIRMAN. I am sorry, Senator Thune, I didn't see you walk in. We welcome your statement.

**STATEMENT OF HON. JOHN THUNE,
U.S. SENATOR FROM SOUTH DAKOTA**

Senator THUNE. Thank you, Mr. Chairman, and I will try and be merciful to our panelists, too, who have been sitting here for a long time, and will submit a statement for the record. But I look forward to hearing from the panelists today about their plans with respect to the dealers across our country. Many of us didn't support the auto bail-out legislation last December, but the fact remains that the taxpayers are now a very big part of this industry, and we have an obligation to make sure those resources are used well and also to make sure that when we make decisions to support the manufacturers, we also give consideration to the thousands of car dealers across the country who are impacted and could be losing their livelihoods through no fault of their own.

So I'm anxious to hear from our panelists today and look forward to posing some questions later on.

Thank you, Mr. Chairman.

[The prepared statement of Senator Thune follows:]

PREPARED STATEMENT OF HON. JOHN THUNE, U.S. SENATOR FROM SOUTH DAKOTA

Thank you, Chairman Rockefeller, for holding today's hearing. I also want to thank Senator Hutchison for her leadership on this issue, and was pleased to join her as a co-sponsor of her floor amendment that helped further highlight this issue for the Senate.

Clearly, the situation with Chrysler and General Motors (GM) is very fluid, with GM filing for bankruptcy just this week (on Monday), and announcing several hundred additional dealership closures beyond the first 1,100 that had already been announced in May would be closed by October 2010.

While the majority of us didn't support the auto bailout legislation last December, the fact remains that American taxpayers are contributing tens of billions of dollars to help the domestic auto industry survive. And because of this financial investment, we have an obligation to ensure Federal resources are being used wisely and fairly and in the best interests of the taxpayers. Obviously, those dealers being closed in all of our states are struggling to understand why the government is propping up the manufacturers, and in turn, thousands of dealerships, while they are ending up losing their livelihoods through no fault of their own.

Inevitably, some dealerships will face an organized consolidation or closure in light of the recent trends in the auto industry as a whole. Dealers, like creditors, suppliers, shareholders, labor unions, and auto executives, must make difficult concessions to allow these companies to properly restructure. However, dealers have millions of dollars invested in order to provide retail space to manufacturers. They often front the financial resources for manufacture rebates and carry the cost of warranty repairs and "holdbacks" on dealer profits. These Main Street family-owned businesses provide a valuable service to the auto manufacturers and are an important source of economic activity. Any plan to reduce dealerships should recognize the outstanding financial obligations owed to dealers and the important role dealers play, especially in rural America.

That is why I look forward to hearing from GM and Chrysler on what they are going to do to help affected dealers. I think the original Chrysler plan was very unfair to the dealers—having given them a mere 3 weeks to shut down their businesses with Chrysler and move out all inventory and parts, or to be stuck with anything that remains with them after June 9. It is appropriate that Chrysler made additional commitments to ensure that inventory is transferred quickly from closing dealerships to those that will remain open. Hopefully, both the manufacturers and dealers can give us an update on where things stand today, and what can be expected in the weeks ahead.

I look forward to hearing from our witnesses.

The CHAIRMAN. Thank you very much Senator Thune, and I would just like to say to the panel, you have waited some time for this and it's not every hearing that all of the members speak. This is the largest turnout that I can remember in 24 years on the Commerce Committee. So there are some pretty deeply held feelings here, and I think it's important to allow everybody to say what was on their mind and what was hurting in their heart, and they have done so.

I will be introducing the panel, Mr. James Press, who is President of Chrysler; Mr. Fritz Henderson, who is Chief Executive Officer of the General Motors Corporation; Mr. John McEleney, who is Chairman of the National Automobile Dealers Association; Mr. Pete Lopez, President and CEO of Spencer Auto Group; and Mr. Russell Aubrey Whatley, III, Owner/Dealer, Russell Whatley Motor Company.

And I am going to do a little switch here. I would like to start by calling on the two auto dealers, and I think they will help us set a tone and it will be helpful to all concerned.

So, Mr. Lopez, if you would be willing, sir, we call on you for your comments. Try to hold them to 5 minutes. We have done pretty well with that.

**STATEMENT OF PETER LOPEZ, OWNER/PRESIDENT,
SPENCER AUTO GROUP**

Mr. LOPEZ. Senator Rockefeller and Ranking Member, I thank you for the opportunity today to speak before you, this committee, to discuss how dealership closings by GM and Chrysler are drastically hurting small businesses. My name is Pete Lopez. I am from Spencer, West Virginia, a small rural town, approximately 3,800 people, about an hour out of Charleston, West Virginia. I am the owner of Spencer Auto Group, which is made up of two dealerships on Main Street America: Chrysler, Jeep, Dodge plus Chevrolet, Pontiac, Buick dealerships. Our dealerships serve a six-county area in West Virginia, and I am the face of Chrysler and General Motors to my community and my customers.

Mr. Chairman, within the last 3 weeks, I have been informed that both of my dealerships will be closed. My Chrysler dealership will be closed within 6 days now, while my Chevrolet dealer and franchise agreement will be terminated by the 12th, if I don't sign the new contract, which I haven't been there to see.

I have, in fact, learned of my Chrysler dealership closure by a friend of mine that called me nine o'clock one morning, while he had the *New York Times* on his computer. And that's how I found out that we were losing our Chrysler dealership. I did not receive a call from Chrysler. I called our representative three or four times, finally at 5:55 that evening, I got a call from one of our Chrysler people, and they told me that I knew more than they did, that we were being closed, and they were not to comment on it.

My investment was approximately \$1 million, we paid \$500,000 for the store. When I bought the dealership, they wanted us to capitalize it with \$300,000 and we did \$500,000.

When I purchased dealership 2 years ago, there were 9 employees. Currently, I have 18: 15 full-time and 3 part-time. My monthly payroll is \$36,000 to \$38,000.

Being in a small town like Spencer, we don't sell large amounts like many dealers in metropolitan areas. Last year, Spencer Auto Group sold 57 Chryslers, 44 GM new vehicles. Given the size of our market, I also sell used Chrysler Financial and GM vehicles. Approximately 15 percent of our total revenue for the town of Spencer comes from Spencer Auto Group.

Like most small town dealers, my investment goes beyond the show room. We actively support charitable causes, Little Leagues, Four-H camp, clubs, active—we even donate a car to Roane County High School for their driver's education. By the way, I want to show you an award that Mr. Bob Nardelli sent us, thanking us for how we participated in the Nardelli Challenge. In a flat market, we—they asked us to buy extra cars, sell extra cars, we did that exactly that. That is one of two that we received.

Also, I—

The CHAIRMAN. Mr. Lopez, I don't want to in any way disturb your presentation, but we do need to keep presentations to about 5 minutes. Your statement is already in the record, so just pick and choose what you want to talk about.

Mr. LOPEZ. OK. I will do that. Number one, I will say there are many, many people—we had a senior citizen base. Our community, Spencer, West Virginia, the people, if you take my dealers—if they take my dealership—if General Motors and Chrysler takes my dealership, my customers—and I am a customer also—will have to drive an hour to an hour-and-a-half away—there is one little lady that I love dearly, and she is 79 years old. She lives 30 miles away from me, and I pick her car up, service it, and take it back to her. How many metropolitan area dealers are going to do that? We are the face of the community. And we are—we participate in everything. We have a wonderful community and I would like to invite everybody to come to Spencer, and see exactly what I am talking about.

And I thank you.

[The prepared statement of Mr. Lopez follows:]

PREPARED STATEMENT OF PETER LOPEZ, OWNER/PRESIDENT, SPENCER AUTO GROUP

Chairman Rockefeller and Ranking Member Hutchison, thank you for the opportunity to appear before the Committee to discuss how dealership closings by GM and Chrysler are drastically hurting small businesses.

My name is Pete Lopez and I'm from Spencer, West Virginia, a small, rural town of approximately 3,800 people about an hour north of Charleston. I'm the owner of Spencer Auto Group which is made up of two dealerships on Main Street in Spencer—a Chrysler-Jeep-Dodge dealership as well as a Chevrolet-Buick-Pontiac dealership. Our dealerships service a 6-county area in central West Virginia.

Mr. Chairman, within the past 3 weeks, I have been informed that both of my dealerships will be closed. My Chrysler dealership will be closed within the next 7 days while my Chevrolet dealers franchise agreement will be terminated next year. In fact, I learned about my Chrysler dealership closure from reading the *New York Times* at 9 a.m. on May 14. It wasn't until 6 p.m. that day that someone from Chrysler contacted me.

My investments are approximately \$1 million, having purchased the dealership for \$500,000 2 years ago. When I bought the dealership, I put an additional \$500,000 investment to upgrade including the dealership's first computer. When I purchased the dealership 2 years ago, there were 9 employees. Currently, I have 18 employees and their families who depend on me. My monthly payroll is approximately \$36,000–38,000 per month.

Being in a small town like Spencer, we don't sell in large volumes like many dealers in suburban or urban areas. Last year, Spencer Auto Group sold 57 Chryslers and 44 GM new vehicles. Given the size of the market I serve, I also sell used Chrysler and GM vehicles. Approximately 15 percent of the total tax revenue for the town of Spencer is paid by my dealership.

Like most small town auto dealers, my investment goes beyond the showroom walls. We actively support the community and related charitable causes including the Little League, 4-H Club and school activities, such as drivers' education.

My current vehicle inventory consists of 45 new vehicles with an estimated value of approximately \$1.2 million. Additionally, I have approximately \$128,000 in GM parts and \$138,000 in Chrysler parts in my inventories, as well as \$80,000 in the specialty tools and diagnostic equipment which will be rendered virtually useless once my franchises are terminated.

Mr. Chairman, the recent decisions to close my dealerships simply astounded me. When I purchased the dealership, the companies welcomed me with open arms.

Since that time, I have been a faithful customer of both Chrysler and GM, even purchasing additional vehicle inventories earlier this year, *at Chrysler insistence*, to help the corporation through this economic recession. In recent months, I have also purchased additional used vehicles from auctions conducted by Chrysler Financial. I have met every financial obligation put forth by Chrysler and GM.

Now Mr. Chairman, they want to shut me down. What gives the government the right to do that? I'm a taxpayer and they're getting taxpayer dollars. It just doesn't add up.

Auto dealers like me are independent businesses and NOT owned by the manufacturers. We invest our own money to buy a franchise, buy the land, construct the buildings, purchase vehicle inventories and service vehicles. I even pay \$629 every month to Chrysler to hang their sign out front of my dealership. My store does not cost them a penny. It makes them money.

My story is just one example that is unfolding in thousands of towns across this country. What's happening today with America's new car dealerships is tragic and Congress must assert itself. I do have some questions which I'd like to get answered at today's hearing:

- What should I tell my customers?
- Why was my store chosen to be closed?
- Why was so little time given to close Chrysler dealers?
- Will other GM dealers be faced with similar circumstances now that bankruptcy has been declared?
- Why did Chrysler force us to take additional inventories earlier this year and now refuse to pay us?

Mr. Chairman, there's no better way to describe small town America than the term "Main Street"—exactly where my dealerships are located in Spencer. These unfair dealer closings being forced upon us by Chrysler and GM will cause widespread layoffs, force more people onto the unemployment lines, deprive towns of crit-

ical tax revenue and will have negative consequences on each and every Main Street in America.

I look forward to answering your questions.

The CHAIRMAN. Thank you, Mr. Lopez, and I call now upon Mr. Whatley.

**STATEMENT OF RUSSELL AUBREY WHATLEY III,
OWNER/DEALER, RUSSELL WHATLEY MOTOR COMPANY**

Mr. WHATLEY. Thank you, Mr. Chairman and Senator Hutchison for holding this hearing and let me tell you a little bit about our dealership. My name is Russell Whatley. I am the Chrysler-Dodge-Jeep dealer in Mineral Wells, Texas. We are located 40 miles west of Fort Worth with a population of 17,000.

Today, over 200 towns in Texas that have franchise dealerships have only Chrysler, Ford, or GM stores. That is over two-thirds of our Texas towns with dealerships. My grandfather opened this dealership in 1919 and has kept it open through the Depression, World War II and countless economic setbacks. In the 90 years we have been here, 36 other new car dealerships have come and gone in our town. We have stayed open because we are committed to customer service.

Today, Mineral Wells is a fast-growing little city, with five new hotel chains under construction, new schools, new restaurants, and many corporate relocations. To meet the needs of a growing city, we have purchased five acres of land on a busy highway. And we hired a builder and have drawn up plans for a new building. All these plans have been shown to the dealer placement people with Chrysler.

We are not a cost to Chrysler. No dealership is a cost to Chrysler. We pay for everything we use and we take all the risk. We are Chrysler's customer. In a typical month, we pay Chrysler over \$2,500 in fixed expenses alone, plus all the parts and vehicles, which are paid for in full and upfront.

All dealers, like us, sponsor school events, Little League, Pee-Wee Football, rodeo and many other special events.

We are a tiny, small store, but just in the past 40 months alone, our dealership has gross sales of almost \$18 million or \$443,000 per month. We have collected and paid the state and county over \$805,000 in taxes and fees or \$20,126 per month, plus we have paid the county \$52,668 in property taxes. All of this in a down economy, and does not include income or payroll taxes.

I was told in 2007 that our area enjoyed a 20 percent market share. While we do not sell every customer, local people still depend on our service, recalls and warranty work. We service 1,548 vehicles per year on average. I was told by the factory that if we were not here, another dealer certainly would be.

To be arbitrarily closed with no compensation is wasteful and devastating. There is absolutely no reason to close profitable dealerships, which contributes to Chrysler's bottom line.

But another issue here is the 3-week timeframe. You just cannot close a dealership in 3 weeks. It is not possible. Over the past 3 to 4 months, we were practically forced to order heavy inventories. We were told Chrysler has no cash-flow and they rely on the dealers, and if we do not order vehicles, we will all be out of business.

We were also told explicitly, “We will remember who did not help us.” Now, we have an 8-month supply of vehicles, and only 3 weeks to clear them out. Other dealerships are full. Chrysler Financial is gone. GMAC is not onboard yet. There is just no place to go with these cars. Chrysler says it will try to put buyers and sellers together, and that they will endeavor to assist in selling these cars. But the contract we had to sign clearly states they have no responsibility and obligation to do anything.

After June 9, we cannot sell these cars, as new, used, or even to other dealers. We need a firm, real plan, not just what they will try to do. Plus, we have warehouses full of parts that will go unidentified after June 9. They will be impossible to sell, just a total loss.

And I have employees with families, who have worked at this dealership for years, and worry about their loss and what they are going to have to do.

A 90-year investment is just gone, and neither my family nor my employees have any say about it. We have done nothing wrong here, and should not be suffering this loss.

I certainly hope you can help us. This is a pretty terrifying time. And I want to thank you for your time and your interest.

[The prepared statement of Mr. Whatley follows:]

PREPARED STATEMENT OF RUSSELL AUBREY WHATLEY III, OWNER/DEALER,
RUSSELL WHATLEY MOTOR COMPANY

Good Afternoon.

My name is Russell Whatley, and I am the Chrysler-Dodge-Jeep dealer in Mineral Wells, TX. We are located 40 miles west of Ft Worth, and have a population of 17,000.

Today, over 200 towns in Texas that have franchised dealerships have only Chrysler, Ford, or GM stores—that is over 2/3rds of our Texas towns with dealerships.

My Grandfather opened this dealership in 1919, and kept it open through the depression, World War II, and countless economic setbacks.

In the 90 years that we have been here, 36 other new-car dealerships have come and gone in our town. We have stayed open because we are committed to customer service.

Today, Mineral Wells is a fast growing little city, with 5 new hotel chains under construction, new schools, new restaurants, and many corporate re-locations.

To meet the needs of a growing city, we have purchased 5 acres of land on a busy highway, hired a builder, and drawn up plans for a new building. These plans have been shown to the Dealer Placement people at Chrysler.

We are NOT a cost to Chrysler. We pay for everything we use, and we take all the risk. We are Chryslers’ customer. In a typical month we pay Chrysler over \$2500 in “fixed expenses” alone, plus all the parts, and vehicles, which are paid for, in full, up front.

All dealers, like us, sponsor school events, Little League Baseball, Pee-Wee Football, Rodeo, and many other local events.

In just the past 40 months alone, our dealership has gross sales of almost \$18M, or \$443,000 per month. We have collected, and paid, the State and County over \$805,000 in taxes, or \$20,126 per month. Plus, we have paid the County \$52,668 in property taxes, and fees. And, this is all in a “down economy”, and does not include income or payroll taxes.

I was told in 2007 that our area enjoyed a 20 percent market share. While we did not sell every customer, local people still depend on our service, Recalls, and Warranty work. We service 1,548 vehicles per year on average. I was told that if WE were not here, another dealer certainly would be.

To be arbitrarily closed, with no compensation, is wasteful and devastating. There is no reason to close profitable dealerships which contribute to Chrysler. But, another issue here is the 3 week timeframe.

You just can’t close a dealership in 3 weeks, it is not possible. Over the past 3-4 months we were practically forced to order heavy inventories. We were told,

“Chrysler has no cash-flow”, that they “Rely on the dealers”, and that if we do not order vehicles “we will all be out of business”. We were also told they “will remember who did not help”.

Now, we have an 8 month supply of vehicles and only 3 weeks to clear them out. Other dealers are full, Chrysler Financial is gone, and GMAC is not on board yet. There is just no place to go. Chrysler says they “will try” to put buyers and sellers together, and they will “endeavor” to “assist” in selling these cars, but the contract we had to sign clearly states they have “no-responsibility”, and have “no-obligation” to do anything. After June 9th, we cannot sell these cars as new, used, or even to other dealers. We need a firm, real plan, not just what they “will try” to do.

Plus, we have warehouses full of parts that cannot even be identified after June 9. They will be impossible to sell, just a total loss.

I have employees with families who have worked at this dealership for years, and I worry about their loss, and what they will do. A 90-year investment is just gone and neither my family, nor my employees have any say about it.

We have done nothing wrong, and should not be suffering this loss. I hope you can help us.

Thank you for your time, and interest.

The CHAIRMAN. Thank you very much, sir. I would call now on Mr. James Press, who is the President of Chrysler.

**STATEMENT OF JAMES PRESS, VICE CHAIRMAN AND
PRESIDENT, CHRYSLER LLC**

Mr. PRESS. Thank you, Mr. Chairman. I appreciate it. Mr. Chairman, Senator Hutchison, and members of the Committee, I truly appreciate this opportunity to discuss why and how Chrysler is realigning its dealer network. I can surely empathize with the dealers who were not brought forward into the new company, and I understand their disappointment more than you could know. This has been the most difficult business decision I ever personally had to take. But the decisions had to be made. They were gut wrenching, but absolutely necessary for Chrysler’s survival.

And it’s a well-documented opinion of the Administration, and many Members of the Congress that Chrysler, over the years, has not moved fast enough to make the tough choices necessary to remain competitive.

There are two main elements that we can control as an automaker to make these changes: it’s our products and our dealer network. Chrysler is already investing in the high-quality fuel efficient vehicles consumers want. Our alliance with Fiat will make our product line-up even stronger.

But unless we also complete a significant realignment of our dealer network, neither Chrysler, nor our customers could benefit. Chrysler maintains multiple distribution channels, which is an inefficient and expensive legacy of more than 80 years of being in business. This puts us at a real disadvantage because it increases our cost of product development, distribution, marketing and advertising, as well as dealer administration by more than several billion dollars every year. As an example, we have to build and market two similar minivans: the Chrysler Town and Country and the Dodge Caravan, to satisfy multiple dealer networks. Any separate Dodge and Chrysler franchise in close proximity competes with each other—not other makes—in order to sell and later service what is basically the same vehicle.

As a result, the company spends more while the dealer network is, as a whole, not viable and not profitable. In 2008, the average Chrysler dealer lost \$3,431, selling only 405 new vehicles.

When you look at all automakers together, the average U.S. dealer made a profit of \$279,000 on 525 sales. Why is this important? Unprofitable dealers can't afford to invest in advertising, facilities, people, training, or a high level of customer satisfaction.

As a result of the credit crisis and the global automotive industry depression, there is simply not enough business to go around. With projected annual sales in the U.S. this year of only \$10 billion to \$10.5 billion compared to historical levels \$16 billion, Chrysler cannot support the same number of dealers that we have in the past.

The timeframe for discontinuing dealers is driven by the Chapter 11 process, includes the requirement to complete our strategic alliance with Fiat by June 15 or we liquidate the company. It's important to note that prior to May 1, Chrysler had been planning and working to avoid bankruptcy. Only after filing on May 1, did we begin the necessary process of actually identifying which dealers would go forward with the new company.

The dealers were selected by a process that was rigorous, robust and rational. The methodology was consistently applied to every dealer in the United States. It included factors such as, sales, customers satisfaction with buying and service, facilities, market potential, and whether a dealer in large markets also sells competing makes out of the same show room.

And while our plan reduces our overall dealer count by 25 percent, the dealers represent 14 percent of our volume. Forty-four percent of the discontinued dealers sell competitive vehicles, so they have other brands to sell. Half of the discontinued dealerships sell less than 100 a year, and 84 percent of dealers sell many more used cars than new. I am hoping those dealers will continue selling and servicing used cars.

Chrysler is working hard to assure a soft landing for all the discontinued dealers. Every dealer was contacted by a representative from his or her business center. We have offered help to every dealer in the disposition of vehicles, parts and inventory and tools.

On May 14, there were 42,000 vehicles in stock at the discontinued dealers. Today, I am very happy to report that 97 percent of those vehicles have been sold, or we have commitments in place to redistribute them from the affected dealers.

We are grateful to the loyal Chrysler customers who have supported us and it's important to our future that we take care of their needs throughout this process. All Chrysler vehicle owners will receive a letter assuring them that warranty claims will continue to be honored. We have toll-free hot line to answer any questions.

I would also like to note that Congress can give a significant boost to the success of our realigned dealer network, by passing the Fleet Modernization legislation discussed earlier.

To summarize, there's no question that Chapter 11 has been a painful process in which many of our stake holders were required to make unprecedented sacrifices, including our dealers. Facing that reality, we used a thoughtful, fair process to select dealers for the new company, and we are working hard to minimize the impact on everyone.

Together, the new Chrysler group and Fiat will bring exciting, stylish and fuel efficient vehicles to the North American con-

sumers. Our realigned dealer network will be much stronger and make the company stronger and more profitable, preserving hundreds of thousands of direct and indirect jobs in every community across the United States.

I thank you for this time and I look forward to answering your questions.

[The prepared statement of Mr. Press follows:]

PREPARED STATEMENT OF JAMES PRESS, VICE CHAIRMAN AND PRESIDENT,
CHRYSLER LLC

Introduction

Chairman Rockefeller, Senator Hutchison and Members of the Committee, I appreciate this opportunity to discuss how and why the new Chrysler Group is realigning its dealer network. Chrysler LLC's decision about which of the company's 3,181 dealers would be brought forward to the new company was gut wrenching, but it was an absolutely necessary part of our effort to assure the long-term viability of the new Chrysler Group. The goal of the sale of our assets to a new company is to position Chrysler to move forward as a strong, financially sound automotive company serving our customers with a broader and more competitive lineup of environmentally friendly, fuel-efficient, high-quality vehicles, and an equally high level of customer service through an efficient dealer network.

The last thing Chrysler wanted to do was enter into Chapter 11. I can empathize with the dealers who were not brought forward into the new company, and can understand their disappointment. This has been the most difficult business action I have personally ever had to take. But the optimization of Chrysler's dealer restructuring plan is necessary to save the company. In an opinion filed May 31, 2009, granting approval for Chrysler's motion to sell substantially all its assets to a new company in an alliance with Fiat S.p.A., U.S. Bankruptcy Court Judge Gonzalez stated:

"The underlying argument of many opposing the transaction is not against the Government Entities' involvement. Rather, it is the desire to have the Governmental Entities protect every constituency within the auto industry from economic loss, and not to limit the protection to those interests that the government perceives as being essential to the survival of a successful "New Chrysler." For example, any dealership rejection that is approved will cause hardship to the particular dealership involved, but may well be necessary if New Chrysler is to survive. These are the kinds of economic decisions that have to be made in every bankruptcy case."

There are two main elements that we can control as an automaker: our products and our dealer network. It's a well-documented opinion of the Administration and many Members of Congress that over the years Chrysler has not moved fast enough to make the tough changes necessary to become a formidable competitor. The changes currently underway at Chrysler are needed for the company to produce competitive products and field a healthy dealer body. If we invest in better products while maintaining a disadvantaged dealer body, neither Chrysler nor our customers will benefit.

Why Optimizing Our Dealer Network Is Necessary

At Chrysler, we are realigning our dealer network to ensure that the new dealer body will be strong and competitive in the future. We entered Chapter 11 proceedings because the automobile industry is in a depression, brought about by the economic slowdown and the freezing up of credit markets. Chrysler was unable to survive in that environment because our products and our dealer network were not competitive. The new Chrysler that will be formed as a result of the Chapter 11 process needs to be able to survive and compete in the face of increasing global competition better than the Chrysler that went into it.

As a whole, the Chrysler dealer network is not profitable and therefore not viable. In 2008, the average U.S. automotive dealer sold 525 vehicles and made a profit of \$279,000 according to the National Automobile Dealers Association, but Chrysler dealers sold only an average of 405 vehicles . . . and on average *lost* \$3,431.

Dealer Profitability and Annual Unit Sales Comparisons—2008

All Automotive Dealers U.S. National Average	All Chrysler Dealers U.S. National Average	Discontinued Chrysler Dealers
Retail Sales: 525 Vehicles Profit: \$279,000	Retail Sales: 405 vehicles Profit: (\$3,431)	Retail Sales: 163 Profit: (\$73,000)

2008 Average Retail Sales per Dealership

Chrysler LLC Total	Chrysler LLC Assumed only	Honda	Toyota	Nissan
405	640	1,219	1,292	693

NADA and Chrysler data

Today's automotive industry cannot support the number of dealers currently in the marketplace. From 1990 through 2007, the industry averaged 16 million new vehicles sold each year. As a result of the industry depression, U.S. light vehicle sales fell to 13.2 million vehicles in 2008, and are projected to be only 10 million to 10.5 million vehicles in 2009. As part of the viability plan submitted to the administration on Feb. 17, Chrysler revised its Seasonally Adjusted Annual Rate (SAAR) forecast covering the next 4 years to reflect the reality of a declining automotive industry. The plan projected, commencing in 2009, a SAAR level of 10.1 million units and for years 2009 through 2012, an average SAAR level of only 10.8 million units.

There's not enough business for the number of dealers Chrysler has today, given that we have less than two-thirds of our former sales volume. The Chrysler dealer network faces the additional disadvantage of a legacy of dealers that sell only one or two of the company's three brands—Chrysler, Jeep® and Dodge—which have led to redundancies and inefficiencies in product development and marketing costs. Poor performing dealers within the dealer network also cost the company in terms of lost sales and low customer satisfaction.

The "overdealering" problem has been well chronicled over the past several years, even before the drastic downturn in sales. In the May 28, 2009, *Detroit Free Press*, journalist Sarah Webster recalled writing about the problem 2 years ago:

"When I was working on the series in 2007, a Chrysler dealer in the Boston area wanted me to visit his Dodge store so he could show me what a dump it was and how badly it was hurting Chrysler's image. This dealer wanted to upgrade his run-down store, but, the way he saw it, Chrysler had crowded so many dealerships into his area to fight over a shrinking pie that he would never be able to sell enough cars and trucks to pay for the renovations. Dealers clustered in an area would move quickly to discount cars and trucks—sometimes taking a loss—just so they could close the sale and move a vehicle off their lot. Cutting the price obviously hurt the dealers and the automakers. But the dealers had no choice. If they didn't, another nearby dealership selling the same models most certainly would."

David Cole, chairman of the Center for Automotive Research, was quoted in the May 17 *Crain's Detroit Business* as saying the current dealership network is too large.

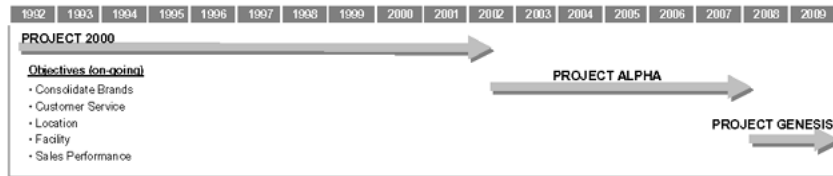
"The companies have lost so much volume, so they have dealerships for twice that volume . . . In the end, it's important to have successful dealers that can present the best possible face to the consumers," Cole said.

AutoNation, Inc., one of Chrysler's largest dealer groups by volume, will be closing seven Chrysler dealerships as a result of our consolidation plan. Nevertheless, Mike Jackson, Chairman and Chief Executive Officer of AutoNation, released this statement:

"We believe Chrysler's consolidation plan is a difficult but positive step forward for Chrysler and the automotive retail industry. Dealer consolidation is a necessary measure in today's automotive industry and will strengthen America's dealer network and improve dealer profitability over the long term."

Even before the current economic crisis, Chrysler realized it needed a smaller dealer network. Chrysler's efforts to consolidate its dealer network date back to 1992, when we had 4,923 dealers, and have continued since.

History of Chrysler Dealer Network Optimization Initiatives



Chrysler has consistently communicated the need for a consolidation of dealers to our network. Our most recent restructuring effort, Project Genesis, is aimed at bringing all three brands under one roof to go along with our plan to produce fewer products that overlap. Genesis was launched in 2008 with an extensive communication plan including a series of meetings across the United States with our dealers and presentations at the National Auto Dealers Association annual conference. In each market, we identified the optimal number of dealers and locations and we began working collaboratively to build a healthy and profitable network.

Some have suggested that because an auto manufacturer like Chrysler sells cars to the dealerships, and these dealerships are independent businesses, they are not a cost to Chrysler. This is simply not true. For Chrysler, excess dealerships are costly in several ways. First is the problem of maintaining several dealership channels. Maintaining multiple distribution networks is inefficient and costly. Product complexity is increased because of the need to provide products in the same segment to different networks. For example, Chrysler currently supplies dealers with two similar minivans, Chrysler Town & Country and Dodge Grand Caravan; two similar full-size sport-utilities, Chrysler Aspen and Dodge Durango; two similar mid-size SUVs, Dodge Nitro and Jeep® Liberty; and two similar sedans, the Chrysler Sebring and Dodge Avenger. Based on six major vehicle launches between 2005 and 2008, Chrysler incurred approximately \$1.4 billion in incremental costs to develop these multiple pairs of “sister vehicles.”

Second, as a result of overdealing, the marketing and advertising messages are split between multiple products, diminishing the reach and frequency of each campaign. For example, in 2008 we spent about \$100 million on each of two marketing and advertising campaigns to launch our two redesigned minivans instead of spending half as much to support a single launch to attain virtually the same sales volume.

Going forward, the new Chrysler Group LLC will reduce the number of overlapping products. We are moving from 27 nameplates covering 13 product segments in 2007 calendar year to a target of 20 nameplates covering 17 segments by 2013 calendar year. Fewer nameplates with better product and customer market coverage will help improve the overall return on our product capital investment. This means that dealers need to have all three of our brands under one roof in order to offer a full range of products and to optimize their profit potential.

Examples of Lost Revenue and Cost Associated with Discontinued Dealers

- Product engineering and development for “sister vehicles” \$1.4 billion over 4 years
- Lost sales due to dealer underperformance \$1.5 billion revenue annually
- Administrative cost to maintain the 789 discontinued dealers \$33 million annually
- Marketing and advertising \$150 million annually

Chrysler data

Finally, poor performing dealers cost us customers. It’s true that dealers are our customers, but it works both ways. If they don’t sell cars, we don’t either. Poor performing dealerships cannot afford to keep facilities up-to-date or hire and train the best people, resulting in poor customer experience and lower sales. In fact, in 2008 the 789 discontinued dealers achieved sales of only 73 percent of the minimum sales responsibility, representing 55,000 lost unit sales and \$1.5 billion in lost revenue in 2008.

A financially strong, competitive dealership should generate profits over \$1 million a year. Profitable dealers can afford to invest in facilities, in people, in training, and in amenities that produce a high level of customer satisfaction.

As I said earlier, we tried our best to avoid Chapter 11. Now as Chrysler moves through the process, we need to do our best to form a new company that will evolve

from the process as viable as possible. We recognize that the U.S. Government and the American taxpayers have a stake in our success, and we are committed to building a new American automotive company that is financially sound and competitive both from a product and dealer perspective. This was our goal when we presented our viability plan in February and it is our goal in the Chapter 11 process.

How Identified Dealers: a Data-Driven, Objective Methodology

To achieve the necessary realignment, we are using a thoughtful, rigorous and objective process designed to have the least negative impact while still creating a new dealer footprint scaled to be viable and profitable for the long term. The methodology was consistently applied to every dealer in the company's U.S. operations. The decisions made to either continue or discontinue dealer contracts were based on a robust process that looked at all market types, Metro, Secondary and Rural. This analysis reviewed many factors that are unique for each market and dealer. The primary focus of this initiative, as it has been under Project Genesis, was to create a more viable network footprint that enhanced sales per dealer while bringing all three brands together within each retail outlet.

These factors included:

- Total sales potential for each individual market.
- Each dealer's record of meeting minimum sales responsibility.
- A scorecard that each dealer receives monthly, and includes metrics for sales, market share, new vehicle shipments, sales satisfaction index, service satisfaction index, warranty repair expense, and other comparative measures.
- Facility that meets corporate standards.
- Location in regard to optimum retail growth area.
- Exclusive representation within larger markets.

A team of people within our local business centers around the country as well as headquarters staff reviewed every market and dealer situation as a group many times. From this analysis the 2,392 dealers who would best carry the new company forward were identified.

Although Chrysler submitted a plan to reduce total dealer count by 25 percent, those dealers represent only 14 percent of our sales volume. Half of these dealerships sell fewer than 100 vehicles a year, or less than nine vehicles per month on average (that compares with 125 vehicles sold per month on average at Toyota dealerships). About 44 percent of the discontinued dealers who reported revenues were profitable, earning \$84 million last year, while the remaining 56 percent were unprofitable, losing a total of \$136 million.

Chrysler 789 Discontinued Dealers at a Glance

- 25 percent of total dealer network.
- 14 percent of sales volume.
- 50 percent sell 100 or fewer new vehicles per year.
- 84 percent sell more used than new vehicles.
- 44 percent are dealers dualled with a competing franchise.

In many instances, we're moving a franchise as part of our overall Project Genesis consolidation that brings all three of our brands under one roof. So, when a Dodge dealer's contract is not assumed, that franchise in some cases will wind up in a nearby Chrysler/Jeep store. In that case the business should grow, become more profitable and have a beneficial impact on the community. Of our remaining 2,392 dealers, 84 percent will carry all three of our brands compared to 62 percent prior to implementation of this plan. The new Chrysler Group LLC dealer network will be in better retail locations with more modern facilities that are convenient and better positioned to serve customers. With the opportunity for increased sales per outlet, dealers should experience an enhanced franchise value resulting in more willingness to invest in facilities, people and their local communities.

Chrysler Customers Will Still Have Convenient Access to Improved Dealer Network

Of the 789 discontinued dealers, 284 are within 10 miles of a same-line dealer that is being retained. Based on registration data, our customers reside an average of 6.67 miles from the nearest Chrysler, Jeep or Dodge dealer now; this distance will increase to 7.09 miles after the consolidation. With regard to rural dealers, the distance increases from 10 to 11 miles. Even with the consolidation, our dealers on average are more conveniently located to customers than Toyota or Honda dealers are to their customers.

Customer Convenience Comparison

Average distance in miles a customer must drive to reach a dealership

	Old Chrysler	New Chrysler	Change	Toyota	Honda	Chevy	Ford
Metro	4.45	4.82	0.37	5.01	5.11	4.10	4.23
Secondary	6.08	6.44	0.36	7.38	7.58	5.69	5.76
Rural	9.72	10.70	0.98	19.27	24.27	8.04	8.69
<i>Total</i>	<i>6.28</i>	<i>6.80</i>	<i>0.52</i>	<i>9.11</i>	<i>10.31</i>	<i>5.58</i>	<i>5.81</i>

Urban Science 2008

It's vital to Chrysler's future that we take care of our customers' needs during this process. We have a comprehensive communications plan to be launched by the new company that will include a letter to all owners, explaining our alliance with Fiat and emergence as a vibrant new company. These letters also will assure customers that all warranty claims will continue to be honored and provide a toll-free hot line number to a call center to answer their questions. Those owners who are customers of terminated dealers will receive another letter a few days after the terminations are official, providing information on other dealers in their area as well as a service offer.

Timing of the Dealer Consolidation

The time-frame for discontinuing dealers was driven by the Chapter 11 process and the need for speed in order to preserve maximum value for Chrysler. Prior to May 1, Chrysler had planned to avoid bankruptcy. Only after filing did we begin the necessary process of actually identifying which dealers could go forward with the new company. Timing was mandated by the Chapter 11 proceeding, including the requirement to complete our strategic alliance with Fiat by June 15. It was important to Chrysler and Fiat that a new and stronger dealer network would be in place by the closing date. On May 14, we notified the dealers of our decisions, and later filed the list of discontinued dealers with the court.

In his approval of the sale motion, Judge Gonzalez confirmed, "while in Chapter 11, Chrysler is a wasting asset,"—meaning that while we're not building cars, our assets are deteriorating and customers are losing confidence.

It is in the best interest of Chrysler and discontinued dealers to move quickly through this process. The number of days' notice provided to discontinued dealers was similar to the 30 days provided under the Chrysler voluntary termination process, and it provided for a quick process in everyone's best interest. Financial commitments from both the U.S. and Canadian governments require our alliance with Fiat be completed by June 15. This deadline determined a number of other deadlines, including the June 9 termination date for rejected dealers. That termination date is needed to ensure that our new dealership structure will be firmly in place at or about the time the new company is formed with Fiat—something understandably important to Fiat.

The success of our new enterprise depends in large part on this new dealer body, and we must focus our limited resources on this. Similarly, we do not want customers to have any confusion about who is and who is not a dealer for the new company. The termination date for discontinued dealers was chosen, therefore, to meet the demands of our creditors and partners, to bring our new dealer network online as quickly as possible, and to strongly signal customers that the new dealer body will meet their needs.

What Chrysler Is Doing to Provide Relief for Discontinued Dealers

We have worked hard to assure as soft a landing as possible for the dealers whose contracts have not been assumed. We quickly put together a program with GMAC to provide wholesale financing so the inventory could be redistributed to the dealers going forward. Under this program, a dealer would receive the invoice price less holdback and other fees the dealer was already paid, less a \$350 dollar fee for inspection, cleaning and transportation of each vehicle. Since the inventory is owned by a dealer, their approval is required for Chrysler to assist in the redistribution process. Every dealer was asked to sign an "Inventory Assistance Acknowledgement Form" indicating that he or she understood the process and wanted our assistance. There were 42,000 vehicles in stock at discontinued dealers on May 14, and working

together, we've already sold or redistributed 89 percent of all vehicles in discontinued dealer inventory.

Inventory Status of Discontinued Dealers

	5/14/09 Dealer Inventory	Sold/Re-distributed		Balance	
		#	%	#	%
<i>Total</i>	<i>42,006</i>	<i>37,488</i>	<i>89%</i>	<i>4,518</i>	<i>11%</i>
(memo) Dealers Accepting Assistance	20,226	19,679	97%	547	3%

As of 6/1/09

Every dealer on the discontinued list was contacted by a representative from his or her business center by close of business May 22. Each dealer was advised of and received a letter that outlined the process that Chrysler developed for assisting in the disposition of vehicles, parts inventory, special tools and signage. While our objective is to have virtually all units sold or redistributed by June 9, we will continue to work with a dealer after that date in the redistribution of inventory and in the processing of incentive and warranty claims due to the dealer.

The potential job losses associated with discontinued dealers are far less than some of the public speculation you have seen. Based on our data, we estimate a total of 29,982 are employed at the dealerships that we proposed to discontinue. However, it is important to note that 44 percent of these dealers are dualled with our competitors, and are expected to continue selling those other makes. In those dualled dealerships Chrysler brands represent only 12 percent of their total sales volume. In addition, it's important to note that 84 percent of these dealers sell more used vehicles than new, and many of these dealers will continue selling and servicing pre-owned vehicles. Therefore, it is a safe bet that a substantial number of these employees will not lose their jobs. For those that do, we're expanding our current online job posting hiring process to help place dealership employees who lose their positions. The job loss is painful and tragic, but is much better than the alternative of all dealers closing as a result of liquidation.

Shared Sacrifice Required to Save Chrysler

There's no question that Chapter 11 has been a painful process. While a number of elected officials, commentators, and other observers of the industry have advocated bankruptcy for the company, it was not Chrysler's first choice. However, at this point, we are committed to do our best to create a new company that will succeed in the long term. We recognize that you and your constituents have a stake in our success, and that's why we are committed to take the tough but necessary actions to build a new Chrysler that is fully able to compete and win. To do that we must provide the American public fuel-efficient vehicles with strong consumer appeal and a strong, high-quality and viable dealer network: One without the other will fail.

Does my heart go out to the dealers who will not be part of the new company? Absolutely. But we've had to make many hard choices to create a viable business and preserve jobs for tens of thousands of people. Many of our stakeholders have made unprecedented sacrifices. In that perspective, the sacrifices of the dealer network are in-line and appropriate considering that 27,000 Chrysler jobs were eliminated, the UAW accepted wage and benefit cuts that place them on a par with workers at transplant operations; many suppliers have experienced pricing reductions in addition to significant job losses resulting from reduced volumes, and many are retirees losing a significant portion of their pensions.

Given the auto industry depression, Chrysler had no choice but to seek Chapter 11 protection. Facing that reality, we used a thoughtful, fair process, and we are doing everything possible to soften the impact to everyone affected.

Realignment of our dealer network will help create a vibrant new company, with a stronger and leaner organization and a key partner in Fiat. Moving forward with 75 percent of our dealer network is far better than the alternative of liquidation, which Chrysler will face if the sale of assets is not finalized and the alliance with Fiat completed. Under liquidation, tens of thousands would be out of work, and all 3,181 of our U.S. dealerships would lose their agreements to sell and service Chrysler vehicles, which would have a far more devastating effect on scores of communities and on our national economy.

We're extremely excited about our prospects going forward. Our alliance with Fiat will provide significant strategic advantages, including access to high quality, fuel-

efficient small and compact vehicles, as well as platforms, powertrain technologies and components that will be produced at Chrysler manufacturing sites. Together, the Chrysler Group and Fiat will bring a range of exciting, new fuel-efficient compact vehicles to North American consumers, helping stimulate growth in this segment. The new Chrysler Group's revamped dealer network will help ensure that remaining dealers and the new company will be stronger, and more profitable, providing a solid base of jobs and capable of growth going forward.

Chrysler's Special Bond with the American Public

Throughout its 84-year history, Chrysler has had and will continue to have a special relationship with the American public. The "new" Chrysler Group LLC will continue to provide innovative, high-quality, vehicles and service to the American consumer, and also will be fully capable of competing in the global market. It will be an exciting time for the entire "new" Chrysler family.

We recognize that we have a special bond with America and with American taxpayers, and we're committed to deliver on their investment by building a viable company and building high quality products with strong consumer appeal. We take to heart our responsibility to produce vehicles that serve society and contribute to getting our country and our national economy back on track.

As we have testified before, several actions will help stimulate automotive sales. First, returning to a functioning finance environment for our customers and dealers will help spur sales. Second, programs that will increase demand such as the Drive America Forward Act sponsored by Senators Stabenow and Brownback would be helpful. This fleet modernization program will stimulate sales while improving fuel economy.

A strong new Chrysler can play a key role in rebuilding the American manufacturing base—and manufacturing must thrive if we want the economy to grow in the long term. Simply put our country's health and security depends on our ability as a nation to make things that people want to buy.

Given the fragile state of the economy, a failure of Chrysler would be a severe setback for the efforts to restore confidence and revive growth. A healthy U.S.-based automotive industry is the backbone of the Nation's economy—creating wealth. Every direct job at an automaker creates nearly 10 more jobs at suppliers and supporting industries. The auto industry has been a great engine for producing good-paying, middle-class jobs.

We are very grateful to loyal Chrysler customers who have supported us throughout this process and assure them Chrysler Group is well prepared to produce and support quality vehicles under the Jeep®, Dodge and Chrysler brands as well as parts under the Mopar® brand. We also recognize the sacrifices, unstinting loyalty and enduring belief in Chrysler of many stakeholders, including Cerberus and Daimler, the UAW and CAW leadership, employees, dealers and suppliers who made critical contributions to the viability of Chrysler Group, Chrysler Financial and their efforts with GMAC to provide financing, and the energy and commitment of the U.S. Treasury, the President's Auto Task Force, Members of Congress and representatives at the state and community level and Canadian Federal and Ontario Provincial governments in helping to move Chrysler Group forward. Without the extraordinary efforts of all these constituents, the alliance and the creation of a new Chrysler would not have been possible.

All of us at Chrysler take enormous pride in the contributions that the company has made to our industry and country. We also are deeply honored by the trust that customers continue to place in us, and we look forward to continuing to earn their trust for many more years.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Press. And I call now upon Mr. Henderson, Mr. Fritz Henderson, who is the Chief Executive Officer of General Motors.

**STATEMENT OF FRITZ HENDERSON, PRESIDENT AND CEO,
GENERAL MOTORS**

Mr. HENDERSON. Good afternoon, Mr. Chairman, Senator Hutchison. I welcome this opportunity to testify today. It's our obligation to be open and transparent in all that we do to reinvent General Motors, particularly with the American taxpayer as our single largest investor.

Before I explain why and how we go about restructuring and consolidating our dealer network, I want to talk about the human story behind our plans. Our actions have forever changed the lives of people, families and whole communities.

For our dealers, they are valued partners, friends, and the face of GM to our customers. Personally and professionally, I feel strong, deep ties to dealers. I have personally worked at dealerships in my summer, in college. My father, for 39 years, called on Buick dealers. My brother, 25 years, it's in my family.

Throughout my career—over my career, I visited dealers in 48 countries around the world, including the United States. I have walked through stores, together have shared stories with them. I have had dinner with them, and I have celebrated their success in good times and dealt with bad times.

I don't see dealers as dots on the map or lines on a spreadsheet. They are members of a larger GM family, which makes this process so heart-wrenching for me and the corporation. A dealer closing is as painful as a plant closing, but we have no choice.

We are all being called upon to sacrifice in order to build a stronger, more viable General Motors. This is our last chance to get it right, to fix permanently those parts of the business that have diverted us from consistently building winning cars and trucks and a consumer experience to match.

Our dealer network must match a smaller, stronger, leaner GM built for today's market and competitive realities. Historically, much of GM's dealership network growth occurred in the 1950s and 1960s, when we held a dominant share of the U.S. auto market. Since that time, strong new competitors have entered this country, and our market share has shrunk, leaving us with too many dealerships, and in many cases, in the wrong locations.

Over the years, many GM dealers could not earn enough profit to renovate their facilities and to retain top tier sales and service staffs. And for those who could raise capital, it made little business sense for them to invest in the market already saturated with GM dealers.

Everyone agrees—even the dealers themselves—that a restructuring of GM's dealer network must take place. We set out to do this restructuring as carefully, responsibly and objectively as we could. We started with a thorough analysis of every market and every dealer throughout the U.S. to assess individual market requirements and dealer performance, especially in the metrics of sales and customer satisfaction.

We also carefully considered our dealer network coverage in rural areas. We wanted to make sure that we maintained the strong competitive advantage we have in rural areas in some cases, and on average, more than ten points in market share above our national average.

We also took great pains to ensure that minority dealers were considered equitably and proportionally.

Most importantly, instead of terminating agreements immediately, we are providing advance notice and wind-down agreements to dealers who we could not retain in the network long term.

If, and when executed, these agreements will allow dealers to stay in business with us until October 2010, the expiration date of

their current dealer agreement, so they can sell down their vehicle inventories and provide warranty service, and sell down their parts inventories over time.

We want to support our dealers, to help them wind down their business in an orderly fashion. We have a structured package and transition assistance that is intended to benefit them relative to their alternatives.

Of the 1,380 letters that were sent earlier this week, 647 have been returned already, signed. We had ten dealers who said they are not able to sign it and the remainder of them we are working with every day.

We also have a dealer appeal process to allow us to consider, one-by-one, if we have made mistakes, because we rightly recognize we do make mistakes, and we deal with each and every one of those individually.

Yes, consolidations will bring cost savings. A smaller, more healthy dealer network reduces GM's costs, primarily related to the support we provide for information technology, sales person incentives, field sales and service training, parts and advertising.

This support is equivalent to roughly \$1,000 per vehicle, or a multi-billion dollar expense for the company.

But this effort is all about creating a healthier, stronger and profitable dealer network. One that improves our brand image, and increases the opportunities for sales and service provided by our high-performing dealers. It's about focusing our resources on our top performers and core brands, so we can attract and retain more private capital and the best dealer-operators, and yes, new customers from our competitors.

The end result will be between 3,500 and 3,800 U.S. GM dealers by the end of 2010, depending on attrition levels, with a retail market share of a little over 17 percent, and our objective in 2010 in a retail sales market of just over 10 million units, with fleet on top of that. That means that the number of units sold per dealer would nearly double, compared to today's levels, and provide a greater return on their investment.

Even with these cutbacks, GM will still have the biggest, most extensive dealer network in the country, more than any of our competitors, including Toyota, Honda, Nissan, Ford and Chrysler.

To conclude, this is one of the most difficult and painful times in GM's history, but we see a path toward a better future, where, at GM, we not only survive, but thrive. And we want our employees, communities, and especially our dealers to thrive with us.

We're grateful for your support during this critical time. We understand our responsibility to the American taxpayer and we take that very seriously. A new GM will contribute to America's economic strength and competitiveness. And this, of course, starts and ends with great cars and trucks, and great dealers.

Thank you very much. I look forward to your questions.

[The prepared statement of Mr. Henderson follows:]

PREPARED STATEMENT OF FRITZ HENDERSON, PRESIDENT AND CEO,
GENERAL MOTORS

Good afternoon, Mr. Chairman.

I'm Fritz Henderson, President and CEO of General Motors. Thank you for the opportunity to discuss an important part of GM's viability plan, our dealer network restructuring. Simply put, a strong dealer body is vital to GM's success. Indeed, for many customers, our dealers are the "face of GM,"—so this effort is very, very important.

It is also an effort that—regrettably—is quite painful—for us, for our customers, and especially for our dealers. Many of them run businesses that have been in their families for generations. The impact of what we are doing affects them personally as well as financially. It also affects the communities and states where they live.

That is why we went about this task very objectively and carefully. We decided not to terminate any dealers and developed a unique wind-down process that we believe is more equitable and fair. I will share more details about our process later in my testimony.

Our current dealer network in large part was established in the late 1940s and 1950s. Back then, before the U.S. Interstate Highway system was built, America was a much more rural country. GM, Ford and Chrysler dominated the U.S. car market.

But times have changed. Today, I'm here to discuss why GM needs to have fewer, better dealers selling at higher volumes, who are able to better take care of customers; the costs associated with having under-performing dealers; and the objective process we are using to make the changes we need to make.

For decades, GM and our dealers have enjoyed periods of prosperity and have also weathered the inevitable troughs that are part of such a cyclical business. Over the last 20 years, we have seen particularly dramatic changes and pressures that have come from international trade, volatile energy markets, and increased competition in the U.S. market.

Foreign manufacturers who entered this market beginning in the 1970s had the advantage of establishing their dealer networks in line with modern demographics. Today, more people live in the suburbs of major metropolitan areas, versus rural areas or small towns.

To meet these challenges, we've been designing new products, developing new technologies and restructuring our company to bring our fixed costs in line with these competitive market forces and shifting sales volumes.

But the most recent global financial crisis—which has yet to fully stabilize—has made it clear that we no longer have the luxury of time—nor money—to continue to pursue the evolutionary approach we used in the past. It was an approach we hoped would bring about change, while minimizing the disruption change brings to everyone involved.

Although it has been tough to hear at times, the direction we received from Congress, the Administration, the Automotive Task Force, and countless industry analysts and pundits, was clear and to the point: we needed a dramatic restructuring, done with speed, across all parts of our business, if GM was to remain viable. We were asked to deliver a plan to make that happen by June 1.

The President acknowledged what we all understood from the start—such a plan would require shared sacrifice from GM and all of our stakeholders. What has become clear as we execute our plan is that GM, our employees, and our dealers *do* matter to America. We are collectively woven throughout the economic fabric of our country.

And this has been the most difficult part of executing our plan . . . the human story of the people who are affected by the painful but necessary actions we are taking to ensure our viability. Members of Congress, Treasury representatives, and the Automotive Task Force have seen this for themselves during their visits to our facilities and plant communities in recent months.

Reinventing GM—real change—does require shared sacrifice. Thousands of hourly and salaried employees are losing their jobs, and those who remain have had their pay and benefits cut. Plant closures impact families and the communities where they live.

These are tough times for everyone in the GM family. And, as a part of the GM family, our dealers are also being asked to bear some of the sacrifice in order to build a stronger, more viable GM.

The reality of our situation is this: *all* parts of GM, including the dealer network, must become smaller and more efficient to reinvent GM as a company that is not only viable, but capable of surviving cyclical downturns. GM's viability plan calls for fewer, stronger brands, as well as fewer, stronger dealers.

For years, we have heard the call that GM must adapt to today's global competition and market conditions or it will not survive. We agree.

In the case of our dealer network, because of our long operating history and existing dealer locations, many dealerships now operate in outdated facilities that are also no longer in the prime locations to best serve customers.

Much of the growth in GM's dealership network occurred in the 1950s and 1960s, when we held a dominant share of the U.S. auto market. Since that time, strong new competitors have entered this market and our market share has shrunk, leaving us with too many dealerships. For example, GM today has roughly 6,000 dealerships in the U.S., compared to 1,240 for Toyota and 3,358 for Ford.

Besides the intense pressure from competitors, GM dealers also compete against each other. Over the years, many GM dealers could not earn enough profits to renovate their facilities and retain top-tier sales and service staffs.

Thin profit margins and state franchise laws also prevented many dealers from relocating as U.S. demographics shifted from urban to suburban settings. The dealers that remain compete with each other for a shrinking share of GM sales. Current market conditions only make this situation worse.

Our current plan calls for GM to have between 3,800 and 3,500 U.S. dealers by the end of 2010, depending on attrition levels, with a retail market share of 17.3 percent in a retail sales market of 10.15 million. This means that the number of units sold per dealer would nearly double, compared to today's levels.

This overall number is based on the previously announced potential sale of the Saturn, Hummer, and Saab, brands, or their phase-out if they can't be sold; dealer attrition over the next 18 months, which—as you might expect in these difficult times—is running at record levels; and the wind-down over time of the approximately 1,200 dealers we notified on May 15th, plus an additional 200 dealers who also received wind-down agreements this week.

The Treasury noted the problems caused by GM's current dealer network in their assessment of our Feb. 17 viability plan on March 30. They said:

"GM has been successfully pruning unprofitable or underperforming dealers for several years. However, its current pace will leave it with too many such dealers for a long period of time while requiring significant closure costs that its competitors will not incur. These underperforming dealers create a drag on the overall brand equity of GM and hurt the prospects of the many stronger dealers who could help GM drive incremental sales."

Everyone agrees—even the dealers themselves—that a restructuring of GM's dealer network must take place.

A smaller dealer network reduces GM's costs, primarily related to support we provide for information technology systems, dealer and sales person incentives, field sales, service and training, service parts, and advertising. This support costs GM roughly \$1,000 per vehicle.

However, this effort we are undertaking is not really about saving money—although there will be cost savings. A key to GM's success over the long haul—which U.S. taxpayers have a vested interest in—will be a healthy, strong, and profitable dealer network that can provide the industry's best customer service and enhance the image of our four remaining brands: Chevrolet, Cadillac, Buick and GMC. Dealers who are too small, are unprofitable, or perform only marginally well, simply cannot provide those things to our customers.

The remaining dealerships will be better poised to keep their current GM customers, while aggressively marketing to take sales from competitors. The long-term benefits of a stronger, more viable dealer network are clear.

We are making these hard decisions to benefit our customers. As we reinvent GM, we are putting the customer first in everything that we do. Even with these cutbacks, GM will still have the biggest, most extensive dealer network in the country—more than any of our competitors, including Toyota, Honda, Nissan, Ford and Chrysler.

Next, I'd like to talk about the objective process we are using to consolidate the dealer network. We strongly believe that *how* we are doing this is as critical to our success as *what* we are doing. GM's dealer consolidation process is unique.

First and foremost, as I stated earlier, we have not terminated any dealer agreements. Just this week, we sent wind-down agreements to dealers who we could not retain in the network long-term. When executed, these agreements allow them to stay in business until October 2010—the expiration date of their current dealer agreement—so they can sell down their vehicle inventories and provide warranty service to customers, thus winding down their business in an orderly fashion.

We also—subject to bankruptcy court approval—have some financial assistance in the wind-down agreements to allow the dealers to accomplish this. On May 15, we had previously notified most of these dealers about our planning. While this is not

an easy process by any means, we think it is far preferable to an abrupt termination.

Prior to taking any action, we conducted a thorough analysis of every market and every dealer throughout the U.S. to assess individual market requirements and dealer performance.

Some of the key dealer performance factors that we looked at included:

- Customer satisfaction index
- Sales performance and volume
- Working capital
- Profitability
- Dualing patterns
- Dealership location
- Facility

We also carefully considered our dealer network coverage in rural areas and small towns versus urban/suburban markets. We know that our strong presence in rural areas, small towns and “hub” towns such as gives us a leg up versus the competition, which we intend to maintain. When these dealers perform to our standards, they are a huge asset.

We also took great pains to ensure that minority dealers were considered equitably and proportionally. In fact, the percentage of minority dealers overall may actually increase slightly after the consolidation takes place.

Identifying dealerships that we want to keep in the GM dealer network and those with whom we will have to wind down our business relationships was a very difficult step. However, it is a step we had no other choice but to take for GM’s viability.

By reducing the number of dealers, the remaining dealers will see increased sales throughput at more competitive levels. This will provide a greater return on their investment, especially in metropolitan markets. They will be able to retain top sales and service talent, invest in their facilities, and focus on selling vehicles to people who don’t currently own a GM car or truck. Most importantly, they will be able to improve the overall customer experience and retain current customers.

From GM’s point of view, by winding down under-performing dealers, we will eliminate the negative impact they have on our brand image and increase the opportunity for sales and service provided by our high-performing dealers. Although we will achieve substantial cost reductions in the consolidation, our primary goal was to improve the dealer network as a whole. This will enable us to focus our resources on top performers and core brands so we can attract and retain more private capital and the best dealer operators.

Dealers who wish to provide GM with additional information with regard to their performance on the key dealer performance factors have the opportunity to provide it to our Dealer Network Planning and Investments organization. We have received a number of such requests and are continuing to receive them.

Our dealers are not a problem but an asset for General Motors. Consolidating our dealer network will make it an even stronger asset.

Before concluding, let me mention one additional opportunity to help dealers and auto manufacturers in the current environment. In several other countries around the world, vehicle sales incentive programs have been implemented. These fleet modernization—or “scrappage”—programs provide incentives for customers to trade in older, less fuel-efficient vehicles for vouchers to purchase newer, cleaner, more fuel-efficient vehicles.

These programs have been very successful in stimulating vehicle sales in other countries. We urge Congress to quickly enact legislation for such a program in the U.S. In particular, we support the proposal introduced by Senators Stabenow and Brownback. It provides the broadest and potentially most effective program of those being considered.

In conclusion, GM is grateful for the support of the Congress and Administration as we undertake this painful, yet essential reinvention of our company.

As we are experiencing first-hand, it’s much easier to talk about the need to change in the pages of newspapers, or on cable television. However, dramatic change is a much more difficult and serious challenge to actually undertake, and requires sacrifice.

The wholesale reinvention of GM has not been easy. But we will not soften our determination to see this process through because it is difficult or to run from sacrifice. We hope your support remains just as strong.

We understand our responsibility to American taxpayers, and we take it very seriously. We want GM to not only survive, but thrive. And we want our employees, communities, and especially our dealers to thrive with us. This—and, of course, great cars and trucks—is the way to pay back our Nation's support.

The end result will be a healthier, successful, reinvented GM that will not only benefit employees and dealers, but contribute to America's economic and competitive strength.

Thank you. I look forward to your questions.

The CHAIRMAN. Thank you, sir. Finally, Mr. John McEleney, Chairman of the National Automobile Dealers Association. Please, sir.

**STATEMENT OF JOHN P. MCELENEY, CHAIRMAN,
NATIONAL AUTOMOBILE DEALERS ASSOCIATION**

Mr. MCELENEY. Thank you, Mr. Chairman. Mr. Chairman and Senator Hutchison, my name is John McEleney. I am Chairman of NADA, the National Automobile Dealers Association. I am also an automobile dealer. My dealership is McEleney Auto Center in Clinton, Iowa. We operate GM, Toyota and Hyundai franchises. We have been in business 95 years. We provide jobs for 140 people. My family also held a Chrysler franchise between 1984 and 2007.

Mr. Chairman, we commend and thank you and Senator Hutchison for convening this hearing.

In three face-to-face meetings with the President's Auto Task Force, and in numerous meetings with the manufacturers, no one has explained why dealer reductions will make Chrysler and GM more viable.

Over 90 percent of Chrysler and GM's revenue comes from the dealer, because the dealer buys the cars, the parts and even the dealership's signs from the manufacturer. The retail network, the land, the building, the employees; the dealers pay for all of it. Dealer cuts won't save any money, because dealers don't cost the manufacturers any money. When a dealership closes, the manufacturers will tell you that they lose market share.

Where is the objective standard and where is the public accountability for these decisions: 789 Chrysler and 1,350 General Motors dealerships face terminations? These dealership employ over 100,000 people. These people deserve more.

The Chrysler dealership terminations are particularly harsh. These 789 dealers were given 26 days to wind down. Also Chrysler has refused to buy back vehicles, parts and special equipment. No manufacturer has ever done this. Just 4 days after Chrysler dealers received the termination letters, media reports said that Chrysler was already on planning to re-enter some of the very markets that they were abandoning.

With respect to GM, the effects were actually broader. Yesterday, GM delivered to my dealership, "a participation letter" which every GM dealer must sign. Even though I am one of the "go forward dealers" I will have to make significant changes that could threaten the viability of my dealership and my employees.

Actually, GM's letter is a 24-page binding legal contract. Senator Snowe referred to a 12-page agreement. Mine is 24. If I sign it, I will be committing my business to spend hundreds of thousands of dollars that I know about today, and committing to millions of dollars of potential financial obligations in the future. I will also be

subjecting my business to sales performance standards that are not specified in the contract. Even worse, GM can alter the terms of these requirements at any time, at its sole discretion.

The final blow, I must waive any right of protest to any action taken by the manufacturer.

The contract actually says “This document shall be null and void if the dealer changes any term, or provision, or if it is not executed by the dealer on or before June 12.” That’s next Friday. That’s 7 days from now.

But my choice is this: sign the completely one-sided, open-ended legal document and give up all my basic rights as a dealer or face the consequences of cancellation of my franchise during the pending bankruptcy. The other 4,000 go-forward dealers have the same choice.

This really is no choice at all. It’s a classic example of opportunistic and overreaching behavior by the manufacturers, that is exactly what has prompted the enactment by legislatures of all 50 states, the franchise laws that govern the relationship between dealers and manufacturers. No other manufacturers force dealers to sign such an onerous agreement. This is not necessary for GM’s viability, and Federal funds are being used to empower GM to do this.

This is a manipulation of the bankruptcy process to eviscerate the states’ franchise laws; laws that inject balance in an inherently one-sided economic relationship between a dealer and the manufacturer, and they also provide consumers with a reliable, convenient and competitive retail auto network.

So we urge the following: first, the Executive Branch should provide sufficient debtor and possession financing to enable Chrysler to buy back the parts, the inventory, the manufacture-specific tools from the terminated dealers. This is standard practice in our industry.

Second, the terminated Chrysler dealers need more time to make an orderly transition. No manufacturer has ever imposed such onerous terms on such a tight deadline.

Third, the terms of GM’s go-forward agreements must be changed. No manufacturer has ever imposed such outrageous terms in dealer-operator agreements.

Fourth, franchise laws of the 50 states should remain intact, and applicable full force and effect once Chrysler and GM emerge from bankruptcy.

Since this entire bankruptcy has been negotiated by the Executive Branch, Congress should intervene, if necessary, to make sure these actions are taken.

I thank you for holding this important hearing and thank you for the opportunity to testify.

[The prepared statement of Mr. McEleney follows:]

PREPARED STATEMENT OF JOHN P. MCELENEY, CHAIRMAN,
NATIONAL AUTOMOBILE DEALERS ASSOCIATION

Mr. Chairman, Ranking Member Hutchison, my name is John McEleney, and I am the Chairman of the National Automobile Dealers Association (NADA). I am also President of McEleney Autocenter, of Clinton, Iowa. We operate General Motors, Toyota and Hyundai franchises and have been in business for 95 years and

now provide jobs for 140 people. Additionally, my family held a Chrysler franchise between 1984 and 2007.

NADA's membership consists of over 17,000 new car and truck dealers in the United States, both domestic and international nameplates, whose independently-owned businesses employ upwards of 1 million "Main Street" Americans. NADA truly is the "Voice of the Dealer" because our association represents over 93 percent of all dealers, regardless of make and model. To put this powerful employment model in perspective, the largest private sector employer in American is Wal-Mart, with 1.3 million employees. Moreover, dealership jobs pay well. The typical compensation for a dealership's employee is more than twice the national average of jobs in the retail sector, and our jobs cannot be outsourced. Even more Americans are employed in businesses that supply goods and services to dealerships. Statistics that document the extent of automotive retailers contribute to our economy at the local, state, and national levels may be found at NADA's website.¹

Mr. Chairman, on behalf of franchised dealers all across the nation, we commend you and Sen. Hutchison for convening this hearing because we need the help of the U.S. Senate to ask some key questions about the treatment of dealers, their employees, their communities, and the customers that depend upon these local businesses. Why are dealer reductions necessary at this time? How did Chrysler decide which dealers to terminate? How will the announced dealer reductions enhance the viability of GM and Chrysler? To date, we have received no plausible answers to these most basic questions.

At the outset of my testimony, I wish to emphasize that the overall state of auto retailing is dire. No previous economic challenge except for the Great Depression can compare to what confronts franchised dealers today. The automobile retail industry is highly credit-dependent and, as such, was disproportionately hard hit by last year's financial crisis. Floorplan credit,² the financing used by dealers to buy new and used vehicle inventory, has contracted dramatically, and even creditworthy dealers are having trouble finding access to floorplan financing. At the same time, we are experiencing the lowest new car sales rate since World War II. Unless and until these larger challenges are resolved, all auto manufacturers and dealers will continue to face problems. In fact, we will not have a meaningful economic recovery in this country without resolving these broader issues, because auto sales historically have constituted 20 percent of all retail spending in the United States.

As the President's Auto Task Force has initiated the restructuring of two of the largest manufacturers in the United States, there has been a significant lack of transparency to this process. As the Chairman of NADA, I have represented dealers in three meetings with the President's Auto Task Force as well as in conference calls, and have provided at their request many documents and data. At our meetings with the Task Force, we have repeatedly explained the fact that dealers are not cost centers for manufacturers but rather externalize the manufactures' costs. Dealers are the largest source of revenue for the manufacturers, and to the extent there is "overdealing" in certain areas, the past 50 years the dealer population has declined every year due to orderly consolidations. I elaborate on these points later in this testimony.

NADA has had regular meetings with the manufacturers on a wide variety of matters related to industry relations. During the past year we have met with Chrysler and GM on numerous occasions to discuss the specific submissions that each company made in conjunction with the bridge loans last year and the viability plans this year. Additionally, we have had numerous conference calls on the same issues.

None of Chrysler's submissions to the government prior to the May 14 announcement could have been interpreted to put Chrysler dealers on notice of the scope of the terminations that followed. Similarly, our discussions with Chrysler officials during the past year did not give any indication of these drastic cuts proposed, much less of the onerous terms and conditions. To the contrary, all indications were that dealer reductions would be achieved in the context of the on-going Genesis program which relies principally upon negotiated transactions based on conditions in the local market.

The potential such an orderly transition has degenerated into chaos for 789 Chrysler dealers. These dealerships learned on May 14 that they would lose their franchises within 26 days. Moreover, they were told that the factory would not buy back any unsold inventory of vehicles and parts or any of the factory-specific tools that all dealers are required to buy from the manufacturer. No dealer could possibly have anticipated this egregiously short timetable and these unprecedented terms.

¹(<http://www.nada.org/Publications/NADADATA/DrivingUSEconomy/>)

²For more on credit and the auto industry, see the attached Appendix, "Credit and the Auto Industry."

After all, the franchise agreement requires the manufacturer to buy back vehicles, parts, and tools. No manufacturer has ever imposed such onerous conditions on terminated dealers. Especially troubling is the fact that during the last few years, some of these terminated dealers were pressured by the manufacturer to build large new retail facilities. Moreover, within the past few months, many of the terminated dealers were strongly encouraged by Chrysler to take additional inventory even when local market demand didn't support this decision. In short, many of these 789 Chrysler dealers were team players. They did all that was asked of them by Chrysler and in return were stripped of their franchises on less than 3 weeks' notice with virtually no recourse. In return for their loyalty, they have seen any goodwill in their business evaporate in a matter of days.

Adding insult to injury, *Automotive News* reported just 4 days after the termination letters arrived that Chrysler was planning to re-enter some of these 789 markets. Since then, we have heard that in some areas prospective new dealers are even touring some of these dealerships targeted for closure. This certainly does not look like a strategy to reduce the dealer count to achieve an efficient rationalization. Rather, this just looks like a strategy to leverage the tremendous unfairness of bankruptcy to force the closure of some dealerships for the benefit of others.

Apparently, at some time during the deliberations of the Administration Auto Task Force, the treatment of GM and Chrysler dealers took a drastic turn for the worse. On March 30, the Task Force rejected GM and Chrysler's own dealer consolidation plans, set forth in their respective "viability submissions" of February 17, based in part on the fact that task force officials believed their dealer reduction plans did not go far enough or move fast enough. The Auto Task Force's March 30, 2009 Viability Assessment of GM specifically states with respect to brands and dealers that:

The Company is currently burdened with underperforming brands, nameplates and an excess of dealers. The plan does not act aggressively enough to curb these problems.³

Contemporaneous news reports highlighted the same reality:

New CEO Fritz Henderson says the Federal Auto Task Force's rejection of GM's viability plan requires GM to make "deeper and faster" cuts. GM has 60 days to submit a new, more drastic restructuring plan or face bankruptcy. That means GM is pulling forward its plan for dealership consolidation.⁴

Finally this was confirmed in GM's letter on May 14 notifying 1,100 GM dealers of the intention not to renew their franchise agreement beyond October 2010 which read in part "As we have communicated to all dealers, our revised restructuring plan is a result of GM being challenged to move more aggressively and faster in its restructuring efforts."

The Auto Task Force has taken the position that it had not mandated the acceleration of dealer cuts and advised that it was the companies that were initiating the dealer reductions. An Obama administration source told Politico, "We're happy to listen, but what we will politely say to them is: It's not our job to tell these companies what dealers they should have or, or even how many."⁵

While it is recognized that the Auto Task Force did not identify specific dealer reductions, the question remains why the manufacturers' position changed to mandate the drastic dealer cuts they proposed? What is the objective standard for these actions? Where is the public accountability for these decisions? These rapid dealer reductions will adversely affect many lives and many communities. 789 Chrysler and over 1,100 General Motors dealerships face terminations, and these businesses employ 100,000 middle-class Americans. These people deserve more. The country, currently facing a national unemployment rate approaching 9 percent, deserves more. The state and local governments that depend on the dealerships for revenue deserve more. The Federal taxpayers, footing the bill for the restructuring, deserve more.

We don't understand how these drastic dealer reductions will increase the viability of GM and Chrysler. Franchised dealerships are independently owned businesses, not the "company owned" stores used by many other industries to distribute their products. The dealer—and not the manufacturer—invests in the land, buildings, fa-

³ Auto Task Force, March 30, 2009. *GM Viability Assessment—Rejection of GM's February 17, 2009 plan*. "Brands/Dealers: The Company is currently burdened with underperforming brands, nameplates and an excess of dealers. The plan does not act aggressively enough to curb these problems", p. 1.

⁴ *Automotive News*, "Henderson's GM speeds up dealer cuts", April 6, 2009.

⁵ Allen, Mike. "Car dealer cuts coming soon." *Politico*, May 13, 2009.

cility upgrades, personnel, and equipment necessary to sell and service vehicles. Because of these sizable multi-million dollar dealer investments, manufacturers receive a national retail distribution network at no capital expense and are able to externalize virtually all of the costs associated with the establishment and maintenance of a national retail distribution network for their products.

Absent the franchised dealers, a manufacturer would have to invest billions of dollars to replicate the existing facilities, employees, and retail presence. No manufacturer, much less an automaker in extremis, could possibly assume this burden and hope to remain competitive. No manufacturer would want to assume the risk involved with retailing. For example, if the manufacturers make an unappealing vehicle, the dealers bear the brunt of that mistake and suffer the consequences of unsold inventory. Similarly, the dealers also bear the risk of the deterioration of a prime real estate location and the risk of a local economic downturn.

According to the attached report that we provided to the task force, “The Franchised Automobile Dealer: The Automaker’s Lifeline”, prepared for NADA by the Casesa Shapiro Group, “far from being a burden to the manufacturer it represents, the automobile dealer supports the manufacturer’s efforts by providing a vast distribution channel that allows for efficient flow of the manufacturer’s product to the public at virtually no cost to the manufacturer.”⁶

Franchised dealers are the largest source of revenue for the manufacturers. In the United States, the dealer body provides 92 percent of GM’s revenue. To casual observers this may be a complete surprise, but the explanation is simple. A manufacturer does not sell cars to consumers. A manufacturer sells cars to a dealer, and the dealer sells the car to a consumer. Moreover, because the manufacturers control large streams of payments to the dealer body—all of which are non-interest bearing payments made in arrears for products already delivered or services already performed—the manufacturers can simply use cash management techniques to achieve “cost of money” savings that would easily offset these minimal operational expenses. In the aggregate, the manufacturers can use this “float” to earn millions of dollars. And there are a number of purchases that dealers are required to make—including signs and specialized tools—on which the manufacturers actually make a profit. The “cost of money” savings alone are likely to offset the minimal administrative expenses associated with the direct support of the dealer network.

The rapid and destructive dealer reductions will erode market share. Dealers have deep roots in the community and have helped provide manufacturers with long-term customer relationships that create brand loyalty and maintain customer convenience. Therefore, reductions in dealer numbers will not only cut manufacturer revenue but also market share. Dealer closures must be done carefully to maintain the manufacturer’s viability. “We had 13,000 dealers 18 years ago, so we’ve already cut that in half,” Mark LaNeve, GM’s North American President, said at this year’s North American International Auto Show in Detroit. “We don’t want them to close all at once because we figure we lose sales for 18 months after a dealership closes until other dealers pick up the business.”⁷

The purported administrative savings from reducing the dealer count will not materialize. Since the principle purpose of the franchised dealer network is to outsource costs, the manufacturers incur very little direct costs related to the dealer network. Several years ago, a General Motors executive observed that the sale of 10 cars per year by a dealer would cover the automaker’s operational expenses (field personnel, etc.) associated with that dealer. Therefore, few savings are likely to be generated from dealer reductions.

- *Marketing and advertising costs are not likely to be reduced because of a reduction in the dealer network.* Individual dealers, not the manufacturer, pay for state and local marketing and advertising. Also considering the initial loss in market share resulting from dealer closings, marketing efforts will likely have to be increased in the short run.
- *Manufacturer retail incentive costs are determined by the number of vehicles being sold, not the number of dealers in a given market.* The manufacturers provide various incentives (i.e., rebates) for dealers and consumers to stimulate vehicle sales to clear inventory or increase market share for a particular vehicle. The only way for these costs to be reduced would be a reduction in total vehicle sales.

⁶“The Franchised Automobile Dealer: The Automaker’s Lifeline.” Casesa Shapiro Group, November 26, 2008 (Attached).

⁷*Bloomberg News*, “Small cars aren’t selling as well, GM official says; Fuel prices send buyers back to SUVs, pickups”, January 14, 2009.

- *Manufacturers require various dealer employees to undergo training, but the dealer pays for these costs, not the manufacturer.* The dealers will continue to absorb these costs regardless of the number of dealers.
- *Destination fees are standardized, so it is highly unlikely that manufacturers' distribution costs will be reduced.* The manufacturer sets the distribution fee. And unless the manufacturer plans on exiting an entire geographic region, shipping costs will not significantly change. If such a drastic consolidation even did occur, the manufacturer would immediately suffer losses in market share, causing the per unit distribution cost to rise.
- *Manufacturer's interest expense will not decline, since the expense is related to the number of vehicles financed, not the number of dealers financing the vehicles.* Most manufacturers provide some financial incentives to offset the initial costs of dealer borrowing (for inventory, parts, etc.). Since fewer dealers would have to finance greater numbers of vehicles to keep sales constant, the remaining dealers would expect to continue to receive the per unit incentive to offset the additional risk of financing a larger inventory.
- *The dealer network requires very little incremental costs.* With modern electronic communications, the costs needed to maintain the dealer network are minimal, as are the potential savings with reducing or even eliminating dealers.
- *Simplistic attempts to compare the number of dealerships or the "throughput" of new car sales at GM and Chrysler dealerships to Toyota dealerships are invalid.* The task force is only focused on new car sales. Yet, there are 66 million GM vehicles on the road today and 33 million Chrysler vehicles versus 22 million Toyota vehicles. Consumers need to service and repair these vehicles, and domestic brand dealerships serve more cars per location than international nameplate dealerships. Drastically reduced dealers mean consumers will experience higher prices from reduced competition and greater inconvenience from reduced service facilities. Similarly, GM and Chrysler serve far more rural areas than Toyota and—as a direct result—enjoy a higher market share in rural areas.

An orderly, market-based consolidation of the dealer network has been underway for more than 50 years. For decades the number of dealerships in the U.S. has been shrinking at a consistent pace, dictated by market conditions and accelerating during a recession such as today. In 1949 there were almost 50,000 dealerships and by 1970 that number was 30,800. During that time-frame virtually all of these held domestic franchises. In 1987, there were 25,150 new-car dealerships; by the end of this year, we expect that number to have dropped below 17,000.

The sharp reductions in domestic dealerships have occurred despite the fact that the size of the Nation's fleet keeps increasing. The number of vehicles in operation rose from approximately 125 million in 1976 to almost 250 million in 2007. More important, the majority of the vehicles in operation today have domestic nameplates. Therefore, the number of domestic vehicles in operation per domestic dealership continues to rise. Even without the drastic reductions that GM and Chrysler seek to impose, the number of GM and Chrysler vehicles on the road today per dealership is at an all time high.

While market forces have operated—and will continue to operate—to reduce the number of dealerships, there are important counterbalancing factors to consider. The foremost of these are the convenience and competition that consumers receive from an extensive dealer network. Intra-brand competition is very important to consumers. Indeed, the most intense competitor for, say, an individual Ford dealer is the nearest Ford dealer. Therefore, any precipitous decline in the size of the dealer network of any manufacturer could dramatically reduce competition for the sale and service of vehicles.

For 100 years, the franchise system has provided a strong auto retail network for consumers, dealers, and vehicle manufacturers alike. All 50 states have enacted motor vehicle franchise laws to inject balance in the inherently one-sided economic relationship between a dealer and the manufacturer and to provide consumers a reliable, convenient, and competitive retail network for automobiles sales and service. The state franchise laws guard against a manufacturer unilaterally terminating a dealership without cause and unilaterally threatening to put the same brand on every corner. A typical state franchise law requires a manufacturer to show good cause in order to terminate a dealer agreement, provides a framework for determining a fair value of the franchise terminated, establishes basic rights of succession from generation to generation, and sets out a definition of relevant market area to preclude unfair proliferation of dealerships. Numerous courts, including the U.S. Supreme Court, have upheld the constitutionality of various state franchise laws.

The state franchise laws have provided a rational framework for consolidation and reduction of dealerships and have not prevented the termination of brands. Within the past sixty years, the number of dealerships has declined steadily from almost 50,000 in 1949 to 17,000 today. Even with the state franchise laws in full effect, the manufacturers have combined brands under one roof at the dealership level via channeling agreements, eliminated brands altogether, and terminated individual dealers.

The unprecedented evisceration of state franchise laws under the guise of a structured bankruptcy is one of the most disturbing aspects of the treatment of GM and Chrysler dealers. This disregard of state franchise laws is threatening the economic stability of communities and eroding the national infrastructure essential to the recovery of troubled manufacturers. In the case of Chrysler, we have a window to the future unless corrective action is taken: closed businesses, terminated employees, increased foreclosures, and idle real estate, thereby deepening the current recession and threatening even the dealerships that the manufacturers would designate for survival.

The more we learn of the specific facts and circumstances of the Chrysler closures, the more we are concerned that this forced bankruptcy is being used to circumvent longstanding state laws. The fact that the Administration is part of this process is especially surprising, because on May 20, 2009, the Obama Administration released a memorandum that stated as the general policy of the Administration: “preemption of State law by executive departments and agencies should be undertaken only with full consideration of the legitimate prerogatives of the States and with a sufficient legal basis for preemption” Moreover, according to the memorandum, “The Federal Government’s role in promoting the general welfare and guarding individual liberties is critical, but State law and national law often operate concurrently to provide independent safeguards for the public.”

In addition to protecting broad public interests, the state franchise laws actually ensure to the economic benefit of the manufacturers as well. Dealer investments in the retail network are premised on the existence of franchise law protections. If the franchise laws were not present to protect those investments, the investments would carry more risk. And that risk, in turn, would command a risk premium. Indeed, publicly-traded auto retailers routinely disclose the possible repeal of state franchise laws as a risk factor in their public filings. If those laws were in fact to be removed, that risk would become a reality and the capital investment markets would respond accordingly. Existing capital would seek safer havens, and the cost of attracting new capital would rise. While this would be very visible in the public capital markets, the same phenomenon would play out in the private capital arena as private dealers make decisions where to place their resources.⁸ And these increased costs would have to be paid somewhere in the overall industry value chain. Thus, far from saving manufacturers anything, the removal of the state franchise laws would actually raise their costs of operation.

In conclusion, rapid dealer reductions increase unemployment, threaten communities, and decrease state and local tax revenue without any material corresponding decrease in the automaker’s costs. We don’t understand why hundreds of small businesses are being forced out of business and under such onerous terms with little accountability. We urge the following in the case of Chrysler: The Executive Branch should provide sufficient debtor-in-possession financing to enable Chrysler to buy back the parts, inventory and manufacturer-specific tools from the terminated dealers. This is standard practice in the industry. Second, the terminated Chrysler dealers need more time to make an orderly transition. No manufacturer has ever imposed such onerous terms and such an onerous deadline. Third, franchise laws of the 50 states should remain intact and apply with full force and effect once Chrysler emerges from bankruptcy. The bankruptcy courts should not be used to circumvent state franchise laws. With respect to GM, we urge that the mistakes of Chrysler not be repeated.

Thank you for holding this important hearing, and thank you for the opportunity to testify.

⁸ Similarly, dealers with franchise agreements that have limited durations—e.g., five or 6 years—could find it difficult (or more expensive) to convince finance sources to loan them money absent the fact that most of the state franchise laws protect non-renewals in the same way they protect against unwarranted terminations.

Prepared for: *National Automobile Dealers Association*—November 26, 2008

THE FRANCHISED AUTOMOBILE DEALER: THE AUTOMAKER'S LIFELINE

By: Casesa Shapiro Group

"Far from being a burden to the manufacturer it represents, the automobile dealer supports the manufacturer's efforts by providing a vast distribution channel that allows for efficient flow of the manufacturer's product to the public at virtually no cost to the manufacturer."

Executive Summary

The independently owned and independently financed franchised automobile dealer network is a critical asset to the auto manufacturers. U.S. auto dealers have \$233.5 billion invested in their businesses. This capital is supplied by 20,700 independent dealerships that employ and train over 1.1 million people.

The dealer body is not owned by the manufacturer but is independent and self-financed. It serves as the link between the assembly line and the consumer. Far from being a burden to the manufacturers they represent, dealers act as an extension of the manufacturer. They support the manufacturers' efforts by providing, at virtually no cost to the manufacturer, a vast distribution channel that allows for efficient flow of product to the public.

The relationship between the dealer and manufacturer is mutually beneficial. The dealer's significant investment allows the manufacturer to spend its resources on research and development of product while the dealer spends its resources on sales, marketing, and customer handling. Each group benefits from the other and neither could afford all the expenses of the total value chain.

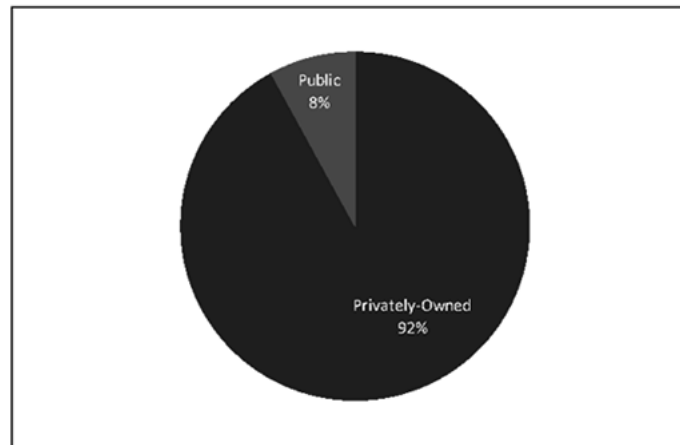
Overview of U.S. Auto Retailing

Virtually all new cars and light trucks bought in the U.S. are sold through franchised dealers. Dealers are independently owned, and combined, represent the largest retail business in the U.S., with approximately \$693 billion in revenues in 2007. Franchised dealers employ over 1.1 million people, comprise nearly 20 percent of all retail sales in the U.S., and, in total, pay billions annually in state and local taxes.

Dealers are Independent Businesses

The nation's 20,700 independent franchised new car dealerships comprise an industry that is fragmented and largely privately held, with private ownership accounting for 92 percent of the market (Chart A). *The franchised dealership is a business independent of the auto manufacturer, is self-financed, and serves as an extension of the manufacturer. Far from being a burden to the manufacturer it represents, it supports the manufacturer's efforts by providing a vast distribution channel that allows for efficient flow of the manufacturer's product to the public at virtually no cost to the manufacturer.*

Chart A: Dealership Ownership in the U.S.



Source: Merrill Lynch

Dealers Play a Complex and Essential Role

The franchised dealership system in the U.S. is the independent link between the manufacturer's assembly line and the consumer and its functions include, but are not limited, to the following:

- Selling the product and providing information for consumers.
- Holding vehicle and parts inventory for a push oriented manufacturing system.
- Performing service and providing parts to fulfill manufacturer warranty obligations.
- Handling product safety recalls.
- Facilitating the exchange of used vehicles.
- Arranging financing for consumers.
- Supplying capital for new showrooms and service facilities.
- Creating advertising and marketing programs targeting local markets.
- Providing market feedback to the manufacturer.
- Training employees as required by the manufacturer.

Dealer Investment on Behalf of Automakers

In filling their essential role as the link between the assembly line and the consumer, franchised dealers make large investments, incur substantial expenses, and bear considerable financial risk that otherwise would be borne by the manufacturer. The scope and magnitude of these financial commitments is discussed below.

1. Dealer Investment

Franchised dealers have \$233.5 billion invested in their businesses, or an average of \$11.3 million per dealership. The main components of this investment can be broken down into the following categories:

a. Facilities and Land

Most individual auto dealerships require several acres of land, which the owner must purchase or lease. Manufacturers require that the owner build or maintain a facility that houses a vehicle showroom and a service and parts center, along with all related customer and employee amenities. The business is real estate intensive. Casesa Shapiro Group estimates, conservatively, the average dealership has approximately \$2.5 million invested in land, buildings, furniture, fixtures and equipment.

b. Inventory

In lieu of the auto manufacturers having to do so, dealerships maintain a large physical inventory of new cars. Typically, a dealership will hold a 60–90 day supply of new cars. The average dealership has approximately \$4.9 million invested in new car inventory. This number nationally is \$101.3 billion.

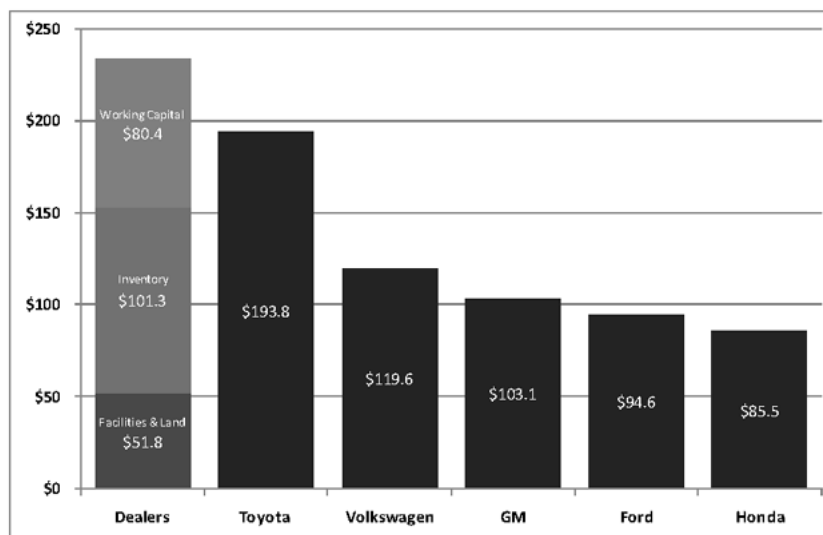
c. Working Capital

Manufacturers dictate specific working capital requirements, which are significant. For example, manufacturers typically require that dealers carry net working capital investment equal to 2 months of parts inventory value, new and used inventory value, and other expenses. In addition, more capital is needed to fund receivables due from manufacturers, customers, and finance companies. The average dealership needs approximately \$3.9 million in working capital and nationally dealerships have \$80.4 billion invested in working capital.

In total, U.S. franchised dealers have more capital invested in their businesses than the world's largest automakers, as shown in Chart B.

Chart B: Investment of the U.S. Franchised Dealer Body vs. Total Industrial Assets of Major Automakers

\$Billions



Source: NADA Industry Analysis for September 2008; company reports for latest Fiscal Year; Honda and Toyota Fiscal Year ends March 31.

2. Operating Expenses

In 2008, dealers are expected to deliver approximately 13.5 million new vehicles to customers. In doing so, they will incur approximately \$80.8 billion in expenses.

a. Personnel Expense

The largest category of expense is for personnel, which is estimated at \$36.5 billion for 2008.

b. Sales Related Expense

In 2008, dealers will spend approximately \$7.3 billion advertising manufacturers' products, or more than \$20 million per day. These expenditures are in addition to what the manufacturer spends to advertise its product, thus augmenting the automakers' marketing efforts. Dealers also spend \$329 million annually to train sales personnel to remain knowledgeable about manufacturers' products. In addition, it is estimated that dealers spend \$873 million annually on regulatory issues such as Truth in Lending and Graham Leach Bliley Act/privacy compliance.

c. Service and Parts Related Expense

Dealers incur costs to train service technicians who repair and maintain customers' vehicles. Training expense is ongoing as the manufacturer continually introduces new models and technologies. In addition, dealers must also comply with changing OSHA and EPA requirements. The dealer body spends \$423.8 million per year to keep its service staff proficient, or about \$20,473 per dealership.

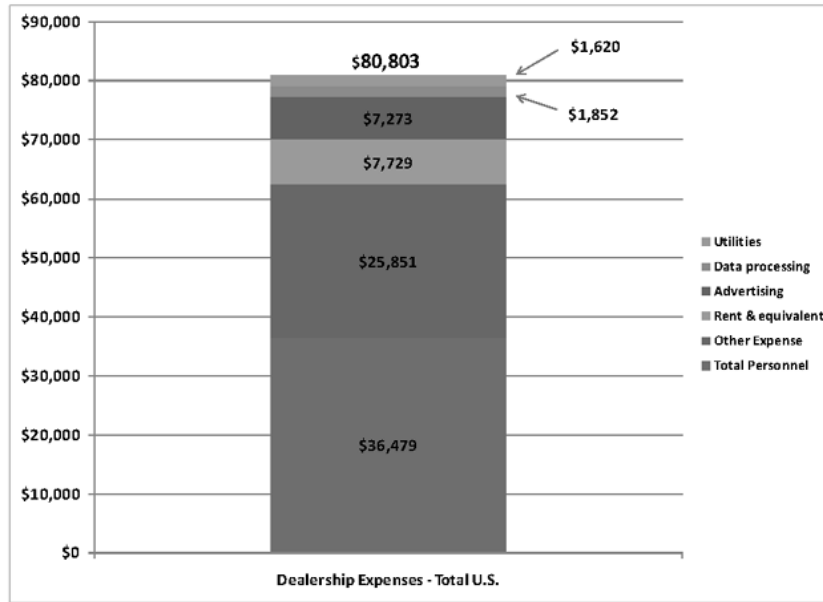
d. Inventory Expense

Aggregate new vehicle inventory carrying costs are \$890 million or \$42,995 per dealership on an annual basis.

Chart C below illustrates aggregate dealership expenses for dealerships in the U.S. Chart D shows the average pre-tax net margin for dealerships in the U.S., which is estimated to fall to 0.8 percent in 2008.

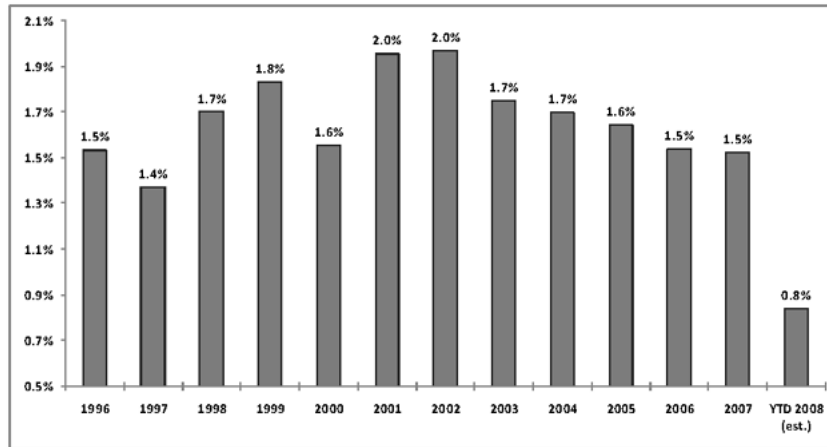
Chart C: Aggregate Dealership Expenses for Dealerships in the U.S.

Millions



Source: NADA Industry Analysis.

Chart D: Pre-tax Net Margin for Dealerships in the U.S.



Source: NADA Industry Analysis; Casesa Shapiro Group estimates

Automakers Have Externalized Significant Risks to Dealers

In addition to making large investments and incurring substantial expenses to operate, dealers shield the manufacturer from various risks.

1. Multi Million Dollar Inventory Risk

The manufacturer invoices the dealer for a new vehicle when it ships the vehicle from the plant, not when the vehicle arrives at the dealer. Often, time from invoicing to physical receipt can take 2 weeks, or longer. The dealer bears the car-

rying cost during this delivery period. On the other end of the spectrum, the dealer bears the risk of aging inventory. While the manufacturer may provide assistance from time to time in the form of rebates and incentives, the dealer takes the risk that the vehicle may sell at a loss. The average dealer has approximately \$4.9 million of new car inventory at risk.

2. Financing Risk

Most dealers finance their vehicle inventory through a finance facility called a floorplan. Most dealer principals are personally responsible for this floorplan liability. Risks here are twofold: a floorplan lender may rescind its commitment, leaving the dealer to find a new lending source or being forced to pay off the note, a potentially devastating outcome as dealers rarely have enough cash to pay off such a large obligation. On the consumer side of the equation, dealers are at the mercy of the consumer lending market. Should lenders cease to lend, or tighten their lending standards, the dealer's ability to sell his or her inventory is greatly diminished.

3. Receivables Risk

Receivables due from the manufacturer include vehicle holdback (essentially a margin payment), vehicle incentives, and warranty reimbursements. While the dealer must fund payment timing differences through working capital, the dealer is at risk in the case of a manufacturer bankruptcy. Receivables due from the consumer include payment for labor and parts for service work performed but not yet paid. The dealer is also at risk for receivables from financial institutions funding the consumer's purchase of the vehicle.

4. Real Estate Risk

Dealers have large investments in land and facilities. Often, these facilities are single purpose and cannot be used for occupants other than auto dealerships. In addition, manufacturers often require dealers to undertake substantial renovation projects to their facilities for branded image programs. Manufacturers often wield a velvet hammer, attempting to use a dealer's refusal to embark on an image program to prevent the dealer from sharing in certain incentives available to those who have undertaken the program. Should a particular manufacturer's sales decline, or should a manufacturer exit the market, the return on capital invested in these programs is often poor or worse.

Importance to Local Communities

Car dealerships are local businesses and provide significant sales tax revenues and employment opportunities to the communities in which they operate. Nationwide, car dealerships provide employment for 1,114,500 people and pay billions annually in state and local taxes. In addition, on average, each dealership makes \$25,600 in charitable contributions to its community.

Appendices A and B attached provide some context on a state by state basis of the prevalence and reach of these businesses. At a more local level, a typical dealership geographic profile may look as follows:

Table A.—Estimated Economic Impact of Dealers, by Representative Town/City

	Population	Estimated No. of Dealers	Estimated Employment	Estimated Investment
Newark, OH	47,176	9	486	\$101,700,000
Greensboro, NC	247,193	90	4,860	\$1,017,000,000
San Jose, CA	939,899	220	11,880	\$2,486,000,000

Source: Casesa Shapiro Group.

Conclusion

U.S. franchised auto dealers have invested \$233.5 billion in their independent businesses. This investment represents more capital than the total industrial assets of any of the world's largest automakers. These businesses employ over 1.1 million people, are supportive of their local communities, and pay billions annually in state and local taxes. They deflect certain financial risk from the manufacturers by putting their own capital at risk. The dealers' enormous investment allows the manufacturer to spend its resources on research and development of product while the dealers spend their resources on sales, marketing, and customer handling. Neither group alone could afford all the expenses of the total value chain. Dividing the value chain rationalizes the process. Automakers spend their resources efficiently on manufacturing and dealers spend their capital efficiently on serving the consumer. The independent franchised dealer body is the lifeblood of the automaker. While the retail consumer is the dealer's customer, the dealer is the manufacturer's only customer.

Far from being a burden to the manufacturer it represents, the automobile dealer supports the manufacturer's efforts by providing a vast distribution channel that allows for efficient flow of the manufacturer's product to the public at virtually no cost to the manufacturer.

Appendix A.—Estimated Number of New Car Dealership Employees in 2007, by State

	Total Employees	Avg. number per dealership
Alabama	16,471	48
Alaska	2,292	60
Arizona	29,182	114
Arkansas	8,712	33
California	133,721	84
Colorado	17,076	60
Connecticut	14,388	45
Delaware	4,022	62
DC	32	32
Florida	76,508	81
Georgia	33,858	56
Hawaii	5,105	77
Idaho	5,842	47
Illinois	43,336	46
Indiana	21,778	42
Iowa	12,020	33
Kansas	10,072	39
Kentucky	13,072	44
Louisiana	18,210	54
Maine	5,350	37
Maryland	24,131	67
Massachusetts	23,400	49
Michigan	36,258	48
Minnesota	19,500	45
Mississippi	9,460	39
Missouri	21,603	44
Montana	4,280	32
Nebraska	6,584	31
Nevada	11,025	93
New Hampshire	7,122	42
New Jersey	32,152	56
New Mexico	7,458	53
New York	49,122	44
North Carolina	32,828	47

Appendix A.—Estimated Number of New Car Dealership Employees in 2007, by State—Continued

	Total Employees	Avg. number per dealership
North Dakota	3,196	33
Ohio	40,937	43
Oklahoma	19,979	67
Oregon	14,092	51
Pennsylvania	50,694	44
Rhode Island	3,308	53
South Carolina	15,042	46
South Dakota	3,480	30
Tennessee	22,121	53
Texas	86,828	65
Utah	9,340	61
Vermont	2,783	29
Virginia	33,094	60
Washington	23,317	61
West Virginia	6,227	37
Wisconsin	21,633	36
Wyoming	2,460	35
<i>Total U.S.</i>	<i>1,114,501</i>	<i>53</i>

Source: NADA Data, 2008 Edition

Appendix B.—Relationship of New Car Dealerships to Total Retail Trade in 2007, by State

	Dealer payroll as % of total retail payroll in the state	Dealer employees as % of total retail employment in the state
Alabama	12.9%	7.0%
Alaska	11.5%	6.8%
Arizona	15.2%	8.4%
Arkansas	12.7%	6.7%
California	13.9%	7.9%
Colorado	13.6%	7.3%
Connecticut	14.0%	8.0%
Delaware	15.2%	8.2%
DC	1.4%	0.7%
Florida	15.1%	7.9%
Georgia	13.8%	7.4%
Hawaii	12.0%	6.2%
Idaho	12.6%	7.3%
Illinois	13.8%	7.6%
Indiana	12.9%	7.0%

Appendix B.—Relationship of New Car Dealerships to Total Retail Trade in 2007, by State—Continued

	Dealer payroll as % of total retail payroll in the state	Dealer employees as % of total retail employment in the state
Iowa	13.3%	7.3%
Kansas	13.2%	7.2%
Kentucky	11.9%	6.4%
Louisiana	14.5%	7.5%
Maine	11.8%	6.6%
Maryland	14.7%	8.3%
Massachusetts	12.7%	6.8%
Michigan	15.1%	7.7%
Minnesota	12.3%	6.8%
Mississippi	12.4%	6.4%
Missouri	13.9%	7.3%
Montana	12.1%	7.0%
Nebraska	12.6%	6.9%
Nevada	14.9%	7.7%
New Hampshire	13.9%	7.7%
New Jersey	13.4%	7.2%
New Mexico	14.0%	7.8%
New York	10.5%	5.9%
North Carolina	13.8%	7.5%
North Dakota	14.0%	8.0%
Ohio	12.9%	7.3%
Oklahoma	14.6%	7.7%
Oregon	13.1%	7.4%
Pennsylvania	13.8%	8.0%
Rhode Island	11.9%	6.5%
South Carolina	12.1%	6.6%
South Dakota	13.3%	7.5%
Tennessee	13.4%	7.3%
Texas	14.6%	7.9%
Utah	11.6%	6.2%
Vermont	12.9%	7.5%
Virginia	14.6%	7.9%
Washington	12.1%	7.2%
West Virginia	12.7%	7.4%
Wisconsin	12.9%	7.6%
Wyoming	13.5%	7.4%

Appendix B.—Relationship of New Car Dealerships to Total Retail Trade in 2007, by State—Continued

	Dealer payroll as % of total retail payroll in the state	Dealer employees as % of total retail employment in the state
Total U.S.	13.4%	7.3%

Source: NADA, 2008 Edition

Sources

Casesa Shapiro Group
 Ford Motor Company
 General Motors Corporation
 Honda Motor Co.
 Merrill Lynch & Co.
 NADA Industry Analysis
 Toyota Motor Co.
 Volkswagen AG

Casesa Shapiro Group, New York, NY

APPENDIX B: CREDIT AND THE AUTO INDUSTRY

Credit is the lifeblood for every franchised dealer, and the credit markets are still not functioning properly. Since more than 90 percent of vehicle purchases are financed, adequate retail credit is essential to facilitate auto sales. Additionally, dealers, like many other businesses, need sufficient working capital to maintain cash-flow. Finally, floorplan credit—the financing dealers use to buy new and used vehicle inventory—is essential. These continuing problems are not limited to dealers with domestic nameplates and are not limited to any one region of the country.

Floorplan lending capacity has contracted dramatically during the past 9 months. Most of the captive finance companies have reduced their floorplanning activity, in large part due to liquidity constraints. At the same time, several regional banks have completely eliminated this line of business, and many of the remaining floorplan lenders are not adding any additional dealers. Even creditworthy dealers are having trouble finding access to any floorplan financing or the financing available to them is being offered on terms that are not competitive and not commensurate with the risk to the borrower. In sum, a fear-based retrenchment in floorplan lending is underway throughout the auto industry despite the fact that the typical portfolio of floorplan loans: (1) has an excellent repayment history, (2) is highly collateralized, and (3) has historically carried a AAA rating when securitized.

Moreover, the lack of consumer confidence is a persistent problem, despite the fact that there has never been a better time to buy a new car. The quality of vehicles being sold by our highly motivated retailers is better than ever, with great incentives; but the public is not shopping. The annualized rate of new vehicle sales for 2009 is hovering around 10 million. Even the replacement rate due to salvage is estimated to be at least 12 million per year.

The drop in sales came in response to a variety of factors. Last summer, we had to deal with a massive spike in gasoline prices which dramatically disrupted consumer demand. For several months, the amount of discretionary income and the fear of sustained gasoline prices in excess of \$4 per gallon economy altered consumer preferences so rapidly that the market could not adjust. As the economy deteriorated last fall, consumers naturally were less likely to commit to big ticket purchases. Then came the near meltdown of the Nation's credit markets, and highly publicized problems within the automotive industry. The events of the past year truly have been the perfect storm in auto retailing.

The CHAIRMAN. Thank you very much. I will start the questioning, and again, we will do it in order of appearance, and that's more taxing for some than others.

First of all, I just want to clear something up for the record. I got a note saying that some of the press or some others felt that Pete Lopez, that I been rude to you by interrupting you. That was, I don't think in view of our relationship, that's a fair thing to say. However, for the record, let me just say, that a lot of people come here and testify for the first time, and they have a fairly lengthy

statement and I wasn't sure—I wanted you to get through the part you wanted to get through in 5 minutes.

Mr. LOPEZ. That's OK. I didn't take it that way, Senator.

The CHAIRMAN. I wanted you to have time.

Mr. LOPEZ. Absolutely. I am delighted to be here.

The CHAIRMAN. Mr. Lopez, both Chrysler and GM have terminated their franchise agreements with you, correct?

Mr. LOPEZ. Yes, they have.

The CHAIRMAN. Can you wind down your Chrysler dealership in the 26 days that they gave you?

Mr. LOPEZ. No way, there's no way. I don't think you could do a personal bankruptcy in that amount of time. I have 1.2—I am down to probably 48 cars; 24 of each, and by the way, in February I was told by Chrysler, and I want to tell you the conversation. The representative calls me and says, "I need you to take 35 cars." And I said, "I can't do that. I am not going to put myself out of business." And she said, "Well, you have to. We are in this together." And I said, "No, we are not in this together. I will go through my inventory and I will take I can. I will try to help." She calls back, and she says, "You need to take 23, we can live with 23." And I said, "Well, I can live with nine. I will take nine. I will do my share." And she said, "Well, I will have to call Detroit." And I said, "Well, just give me that number. Let me call them." And she calls me back in 5 minutes and says, "Well, the nine will do."

And I wasn't going to let her put me out of business just like the gentleman beside me; I have employees that I care about. They have been with me from the beginning, and it's just unbelievable how we have been treated. There is no rhyme or reason. In West Virginia there is a dealership that sold 19 cars last year, and he has his franchise in his front yard, and they take Spencer Auto Group. There's no rhyme or reason.

The CHAIRMAN. Mr. Press, if you were an automobile dealer like Mr. Lopez, would you know how to close down a dealership in 26 days? Could you tell me how you would do it?

Mr. PRESS. Well, we are in the process of working through a bankruptcy with Chrysler and we don't have too many more days. It's very difficult. It's strenuous. The fact of the matter is that in our situation, we did not plan or have in our minds the desire to have a bankruptcy.

The CHAIRMAN. I wish you would answer my question.

Mr. PRESS. OK.

The CHAIRMAN. Would you know how to do it; could you do it in 26 days if you had to?

Mr. PRESS. I would have to find a way to do it, yes, sir, I would. I would have to find a way to achieve the shut down required within that time period, as we are being required within our time period that is given to us, yes.

The CHAIRMAN. Mr. Lopez, on January 9, I think it was, of 2009, that being this year, Mr. Press, according to all reports, including newspapers within the business, did indicate what you said, and that is, they got a lot of people on the telephone and said you got to buy 78,000 cars to keep us going.

Mr. LOPEZ. Absolutely.

The CHAIRMAN. What kind of pressure did that put on you?

Mr. LOPEZ. Well, of course, I said to her at the time, our Chrysler representative, I said, "You know, right now I am not—right now I'm sitting on 6 months worth of inventory." For me to take the kind of cars that she wants me to take, I am not going to put myself out of business. I think I am a better businessman than that. I know how to run my store and I know what my store can sell, and what we will sell, and I just didn't want to—why should I put the kind of money on my floor plan? And I did help. We are a small dealer, like I said. I went through the inventory and I told her I would take nine. And I didn't have to take any, but she demanded that we take 35, and then 23 and then the nine and that's what we did.

And then the same thing the next month.

The CHAIRMAN. Did GM threaten any action that if you did not sign their so called wind-down agreement? Did you feel coerced or threatened in any way?

Mr. LOPEZ. No, sir. GM, we did not have that. In fact, GM has a gentleman that I have dealt with, Tony Napoleon, who has just done a great job with us. Now, the letter that you are talking about, as far as the signing by the 12th of this month, we just got that yesterday and I have not had a chance to look at it. But it's my understanding if we don't sign it, we are automatically gone. And by the way, GM sent us paperwork that said we had an appeal process. And I called Mr. Napoleon, who is our district manager, and he told me exactly what to do and how to do it. And I've done it. Now, my understanding, is there is no appeal. There is no appeal whatsoever. So we are all left—you know, from what I hear about the letter, if we sign it, we sign all our rights away. And one time we had a thing in West Virginia where consumers—we wanted to video the closings, so everything was above board. And I think they turned—General ruled on it, that we took away our consumers' rights, and I don't think you can do that. But that's what they're doing to us. They are taking our rights away.

The CHAIRMAN. Thank you, sir. Senator Hutchison.

Senator HUTCHISON. Thank you, Mr. Chairman. Mr. Whatley, did you get a call from Chrysler earlier this year asking you to buy inventory to help the company stave off bankruptcy?

Mr. WHATLEY. Yes, ma'am. And we took full allocation every time and I believe there was 2 months. We actually over ordered allocation, trying to be a good soldier.

Senator HUTCHISON. Mr. Press, I've heard this from other dealers now, several, besides Mr. Lopez and Mr. Whatley, and if the company called and said, "Help us in this," and "We need you to take these cars, and then we will stave off bankruptcy." And then going forward, of course, you're in a bankruptcy now, and the dealers are not getting the assurance that you have given to me and you have said that you have planned to give. It's not forthcoming to them. So could you explain how it is that you are going to take this inventory from the dealers? You have mentioned 89 or 90 percent, but that isn't happening, at least they don't see it. So could you help me with that?

Mr. PRESS. Yes, I will. Thank you.

Senator HUTCHISON. And perhaps help them?

Mr. PRESS. Of course. We have established a program, after we learned of the bankruptcy, that will allow us to redistribute the cars from the affected dealers to those dealers that are going forward, as well as parts and their special tools.

The process will begin when two things occur. Number 1, the terminations take effect, because they are not yet terminated—the effective date has not occurred yet. The cars are not ready to be taken from the inventory of the affected dealers.

And second, a floor plan source has to be put in place for the incoming new dealers. Again, we started that process within 10 days and established a relationship with GMAC. They're putting a floor plan in position as we speak. Over 80 percent of the affected dealers have a floor plan available now to take these vehicles.

Senator HUTCHISON. Do they understand—do they know that, because I'm not hearing that from one dealer that they understand that there is a plan in place that this inventory will be taken.

Mr. PRESS. The dealers do know that. They have been called. We have a log, a phone log confirming the discussion with every dealer, e-mails have been sent. The dealers who have agreed to have that redistribution occur are getting daily status and we have now 97 percent of the vehicles committed by the dealers going forward, to relieve these dealers of this inventory, and about 51 percent of the parts.

Senator HUTCHISON. Mr. Whatley or Mr. Lopez, tell me if that's your understanding.

Mr. WHATLEY. We have had no contact with the business center whatsoever, until June 1, after your office had called them and kind of rattled them. I did get a call then that said, "Rest assured, we will try to come up with a plan to remove your inventory after June 9." I've seen no reports. I have not talked to anyone, except for one phone call that your office did seem to generate from them. I have no other contact whatsoever. I also have the official terms here of the agreement. It says that, "Chrysler will assist in selling cars. They will request new dealers to buy cars. And that Chrysler is only facilitating the sale of the inventories by attempting to identify potential buyers."

On the contract that we signed and sent in, it says, "Dealer understands and acknowledges Chrysler has no obligation and is not responsible for any action or agreement."

Senator HUTCHISON. There is a disconnect here, Mr. Press, and let me add one thing to that. In Waco, Texas, a town of 122,000, all three Chrysler dealerships are being closed. Now the view is that another dealer is going to come in from out of state, not someone who is a part of that community, and new dealerships are going to be created in Waco because there won't be dealers for Chrysler in this town of 122,000.

Help me understand what appears to be an effort to change the contracts with the dealers that are in place, to make better contracts with new dealers coming in. That's what it appears. Am I wrong?

Mr. PRESS. Well, actually, first of all, I would like to address Mr. Whatley afterwards. I'm sure we can take care of his issues. And as I told you, we will be redistributing the vehicles. I can't under-

stand why he did not receive a phone call. We have proof of log that he did. So we will work through that, and I apologize.

Second, we are not changing the contracts to dealers. This is a case where we are trying to bring, first of all, three brands under one roof, because by trying to run three separate brands, and channels and dealer bodies, we have gone broke. We can't do that any longer.

And second, there other reasons for the dealer actions that have been taken. Within that bringing the three brands under one roof, we wanted to do it in a way that we bring the performers along that will allow us the best return on all of our investment.

There are some dealers whose performance is substandard. In this case, we have set, and the dealers realize there is a minimum sales responsibility, based on market share that they should receive in their town.

In the case of the dealers that have been—that have not been taken forward, we will lose—last year we lost 55,000 units of sales in the deficient sales positions. That's about one-and-a-half billion dollars of revenue. It's better in the short term for us, where we have dealers that may not be able to perform to the market standard, to replace them at some point with a stronger dealer.

The dealer is our customer in that market. We realize that, but if they are not able to sell to the level we need to generate more revenue, then obviously—and they are substandard from average—then obviously we need to make a stronger dealer body.

Senator HUTCHISON. My time is up.

Mr. LOPEZ. May I respond to something?

Senator HUTCHISON. Mr. Chairman, my time is up. Would you like for him to answer that question? Mr. Lopez?

The CHAIRMAN. Mr. Lopez, please, but briefly.

Mr. LOPEZ. OK. They were talking about the two parts of the Dodge and the Chrysler, the vans: one is a Dodge and one is a Town and Country. You've got a Dodge version that is less expensive than the Town and Country. We are all under the same roof. We didn't ask them to build those two different vehicles. It doesn't make any difference what they build. We sell them.

The CHAIRMAN. Thank you, sir. Senator Klobuchar.

Senator KLOBUCHAR. Thank you very much, Mr. Chairman. Thank you. I just want to make clear that everyone here wants you to succeed. They want General Motors to succeed. They want Chrysler to succeed. The dealers want you to succeed.

And one of my focuses here is just make the process as fair as possible. Some of our dealers want more time and then some of our dealers feel that they should be able to stay in business because they are profitable.

Mr. Henderson, I do appreciate that General Motors has this appeals process, and that you have been taking it seriously. I know that some decisions have been reversed; is that correct?

And what I don't understand was the interrelationship here with the letters of June 12, because some of our dealers have appealed. They have done everything right. They want to go through this process. They think they have facts on their side, but then if they get this letter that says they have to be done by June 12, are they out then? Can they appeal?

Mr. HENDERSON. Thank you, Senator. Let me see if I can explain both the process for winding down as well as the process for continuing.

The reasons for the dates in this case June 12, has to do with the fact that we are a company in bankruptcy. And it means we march to a timetable—and I will try to make it clear in a moment why there is an aggressive timetable—but we march to a timetable to try to make sure that we understand which dealers come with us to the new General Motors and which dealers are unable to.

So let me talk about the process of wind down. We have gone out to our dealers, as I said, almost half of the dealers signed it the day they received the wind-down agreement. And I respect the fact that it is 12 pages, but many dealers said we accept it because GM structured it with a set of benefits that were overwhelmingly better than they would have if they did not sign it. And that's the reason why we had 85 percent of our dealers, for example, sign up for it in Canada in 5 days.

Senator KLOBUCHAR. OK. I want to get to Chrysler, so if we could just—my real question here, on behalf of my dealers, is can they still appeal?

Mr. HENDERSON. Yes.

Senator KLOBUCHAR. And how will they be able to do that when it's June 12?

Mr. HENDERSON. We are actually working around the clock. We have a team of people dedicated—

Senator KLOBUCHAR.—So they should appeal before June 12?

Mr. HENDERSON. Absolutely. We are dealing with these every single day.

Senator KLOBUCHAR. OK. The other question I had, and we have a—just to give one example. We have examples every where, but we have been told—this is one dealer that is location—location, location, location—which when we have talked to you, that is key. They are located between Toyota and Nissan, on the road, near the Mall of America, 150,000 cars a day, profitable. One of the most profitable dealers in Minnesota, and yet, this is one—they are appealing—that has been decided to be closed down.

So I just want you to have to remember that image in your mind.

My second question is really of you, Mr. Press. You don't have any kind of appeals process. Is there any way you can institute an appeals process at Chrysler?

Mr. PRESS. Our case may be different. I am not familiar with General Motors. What we have done, is we created a new company that will be formed at the end of this process, and the dealers that will be in that new company have been identified from all of the dealers that were with the old company.

In regards to that, we have a limited period of time from when the bankruptcy was filed to when the new company has to be finalized. If we do not have a finalized dealer organization, the new company will not be formed, and the company will have to liquidate.

We also, in terms of the process, the strategic market representation actions, the consolidation of single brands were done from a point of view not as a mistake, or what a dealer has or hasn't done. It isn't up to an appeal from a dealer, it's a strategic market rep

decision of what the new company wants their dealer body to look like.

Senator KLOBUCHAR. And we have many dealers, of course, that invested \$5 million that got the cars when you guys asked them to get the cars, and so they clearly feel that they haven't been treated fairly here. And one of the things, as I look at it, what can we do to help them right now, clearly the time would help them. Some type of an appeals process would help them, and I would say the other thing is I understand you have agreed to purchase these vehicles; is that right? To repurchase them to put them out on the network, but one of their concerns is that while you're going to take possession, the dealership will still have to pay interest on the loans used to purchase the vehicles, and in short, they are going to continue to hold most of the risk. And I wondered what assurances that you can give to the dealers, that Chrysler will actively market these vehicles, and what's going to happen to them? That's what they are concerned about, they are left, really holding the risk.

Mr. PRESS. Of course, and I understand that. And I hope at some point I will get a question I can defend my comment about buying cars, but I will do that later. I respect the time of the Committee.

With regard to this repurchase, the redistribution agreement, obviously, it's in our best interest to control these cars, so they don't get into the used car markets. They don't deteriorate used car values.

Second, we have stopped making cars for the last 30 days—for 30 days, and probably for the next 15 days. Our inventories are the lowest they've ever been since we have kept records in our company. We have plenty of homes for dealers who want to buy these cars, and 97 percent of them have been committed for.

After June 9, the new—the position of our new GMAC relationship, we will be able to take the cars. By the middle of June, we will have the cars for those dealers who have signed the agreement to allow us to take them, they will be gone.

For the dealers that haven't signed an agreement, as soon as they do, those cars will be gone by the first week of July. And we have to control those cars and that's a commitment that we made and we said we will continue—

Senator KLOBUCHAR.—And the parts? The parts?

Mr. PRESS. The parts, we already have 51 percent of the parts committed. We continue to work on those parts, and by the same time period, we plan to have those accomplished as well.

Senator KLOBUCHAR. Thank you.

The CHAIRMAN. Thank you. Senator Johanns.

Senator JOHANNNS. Thank you, Mr. Chairman. We've spent a fair amount of time understanding process. Now I want to dig a little deeper there. Let me start with Mr. Henderson. Mr. Henderson, just in terms of how you got to this list dealers survived, this list of dealers don't. How did you get to that list? Did you form a committee at General Motors or something like that?

Mr. HENDERSON. We have. We went back and looked at history, Senator. We looked at sales effectiveness as well as customer service and a series of other metrics, but the two are the most impor-

tant in terms of evaluation, looking at not simply one year, but going back multiple years.

Senator JOHANNNS. OK. And who headed that up at General Motors? Give me a name.

Mr. HENDERSON. His name is Mark LaNeve.

Senator JOHANNNS. OK. And what relationship did you have then with the Auto Task Force, the Administration as you were working your way through this process?

Mr. HENDERSON. The Auto Task Force was not involved in the process at all.

Senator JOHANNNS. Were they made aware of your process, or did you surprise them, like you surprised the dealers?

Mr. HENDERSON. They were aware of the process, but they were not involved in it, no.

Senator JOHANNNS. OK. Did they ever see any of the documents that were produced?

Mr. HENDERSON. We have not shared a list, for example. We don't have a list of which dealers we've decided to wind down, nor have they seen a list of those dealers that would go forward.

So they're involved in all aspects of our business, but they are not driving this one.

Senator JOHANNNS. I'm not asking whose driving it, I'm asking were they aware?

Mr. HENDERSON. They're aware of the process, yes.

Senator JOHANNNS. OK. Did they ask you to do anything different?

Mr. HENDERSON. In their finding of March 30, I believe, they indicated that they felt our plans in this area were too slow, and that we were not aggressive enough, and that was, by the way, one of a half a dozen other observations which had a similar pattern—that we were not aggressive enough and not moving fast enough. And this was one of the areas where they had that same observation, Senator.

Senator JOHANNNS. And that was the Auto Task Force?

Mr. HENDERSON. Yes.

Senator JOHANNNS. OK. Now in terms of the Administration, who within the White House would you have had contact with on this?

Mr. HENDERSON. Our workings everyday with the Auto Task Force would include, in my case, Steve Rattner, Ron Bloom, Harry Wilson, it's a very small group, so we have gotten to know them pretty well, but those would be the three principal people.

Senator JOHANNNS. OK. And they wanted you to be even more aggressive than what you have displayed?

Mr. HENDERSON. Well, across the board, the view of our plans going into March 30 was that they were not aggressive enough.

Senator JOHANNNS. OK. How much money are you going to save when the dust settles, and I guess these people are forced out of business, and a whole bunch of people like them? Tell me, on your books, how much money you will book as a savings.

Mr. HENDERSON. This is an area, as I said before, it's equivalent to about \$1,000 per car of total distribution costs. We need to work that down over time. There's no way you can point to one individual dealer. It can't be done that way. You have to look at it and say, if you can take a \$1,000 out—if you have \$1,000 per car, you

can over time economize that to \$900 per car, that's a lot of money in our case.

And finally, this is all about actually attracting capital to the dealer body over time.

Senator JOHANNNS. Did you do any cost analysis, where you looked at the jobs lost, the pain caused, the impact on the local communities and said, boy dollars and cents, we win on this one?

Mr. HENDERSON. Well, I think GM's brands win with the right sized—

Senator JOHANNNS.—No. Not asking that. Just asking did you do a cost-benefit, an analysis, an economic analysis of any kind? Is there something you can send to me where I can go back to these people say, "You know, GM looked at this and they are going to save "X" dollars."

Mr. HENDERSON. Individual, location by location, no.

Senator JOHANNNS. Chrysler, did you do that?

Mr. PRESS. We did not go by location. We have it for the total, and the new company's dealer network.

Senator JOHANNNS. OK. What's the total? How much is Chrysler going to save by shutting all these dealerships?

Mr. PRESS. We are going to save approximately \$1.4 billion in development costs, \$200 million per year in marketing and advertising costs and about \$1.5 billion of additional revenue from the substandard market share dealer representation and about—I think it's around \$41,000 per dealer affected, in terms of costs of actually going out and calling on the dealer and having people come and make records and do all of that support.

Senator JOHANNNS. Would you be willing to supply that document to the Committee?

Mr. PRESS. Sir, it's in the—it's included in the written testimony that I submitted.

Senator JOHANNNS. OK. Let me ask a question about the net effect of what you guys are all about. If I had a share of Chrysler or General Motors stock today, what's its value?

Mr. HENDERSON. Its value today for the General Motors would be almost zero.

Senator JOHANNNS. Chrysler?

Mr. PRESS. Also, we have no net worth. We're out of business at this time.

Senator JOHANNNS. And how many shareholders did Chrysler have?

Mr. PRESS. Two.

Senator JOHANNNS. OK. And how many share holders did General Motors have?

Mr. HENDERSON. We had 550 million shares outstanding, so thousands and thousands of shareholders.

Senator JOHANNNS. And they are just out today?

Mr. HENDERSON. Yes, sir.

Senator JOHANNNS. These dealers, what's their dealership worth without the brand, and maybe somebody from the dealership can give me that?

Mr. WHATLEY. Practically zero.

Senator JOHANNNS. Practically zero?

Mr. WHATLEY. For most dealers, Senator, the value of the business would be the franchise value of the real estate. Essentially real estate has been seriously devalued because these are single purpose buildings that will not be re-occupied and the value of the franchise are what we call "good will" or "blue sky," is virtually gone.

Senator JOHANNNS. Let me ask Chrysler and GM, what's the value of the bonds today, the indebtedness? Is it \$.10 on a dollar, \$.15 on a dollar, \$.05 on a dollar?

Mr. HENDERSON. In the case of our bonds, they generally all traded at less than \$.20 on the dollar. In some cases, less than \$.10 on the dollar.

Senator JOHANNNS. OK. And Chrysler?

Mr. PRESS. We have no bonds. The equity holders will receive approximately \$.29 on the dollar.

Senator JOHANNNS. Twenty-nine cents on the dollar. OK. Here's my question. The shareholders basically out of luck, bond holders, pennies on the dollar, dealers not doing any better, and I could go on and on. Does it occur to you that in this process, as you were putting this together with the very large investment of taxpayers' dollars, in Chrysler's case that would be how much?

Mr. PRESS. We've received \$3 billion and \$4 billion for DIP financing, so far, and there will be additional funds coming for the outgoing company.

Senator JOHANNNS. OK. Don't you think there was some justification for Congressional oversight here?

Mr. PRESS. From our standpoint, the reality is our relationship with the Treasury has been one as being a bank, being an investor in our company. They have been excellent to work with in terms of assisting us, as an equity fund would, and the funds have really been invested in a way that the taxpayers' interests have been looked at very carefully.

Senator JOHANNNS. You side stepped my question. Go ahead.

Mr. HENDERSON. In our case, it's \$50 billion, this is what we expect to receive in total from the U.S. taxpayer, number one.

Number 2, our primary relationship has been with the Automotive Task Force.

And number 3, as I said in my opening remarks, it's our commitment to remain very transparent, because we need to be—not only because we are a company in bankruptcy, but because the U.S. taxpayers are our largest shareholder.

Senator JOHANNNS. Thank you for your indulgence.

The CHAIRMAN. Senator Begich.

Senator BEGICH. Thank you very much, Mr. Chairman. Mr. McEleney, can I ask you a question first, just so I understand? Of the GM and Chrysler dealerships, what percentage does your association represent?

Mr. MCELENEY. Senator, we represent about 90 percent of all brands, both domestic and international.

Senator BEGICH. Thank you very much for that. I just wanted to make sure I was clear on the stats. To the two gentleman from Chrysler and General Motors, did you ever have any inclination as you developed, and I will turn to both in regards to the documents that are required for dealers to sign, did you ever have any inclina-

tion to work with the Association to figure out what's a decent agreement that the dealerships could sign?

Mr. HENDERSON. Let me see if I can't deal with both of the agreements. In the case of the wind-down agreement, as I said, we had done a similar exercise in Canada just recently and in our early returns from our dealers who are going to be wound down, and with the appeal process, we think we have a workable approach for those dealers who are going to wind down.

Senator BEGICH. If I could interrupt, it's kind of a no choice deal?

Mr. HENDERSON. It is, but in our judgment, the benefits that are provided in the agreement are vastly superior to the alternatives.

Senator BEGICH. Which is death versus life support?

Mr. HENDERSON. No sir, the alternative is. In this case, what we are going to provide them is the ability to wind down their franchise through October of next year. So they have plenty of ability to take care of customers and we provide compensation to them.

Senator BEGICH. OK. Let me ask you that on October of next year; is that still the same status under the bankruptcy process you are going through today; you will continue to uphold that to 2010, October?

Mr. HENDERSON. In the case of a dealer that chooses not to sign the wind-down agreement, they won't have a contractual relationship with the new General Motors. And in that case—

Senator BEGICH.—So out then—

Mr. HENDERSON.—so the old General Motors would reject their contract.

Mr. LOPEZ. Senator, can I—

Senator BEGICH.—Let me, if I can get Chrysler and then I will come back.

Mr. LOPEZ. OK.

Mr. PRESS. We do not have an agreement. Specifically what we did for our process for redistribution and for the dealer soft landing, is we worked with our dealer council, we worked with a group of other dealers within the company that were intimately familiar with our situation, and we were able to achieve good input, and then we applied it.

Senator BEGICH. Let me, if I can, if I can hold the dealers for just a second. I got to watch my time, but I want to get a couple quick questions in here.

With regards to the dealers, as I asked in my opening questions, there are four components, as I can understand it. And let me tell you, as a former mayor, they are large property owners—large property owners—so you take care of, to some degree, their inventory, parts, tools. But what happens to the investment on their building, as well as their lots, which basically become very obsolete facilities? I was also 25 years in the real estate business. These are properties that, in today's market, are going to be very hard for them—and that's where a big sizable amount of their long-term investments is. Do you have any compensation or opportunities for them, in that regard, in mitigation on any of that front? For me, it's a simple yes or no. It's not a complicated question.

Mr. PRESS. It's a bankruptcy. We have none.

Senator BEGICH. OK. GM?

Mr. HENDERSON. Yes, we do.

Senator BEGICH. So you have some compensation, mitigation for investment that they have in their land and building?

Mr. HENDERSON. We provide 8 months of rent support to dealers in our wind-down agreement, sir.

Senator BEGICH. Rent support. OK. Let me turn to the dealers, again. Do you want to respond very quickly, either one of you?

Mr. LOPEZ. Yes, I want to tell you, a small dealership like us, we pay anywhere between \$1,200 to \$2,300 a month to Chrysler and GM for software, to order our parts. We rent signs. I rent signs that are 30 years old. They put new faces on them, but it's like \$620 a month. You, as a consumer, when you buy that car, it's on the Monroey label for the—to be delivered to us. It does not cost them one thing to send us a car. We pay for the advertising. We pay even for the pamphlets that you come in our dealership show room and take—

Senator BEGICH.—I understand that—

Mr. LOPEZ.—OK. We pay for all of that, but we do not cost them one penny.

Senator BEGICH. OK. Let me go to—

Mr. WHATLEY. I just want to address the vehicle redistribution plan one more time. Last week I sent an e-mail to Southwest Business Center, specifically asking for a definite time line on redistribution. What am I supposed to be doing? What is my plan? The response back was, possibly, we will try have a plan by next week. Next week is the last week. We are out of time.

Senator BEGICH. OK. Let me ask it, and again, I am going to run out of time here. I can feel it. The—in the time lines that have been granted, the June 12th time line, if I got that right, is there any opportunity to expand that; yes or no?

Mr. HENDERSON. In our case, Senator, no.

Senator BEGICH. OK. In the parts of the appeal process that they have before June 9 or 12, whatever that date is again, on appeal process, is there any opportunity to extend that beyond the target date of when they have to sign?

Mr. HENDERSON. No.

Senator BEGICH. Mr. Chairman, I have plenty of questions and I know I have to go to another meeting, but I guess, two documents I would like to have, if they can present them to us. One of them, I think, Senator Johanns asked a question, and that is, in regards to your actual savings that you will achieve, and Chrysler laid that out very in detail. I know I just looked through your testimony and it is kind of scattered through there, I would like a document that actually shows that.

And the same thing to GM. I mean, I recognize your issue about \$1,000 a car. I want to know what you have calculated into the cost factor.

The second thing is, Mr. Henderson, you mentioned—or both of you did actually, kind of a process that you went through to determine dealerships and some criteria you used. And you made a comment, we don't have necessarily a list. You have to have a list. You have to. You just can't say, Dealer A, Dealer B. So I would like, and you can answer yes or no, that you can provide this, a list of how—or the list of the dealers in the order of ranking that you

made in order to make your determination, who is there at the end of the day, and who will not be there.

Now, if you say you don't have a list, I will not believe that. There is no way you could do this without a list.

Mr. HENDERSON. Senator, we have a list, but we have not made it available to anybody because our dealers would prefer not to be identified as to which ones are winding down versus—

Senator BEGICH.—Well, they are going to be identified in—

Mr. HENDERSON. They don't want to be identified today.

Senator BEGICH. Mr. Chairman, I—I would just like to see it and I will leave it to the Chairman of what the appropriate way to get that, but I think it's important for us to understand because this seems to be some great conflict here, and how you created the list, and who is on the top and who is not. And I think it's fair, because the reality is they are all going to know soon—we're all going to know, and we are going to come back to you and ask you again.

The CHAIRMAN. The Senator has made a request for 3 sets of documents. I happen to agree with him. I think they should be produced for this committee, and I am asking Mr. Press and Mr. Henderson if they will so do.

Mr. PRESS. Yes, sir.

Mr. HENDERSON. Yes, sir.

The CHAIRMAN. Thank you. Senator Lautenberg.

Senator LAUTENBERG. Mr. Henderson, you used the term soft landing. And in the short form, would you describe what the soft landing is?

Mr. HENDERSON. Yes, Senator. If a dealer signs the wind-down agreement, they will have until October 2010 to wind down their inventory, so they will have over 12 months to sell their inventory, sell their parts inventory, transition, perhaps, to another franchise. They will be able to use the GM option so they can buy used cars, and they get rent support and inventory support compensation, part upfront and part at the end of their wind down.

Senator LAUTENBERG. Forgive me, but a soft landing ultimately is like a parachute with holes and maybe it will slow down the trip, but the end is going to be terrible. And that's the conclusion one has to come to because as people react to the prospect of GM not being there, not having the parts supply—you may counteract this verbally, but the fact of the matter is the image that is drawn is one that says, "Gee, why do we want to do that? These guys are not going to be around in 2010, how am I going to get part rid of the parts supply? What am I going to be left with?"

You said there may be a take back at that point. I frankly think that a soft landing is wishful thinking at this point, and it's—it is temporarily, maybe keeping things going, but the end is clearly in sight and I think people are just going to get to the time when they are going to have to say to their families, "We don't have the income anymore. We don't have the employees." Would you expect that the employees would hang around until last day so they can continue working, or do you think they might look for something else, to get out while the getting is good?

Mr. HENDERSON. In all due respect Senator, one of the reasons why we—and we will supply it—we have not been public with the list of dealers who will agree to the wind-down agreement is be-

cause we give them 12 to 16 months to determine what they would like to do with their business, without having that hanging over them, sir.

Senator LAUTENBERG. Mr. Press, you apparently said that the dealers either help us or burn us all down. Would having the availability of some degree of financing, do you think it would be a good idea for the company to take back the inventory that's out there in dealer hands?

Mr. PRESS. Yes, and that's why we developed the redistribution process, so we could accomplish that, sir.

Senator LAUTENBERG. But you are saying now you don't have the means by which to accomplish that?

Mr. PRESS. We are. We are 97 percent complete in the redistribution of product and we are—it will be done before—by the June 9 deadline.

Senator LAUTENBERG. Mr. Henderson, General Motors has announced plans to eliminate 1,100 dealers. Under franchise laws in my State, New Jersey, and other states, that companies must compensate dealers and take back the unsold inventory if the franchise isn't renewed. While the bankruptcy proceeding may remove the legal obligation to purchase this inventory, is there a more of an obligation besides following the legal line for your company to take back this remaining inventory from dealers? Because you talked about when—sightings of the foreign car competition was coming around, and it's too bad the GM leadership at the time didn't see the handwriting on the wall; but is there, again something beyond the legal obligation to step in and take back the remaining inventory?

Mr. HENDERSON. Sir, as I said, if the dealer signs the wind-down agreement, they will be able to wind down their inventory over that period of time.

If they don't wish to sign the agreement, if they floor plan their vehicles or get their wholesale financing with GMAC today, they have the right to voluntarily terminate their agreement, return the vehicles to GMAC and it's our responsibility to redistribute the vehicles with GMAC; a responsibility that was confirmed on Monday through the bankruptcy court.

Senator LAUTENBERG. I want to ask either of you, Mr. Press, Mr. Henderson, the industries fell behind as overseas companies developed vehicles that were more fuel efficient than those made in Detroit. Oil prices rose. You were stuck with trucks and SUVs that few people wanted. And now President Obama has proposed strict new efficiency standards. How can you assure us with a degree of reasonableness that you will be able to make these more fuel efficient cars and trucks, to help your companies return to profitability, when all of these years there was no credibility given to your assessment of the marketplace, or your engineering to beat the competition?

Mr. HENDERSON. Senator, in our history, we have never missed a CAFE standard or a fuel economy standard in the U.S. or abroad.

Senator LAUTENBERG. You know what kind of fight there was here about that?

Mr. HENDERSON. Just recently—I understand. Second, just recently, as part of the industry, we threw our weight fully behind

harmonizing more aggressive and more stringent fuel economy standards. Not only GM, but the industry pulled together, and we are quite confident that the men and women of General Motors will deliver vehicles which meet all those standards and excite customers.

Senator LAUTENBERG. I am sure that men and women will deliver what is put out there, but the leadership showed that it didn't understand what it was going to take to be competitive.

Mr. Press, do you want to comment?

Mr. PRESS. Yes. Senator, in our situation, our new company has an alliance with Fiat. And Fiat will be the operating entity within the company. They have the highest—the best performance of all European manufacturers in CO₂. Their technology is all available to us. We are already at work to adopt that technology, to build it in American plants. And in fact, the equity incentives that they have are based on the introduction of very high-mileage technology, engines and products in U.S. plants.

Senator LAUTENBERG. Lord, help us. Thank you very much.

The CHAIRMAN. Senator Dorgan.

Senator DORGAN. Mr. Chairman, thank you very much. The one disagreement that I have heard here, among others, is that the auto manufacturers have responded to the dealers by suggesting that the dealers are a cost center, or implying that the dealers are a burden. The dealers have said quite the opposite, quite the contrary. It seems to me, to the automobile manufacturers, you don't have a business without dealers. I mean, you can manufacture, but if you don't sell them, you are out of business.

So the dealers, it seems to me, are an asset. And I was looking at the statement on page five, Mr. Press. You talked about examples of lost revenue and cost associated with, in this case, discontinued dealers, but I assume you would associate them with the continued dealers as well. The overwhelming costs are not costs that are local to Mr. Lopez or Mr. Whatley. Product Engineering and development for sister vehicles, \$1.4 billion over 4 years. Those are decisions you made, not the dealers. I mean the decision to build a Town and Country and the Dodge version of that, and you have both of them, that's your decision and not their decision. But lost sales due to dealer under-performance, \$1.5 billion annually. And so I am going to ask a couple of questions on cost burden and so on.

But you are eliminating dealers. Waco, Texas, my colleague says you are going to eliminate the Chrysler dealerships in Waco, Texas. Are you going to replace them with new dealers?

And then another question for both General Motors and Chrysler, how many are in a position where you are just going to eliminate the local dealership, and then replace them with other dealers because you felt the local dealer was under-performing?

Can you provide us a number?

Mr. PRESS. First of all, with regard to the multiple sister platforms, we had to do six of those, and they are not our request. It is because we have stand-alone dealers. If there is a Jeep or a Dodge stand alone only dealer, and we don't do a Dodge version of the van, then they can't be supported.

We have stopped making those, and the dealer body stand-alone is not viable any longer. So that's the reason for it. And the cost.

The answer is we can provide you with a list. It's not a large number of those points that we are going to go back into, but I can give you that number.

Senator DORGAN. Would each of the companies provide us with the number of the dealerships that you are going to close, and that you will then replace because you felt the current dealerships were under performing?

I want to ask Mr. Lopez and Mr. Whatley, you heard the manufactures suggest that you are a burden and a cost center. You say you are not.

Mr. LOPEZ. Yes, sir.

Senator DORGAN. They say they advertise for you, they—

Mr. WHATLEY.—I have brought dealer billing statements for the last couple of months, showing everything that we pay, and it's everything from paper clips to signs to training, a whole lot of things I don't even what they are. We just pay it every month.

Senator DORGAN. Do they send somebody around every now and then and check up on you; is that right?

Mr. WHATLEY. No, they send us—it's electronic billing statements. We are billed every month.

Mr. LOPEZ. They just take it out automatically.

Mr. WHATLEY. They take it out automatically. You have no choice.

Mr. LOPEZ. You come in one day, and your account will be less \$6,000 for parts of a vehicle that you have to work on.

Senator DORGAN. I understand that you are leasing their signs and doing all those things, but they are also saying that we send the regional or local rep around to check up.

Mr. LOPEZ. We don't have one.

Senator DORGAN. You don't have one?

Mr. WHATLEY. I haven't seen—I don't even know who our rep is anymore. We haven't seen one in so long.

Senator DORGAN. OK. So that's not so expensive, is it?

Mr. LOPEZ. No. We don't have one. They call us on the phone.

Mr. WHATLEY. And we are billed for everything.

Mr. LOPEZ. By the way, I paid \$480 for my—and Chrysler is in bankruptcy. I paid \$480 this month so my certified mechanics could take a test on the computer, \$480.

Mr. WHATLEY. And Senator, I just got a bill yesterday for \$200 for sales training for next month, when I am not even a dealer.

Senator DORGAN. All right. Well, some things are counter intuitive to me, and I understand that you want to change your dealership network. That is your responsibility, not the government's. I understand all that.

And yet—I don't know much about big cities. That's not what I know much about, but I know areas out there, where somebody is selling 5, 8 cars-a-month. A good small business that some would probably say from a pie too small to matter, but a business in the community that's making a little money, doing some service, brand loyalty under customers. In my hometown, you've got people that stopped at the Regent Garage—they would only buy Chevrolet and Case Tractors for the rest of their lives. It's just—they wouldn't

stop anywhere else. When it's time for a car, they go back to the Chevy. Time for a tractor, they go back to the Case. They never think of buying a John Deere. And the same is true on the other side, for other dealerships in small towns.

So what I don't understand is if the local dealers are not a burden, and it seems to me in this back and forth, boy, they are not much of a burden to you at all. It seems to me they represent the ability to sell what you manufacture, even the smaller ones. It's counter intuitive that you would decide, you know what, I am going to limit the ability to sell out there by reducing the number of people that are going to sell. You know, I went through a master's degree in business and so on, and they never taught that. It seems to me that you would want to maximize the opportunity to continue selling a product that has been piling up on the lots.

Mr. Whatley, do you have a comment?

Mr. WHATLEY. If—say we stock about 65 new cars. The dealer next to me is 30 miles away, he's completely full. He is already stocking everything he can stock. He is up on his floor plan. He is full. By eliminating me, that other dealer is not going to order one extra vehicle. He don't frankly care if I am there or not. He's doing all he can do. So they just lost my 65 cars to production. You multiply this by 800 dealers, how much production are they losing?

Senator DORGAN. All right. Mr. Lopez.

Mr. LOPEZ. Well, I want to respond to what he said about as far as the cars that they made us take. They are sitting there—he says 97 percent that is taken care of. No one has called me. I haven't heard a thing. At that time, I had 41 cars. Now I am down to 24. And I am selling them and I am not going to take a loss on them. I can't afford to. I am a small dealer. I am selling them at net, and I will do that. No one has called me and said, "Can we help you? Can we send them to another dealership?" We've done it all on our own.

Mr. WHATLEY. We've seen nothing.

Mr. LOPEZ. And also, I want to tell you, when you talked about the representative. There is no representative from Chrysler or GM. It's all done by phone, by computer.

How about our inventory that we have in stock? I have \$138,000 worth of parts from Chrysler, and 128 in General Motors. They are going to be worth nothing, not one penny. How can they say we cost them anything? We don't cost them a penny. In fact, we are their face. We are out there. And in our community, I sell cars and I am delighted to represent them. I want one thing—one question answered. If they do take our franchise, can they—can they and will they give us first option, if they decide to open up in that area again? We, as a dealer, I am a profitable dealer. I have never been reprimanded. I got awards. If they decided 2 years from now, to put a Chrysler dealership in Spencer, West Virginia, can it be me; why won't it be me?

Senator DORGAN. Mr. Chairman, my time is—I have taken more than enough, but I appreciate the testimony, and I think we would very much like to get some reports back from you about your inventory, parts inventory, auto inventory—

Mr. LOPEZ.—I would be glad to—

Senator DORGAN.—and how it is dealt with.

The CHAIRMAN. Thank you, Senator. Senator Snowe.

Senator SNOWE. Thank you, Mr. Chairman. Now Mr. Henderson and Mr. Press, was—in response to, I think it was Senator Johanns' question about economic analysis, Mr. Henderson, did you say that you did not perform any economic analysis dealer-by-dealer in making these decisions?

Did either of you perform an economic analysis using specific criteria by which you made these decisions in targeting these dealers?

Mr. HENDERSON. The criteria used, Senator, were first sales effectiveness. So the dealers that were notified for wind down have been consistently under performing in terms of sales effectiveness. We feared we might make mistakes, however, and that's why we have the appeal process.

And second, their customer satisfaction has generally been below average by a significant degree, for a significant period of time.

Senator SNOWE. Well, that's certainly contrary to some of the dealers that I have heard of in terms of where they ranked. In fact, I cited one specifically. So it is truly puzzling, given the fact that in the State of Maine, just so you understand, more than 50 percent of the registered vehicles are either GM or Chrysler. And yet, we are going to have some of the largest counties in Maine without any dealerships. It simply—it doesn't make economic sense.

And it goes to the question that Senator Dorgan raised. The conversation among dealers in Maine, and rightfully so, is that there is speculation that eventually that you will come in and substitute your own dealers, eventually. Because it does not make sense where you are cutting out these dealers. It simply does not make—there is no economic rationale. I don't know where your economic rationale is, but it certainly didn't find itself in Maine.

Mr. HENDERSON. A couple comments. First, in terms of our coverage in rural areas and smaller towns in the U.S., when we're done with this process, we will have between 1,500 and 1,600 dealers in these towns. We will still have far and away, the broadest distribution system of any manufacturer in small towns.

Senator SNOWE. You know, I guess it's all relative, but that's not going to be true in Maine. OK? And you got loyal customers and you got loyal dealers, so the fact that it is relative, broadly speaking isn't going to help the situation in Maine, looking at the map. And this is what this is all about. And looking where you are doing it, you know, even the more prosperous counties. You are concentrating one dealer in the most populated area in the city, the largest city, and some don't have—some of the counties don't have any. And that's a wide stretch of geography, just in that part of Maine, let alone in the more rural parts of Maine.

Mr. HENDERSON. Yes, ma'am.

Senator SNOWE. So there's not going to be any service for these vehicles. That's the bottom line here. And therefore, I do not understand how that's going to enhance your ability to expand your market share down the road in the future, not to mention the treatment of the auto dealers.

And I have to say, it's back to this wind-down agreement. Can you imagine having to fill this out? Now I have heard from dealers that said we have an appeals process. I have heard that referenced here. But from what my dealers have told me, that yes, they sent

them in—because you get the notice May 14 that you have by May 28—and oh, by the way, you have to get them back within—I guess it was by June 2 or something like that, and they have a 2-day turn around in response to that appeals, in which case there were no appeals accepted. And I wonder, are there any appeals nationally that you have accepted?

Mr. HENDERSON. Senator, the date is June 12. Yes, there are appeals we have accepted.

Senator SNOWE. Well, they got their responses when the turn around was 2 days, from when they sent it and they got it back. So it must have been a very quick review.

Mr. HENDERSON. We are trying to do these quickly, but we have reversed our decisions.

Senator SNOWE. So did you accept any of the appeals?

Mr. HENDERSON. Yes, we did.

Senator SNOWE. You did? How many did you accept?

Mr. HENDERSON. Through yesterday, 11.

Senator SNOWE. Eleven out of all the dealers across the country?

Mr. HENDERSON. Yes, over 500 people appealed, and we are continuing to go through them as we speak.

Senator SNOWE. And what's your cost savings in all of this?

Mr. HENDERSON. As I said, one of the criteria was sales effectiveness. These are dealers on average, and I understand we have to look at individual cases, which is why we have an appeal process, but on average, these are dealers who have under performed relative to their peers.

Senator SNOWE. Well, you know, and just Mr. Press and Mr. Henderson, you say that and that's—that also sounds well and good, but these are individuals who have been faithful, and the one I cited for 80 years, and that's been generally true, 80 years with GM dealership, 80 years. And relocated, because at the urging of GM to move—at the urging of Chrysler—actually, one dealer told me Chrysler was actually begging them to buy cars last year to avoid bankruptcy.

And let me ask you one other question. You have indicated that GM will be capable buying back the inventories from as many as 80 percent of the closed dealerships; will you be buying back parts and special tools as well?

Mr. HENDERSON. In the case of parts and special tools, we expect at the conclusion—if they signed the wind-down agreement—at the conclusion of that wind-down agreement, they shouldn't have parts. They would have no problems. We don't plan to repurchase parts.

The tools, at that point, in our judgment, should be fully amortized.

Senator SNOWE. Mr. Press?

Mr. PRESS. In our redistribution plan, we do plan to have parts, vehicles and special tools taken from the dealers that are not going forward and brought into the new dealers.

Senator SNOWE. Thank you.

Mr. LOPEZ. Senator, may I respond to that?

Senator SNOWE. Yes, you may.

Mr. LOPEZ. As far as the parts and the tools, what we have—we did get an e-mail that said that it was up to us to sell them to other dealers. And of course, they are going to come in and offer

us ten cents on the dollar. I haven't seen anything else that says Chrysler or GM would buy them back.

Mr. PRESS. Obviously we have a communications issue. We have information—

Mr. LOPEZ.—We have a big one—

Mr. PRESS.—So I will address both of these gentlemen. I would be very happy to do that. It's our failure for not communicating appropriately to them. Thank you.

Senator SNOWE. Mr. Henderson, any response to that?

Mr. HENDERSON. The same.

Senator SNOWE. Thank you, Mr. Chairman.

Mr. MCELENEY. Mr. Chairman, I know it's not my prerogative to ask the questions, but a question came up earlier about the go forward agreement that I addressed in my testimony that I don't think we had an opportunity to hear a response to explain or defend that agreement, the 4,000 dealers will be obligated to going forward; if I may ask?

The CHAIRMAN. I guess you just did.

Mr. HENDERSON. I am happy to answer the question, Mr. Chairman, if you would like. The answer is we distributed that agreement this week. We have a meeting set up with the NADA Friday, where we intend to discuss with them the parts of the agreement that they have the greatest objections to and we're confident we will find a resolution to this, as we always have. So that meeting is Friday. We tried to pull it forward, and we will make judgments and decisions quickly, and try to address the legitimate concerns of the dealers. Thank you.

The CHAIRMAN. Thank you very much, Senator Snowe. Senator Brownback.

Senator BROWNBACK. Thank you, Mr. Chairman. I hope people watching this see the problems with having government run a private sector business. When you try to get these questions answered in this sort of hearing, I think that's why we are in such a difficult, deep, problematic situation today. But the government is the big owner now, here, and so we've got a lot of questions. I don't like the process, just overall that this is, but we are where we are.

I want to ask, if I could, particularly Mr. Press and Mr. Henderson, I have had the dealers, again, in my State and where I bought my Town and Country Chrysler minivan, he says to me, "Look, we don't cost these guys a penny. We don't cost these guys a dime." Yet, obviously you have enumerated some cost, and I think in Mr. Johanns' case, you are saying what they are.

Why not go in bankruptcy a different route on this? Instead of cutting free these dealerships, why not say to your lower performing ones, as you have articulated and found them, "We can't afford to subsidize and support you, so therefore, we are not going to provide the network of money and backing to you that we are going to provide to a higher performing category?" So that you are not just cutting them free on this, because you have two guys over here saying—and they look like they are pretty good salesmen to me, frankly—

Mr. LOPEZ. Senator, they don't subsidize us.

Senator BROWNBACK. What's that?

Mr. LOPEZ. They do not subsidize.

Senator BROWNBACK. Well, but they are saying they have got costs associated with this large dealer network, and you guys are saying there is not a penny associated with us. Why not then bifurcate the structure in your bankruptcy filings so that you can maintain this dealer network that's out here, that's very important to many communities, and very important to rural communities, but you see cost associated with it? Why not look at it that way?

Mr. PRESS. Maybe I could start, sir. I appreciate the question. It's not a cost issue. That's not the basis. In our situation, the dealer body that we're working with, the 3,100 dealers was established right at a time when our people—

Senator BROWNBACK.—Well, I am going to get cut on time. If it's not a cost issue, then why are you even messing around with it?

Mr. PRESS. I will get to that very quickly. This dealer body number was established when we were selling over two million a year. The new company coming out of bankruptcy will sell 700,000 a year. If we try to take 700,000 units of revenue and spread it over the dealer body necessary for two million revenue, the dealer body isn't—is not—

Senator BROWNBACK.—Wouldn't they atrophy themselves over time then, and why wouldn't you let it take the natural course and you just feed the healthier and not the least healthy?

Mr. PRESS. OK. Because first of all, we are no longer able to produce separate models to support stand-alone dealerships. They all have to be under one roof. We don't have the money in our plan, and we will no longer spend the money. They will not have individual products.

Second—

Mr. LOPEZ.—We are under one roof.

Mr. WHATLEY. We are one roof also.

Mr. PRESS. There is a number of our dealers who are not under one roof.

Second, it is important to note that the deficient volume dealers are costing us substantial money in markets that we should be doing a lot more business in.

And third, I think even more importantly, a weak dealer that's close to another dealer cost them both money because they can't have enough profit, they can't have enough training, they can't have enough of an organization.

Senator BROWNBACK. OK. But if that's the case, why not let them fight it out? That really doesn't matter that much to you. Does it?

Mr. PRESS. Great point, sir. For the last 10 years we have told the dealers, which dealers would be in our Genesis program going forward, and which ones wouldn't. A number of dealers have made their deals and have gone through the process. Slowly we have done 100 or so a year. We are out of time. Because of—and a large factor in our bankruptcy is an inefficient, ineffective dealer body. We are now bankrupt. The new company will not have the same problem going forward and that's in the taxpayers' best interest.

Senator BROWNBACK. Mr. Henderson, your wage and benefit structure is going to be down, now with where Toyota and Honda is, in your labor structure through your bankruptcy?

Mr. HENDERSON. Yes, we believe we will be competitive with Toyota, sir.

Senator BROWNBACK. Your numbers will be the same, roughly, on your wage and benefit structure?

Mr. HENDERSON. Yes.

Senator BROWNBACK. That's not what I am seeing in the numbers that I have. I will have to look at that in the bankruptcy filing.

What about just providing more for the better one and less for the poor ones, and you let this atrophy? Because we are at the—the reason we are stepping into the auto market anyway is because we're in a catastrophe right now, as a country and as an auto industry. So that's why we are providing the parachute for the overall automakers, when a lot of us don't like that idea in the first place anyway. But this is a catastrophe.

But then you go out and really exacerbate it in smaller communities, cutting off small businesses, and it seems like the consistent route here for us to go through this would be, OK, you provide the same, slower glide path on this that we're trying to do with the auto manufacturers, and that that would make more rational sense, given the amount of Federal dollars that we are putting into this overall industry sector.

Mr. HENDERSON. Let me see if I can't address each of the points, Senator.

First, in our case, with all due respect to my colleagues and partners here, 67 percent of the dealers who have received wind-down agreements were unprofitable, and substantially so last year.

Second, we spent a lot of time talking about small markets. In fact, the disproportionate impact of the GM actions are in metropolitan markets, where, if you look at this, this has been our past. We basically let the dealers work through the issue over time, and we end up with the situation today, for example, where we have some major metropolitan markets with far more dealers than our principal competitor, Toyota, and we greatly under-perform because no single dealer is able to perform the scale. Toyota has three or four dealers in a major metropolitan market and they grossly out perform us. And no other dealer is prepared to step in and make an investment in a major metropolitan market because they say "There are too many dealers, so there is no way I am going to justify putting capital into a General Motors franchise. We are going to put it into a Toyota franchise." That's what has been our history, and that's not a method over time that we can really operate in, because, in the end, there are a whole host of issues.

Again, we have very good market position in rural markets and I fully understand that we may have made some mistakes, but the lion's share of sales in the United States are in major metro markets. There, we grossly under perform. In part, it's because our dealer system is not properly structured.

The CHAIRMAN. Thank you, Senator. Senator McCaskill.

Senator MCCASKILL. Thank you, Mr. Chairman. I think, Mr. Press, one thing we have discovered today that there has been a significant breakdown of communication, as it relates to your plans to relieve these dealers of their cars, and replace them with the dealers going forward. And these two gentlemen have said that

they didn't know it. I am betting there are others that don't have all the accurate information. So I think one thing we have learned from this hearing is you have got a task in the next 24 hours, and that is to check the phone log and the e-mail log and make sure that you have communicated clearly with all of the dealers, that you have, in fact, moved 97 percent of the vehicles and are on a path to provide some kind of specific assistance as it relates to tools and parts.

Mr. PRESS. I will do that, Senator. Obviously, Mr. Lopez, I would like to work with him. He had somebody contact him because he did refuse to sign our agreement, and I would like to work with him so we could communicate.

Senator MCCASKILL. OK. Fair enough. Quickly Mr. Whatley and Mr. Lopez, what brands do you sell, Mr. Whatley?

Mr. WHATLEY. Chrysler, Dodge and Jeep.

Senator MCCASKILL. OK. And Mr. Lopez?

Mr. LOPEZ. I have Chrysler, Dodge and Jeep, Chevrolet, Pontiac and Buick.

Senator MCCASKILL. OK. And Mr. McEleney, is it McEleney?

Mr. MCELENEY. Yes, it is. That's correct.

Senator MCCASKILL. Could you give me a percentage—what percentage of your dealers in your association are multipoints, across manufacturers?

Mr. MCELENEY. I am not sure I can answer that. I can tell, for example, 45 percent of the Toyota dealers also have General Motors franchises, just for one example. The average dealer has roughly two dealerships on average.

Senator MCCASKILL. In my former life, my first husband and his family had car dealerships, so I know a little bit about that. We had Pontiac, BMW and Chevrolet. And I know a little bit about the car business and under capitalization and some of the problems and the struggles, and I know the long going fights between the mother ship and the dealers. There have been lots and lots of battles over the years. And I understand the passion and the pain here. But I think we all have to acknowledge that these companies are broke, and they are not going to succeed unless they get smaller. And we have got to figure out a way forward that's fair to the dealers, but at the same time, I don't think we can micro-manage and insist they stay bigger. That's why they went broke.

So let me ask this. This is a difficult question, Mr. Press, but I have looked in the—I have—we've got some information that came to us back channel about the DIP budget, and this is the debtor in possession budget in the bankruptcy. And it talks about the budget for the old company. And what troubles me in there, there's an acknowledgement that there may be up to 15 employees of old Chrysler working on this bankruptcy, and there is a pool in this budget of up to \$20 million for bonuses. I can't imagine what kind of kick in the gut that would be if we were to learn in the next 2 weeks, that some of the old Chrysler folks, which are getting paid their salaries, which they should, you guys are doing hard work; but if there is \$20 million in bonuses for as few as 3 to 5 people that are associated with old Chrysler, I think that would be a huge—I mean, I think the pitch forks would come out and I think there would be a real problem. And I know I asked you about this

yesterday. Have you learned anything more about that, and can you shed any light on that?

Mr. PRESS. No, Senator, I did make an inquiry.

We were not able to find testimony. I can only speculate and I think that would be inappropriate at this time. I will do my best to see if we find out concretely what that information is relating to.

Senator McCASKILL. Well, I misspoke yesterday. It wasn't in testimony, but it is in the preliminary DIP budget, debtor in possession budget, that has been circulated and that has been talked about, and I believe your CFO has referred to it in various meetings, so I think we need to get to the bottom of that, and sooner rather than later. I know everything is on a fast track here, but that needs to be also.

Let me also bring up briefly something that is not directly related to the dealers, but rather for you, Mr. Henderson, going forward, I understand that you guys are going to do a 363 bankruptcy, similar to Chrysler?

Mr. HENDERSON. Yes, ma'am.

Senator McCASKILL. In almost an unprecedented fashion, there has been a decision made in the Chrysler bankruptcy, that if somebody buys a Chrysler car 6 weeks ago, and there is a defect in that car, there will be liability in the new company for the recall costs, for the warranty costs. They will be required to fix the car. But because of that defect, a child loses their life because of an accident, or if a man loses his legs because of an accident, there is absolutely no where for that person to turn. Now that to me, seems like a very weird result. And it is very unusual in bankruptcy to have absolutely no requirement of insurance for any kind of defects that may be there, especially if the product is going to be carried forward.

I need to know on the record, Mr. Henderson, if you all are going to seek that same kind of immunity for existing claims and potential claims for any cars that have been sold prior to the closing of your bankruptcy?

Mr. HENDERSON. That would be our expectation, yes.

Senator McCASKILL. Well, I am very troubled by that. I don't get how we can afford to fix the car, but if someone loses their life or limb, there is no liability.

Mr. LOPEZ. They will come back on us dealers.

Senator McCASKILL. And that's another entire issue that needs to be discussed. So I think that's something we need to continue to ask questions about, and I think that it is probably something—and by the way, I have understood that since this happened, we have had several companies go back and make filings for 363's now, thinking that they can come in and absolve themselves of any liability that might have for defects, and I think that's very troubling going forward. And I know I am out of time, Mr. Chairman. Thank you.

The CHAIRMAN. Senator McCaskill, if I could just follow up. In the sentence where you said, "That would be our intention." That doesn't get you very far in West Virginia. I mean, it's either yes or no?

Mr. HENDERSON. Yes.

The CHAIRMAN. That helps. Senator Thune.

Senator THUNE. Thank you, Mr. Chairman. Thank you all very much for being here today. And to Mr. Press and Mr. Henderson, it has got to be uncomfortable for you to have to come here. It's uncomfortable, honestly, to have you here because it means that we're doing something outside the realm of what we know about. I don't think anybody here has any particular, with some exceptions, any particular expertise in the car business. I certainly don't profess to, but you find yourself now with a Board of Directors, essentially, of 535 members, and you have to be subjected to all these questions, which I am certain you feel are micro-managing your business. But we are now partners, and as partners, these are the types of questions that you get to answer.

And I appreciate Mr. Press, you sharing with me a little bit about what your intentions are with respect to my State of South Dakota. You had indicated that there are 7 dealerships that will be closed in South Dakota. And I might add, too, just for point of reference, in a small state, like mine, and in a lot of small communities, the car dealership really is the center of gravity for the entire community. You not only go there to buy cars but, in my hometown, it's where people go in the morning to have coffee, to talk about the game last night. It really is so important in terms of just not the economic vitality of these small communities, but also, in a lot of respects the cultural center of our communities.

But you had mentioned that there were 7 dealerships that you thought you would close in South Dakota, but that you intended to re-establish these so-called Genesis Chrysler dealerships in 5 of the 7 South Dakota communities or towns. My question is, if there are five dealers that are being closed—will the five dealers that are being closed in some of these communities have an opportunity to obtain those dealerships? This question sort of gets to the point that Mr. Lopez made about if you are going to create or establish a dealership in his community, he would like to have the opportunity to get that dealership. And I am not sure his question got answered.

Mr. PRESS. Yes, they will have the opportunity.

Senator THUNE. What's the rationale for completely closing dealerships now, if you plan to have a larger presence in the same area in the near term?

Mr. PRESS. What that does is it provides the opportunity to put it in an optimal location, that may serve multiple communities, much more efficiently. The dealer will become much more profitable, and they will have all three brands under one roof, which allows—if you have a fixed cost for one brand, and you bring in the revenue of Jeep and Dodge into a Chrysler dealership, you have a much more profitable, much stronger dealership going forward.

Senator THUNE. Do you also want to end relationships with some of the 789 dealers that are on your list to close?

Mr. PRESS. Some of the criteria does include a very substandard performer that is costing us quite a bit of volume and revenue by under performing the market. In some cases, that exists, and those dealers are being replaced.

Senator THUNE. But you also just said that they would have a chance, if you open a dealership in their community?

Mr. PRESS. Yes, sir. The dealers will have a chance—we will give the dealers an opportunity, and in particular for those that have single line stores that go into a tri-branded store, obviously those would as well.

Senator THUNE. Right now we have the Auto Task Force, we've got, of course, U.S. Treasury Secretary Tim Geithner, the White House, a lot of folks involved in the decisionmaking process. I guess I am curious in knowing what role, if any, did any of those entities—and by that, I mean the Treasury Department, Secretary Geithner, the White House, the Auto Task Force have in the decisions leading up to the announcement of GM and Chrysler dealership changes? Because on March 30, the White House issued a briefing on the restructuring plans. And I know specifically for GM it said, "The company is currently burdened with under performing brands, name plates, and the excess of dealers. The restructuring plan does not act aggressively enough to curb these problems."

Was the Administration applying pressure to do something with the dealerships, either of your companies?

Mr. HENDERSON. Senator, I think I responded to Senator Johanns earlier, certainly in the March 30 report, amongst other things, not solely in this area, the conclusion was we had not acted aggressively enough, or fast enough. The actual decisions leading up to what has been launched recently, though, they have not been involved in. They just made the comment. It was their observation that we were not aggressive enough in this area and they felt that we needed to do more. And we have.

Senator THUNE. Can either of you affirm that you don't plan to use the bankruptcy as a means to void dealership contracts above and beyond? The GM plan was announced well before you entered into bankruptcy. Can you reaffirm that this is not just simply a way to void dealership contracts?

Mr. PRESS. First, I would like to respond to your question on the Treasury.

Senator THUNE. Oh, I am sorry. Go ahead and respond to that. That would be great.

Mr. PRESS. The Treasury was not involved in any way of the selection or the development or the guidance on the number of dealers that we should be addressing. They were made aware of, on a courtesy basis only, the process, so they would be aware of it for answering questions.

Second, this is not a way for us—this is not a—bankruptcy is not a way that we are using to void contracts. In our case, it's a little bit—it's different from General Motors. We actually—the old company still exists and is no longer functioning. We are building a new company, and in that new company, a selection of the dealer body for that new company is being made. Those are the dealers that are going forward.

Senator THUNE. I don't know how much time I have left, Mr. Chairman—to direct one question to—

The CHAIRMAN.—Actually, none.

Senator THUNE. None? OK. All right. Then I would yield back.

The CHAIRMAN. But I don't want you to feel bad.

Senator THUNE. Don't worry. I don't feel bad, and in spite of your answer, I welcome you back, Mr. Chairman.

The CHAIRMAN. Thank you. I have a question I want to ask. Others may, there are just a few of us here. There is a meeting that we've got to go to, but I just got to ask this. Mr. Press, unless the *Automotive News* is some—you know, agent of the KGB or something, they did report that in January of this year, in a conference call with your dealers, you said, "You have two choices." And that's been pointed out. "You can either help us or burn us all down. Why? How? Get 78,000—buy 78,000 cars." Chrysler. Buy 78,000 in 1 month to help the company. But many of them felt coerced to buy cars that they didn't need to because they knew Chrysler was considering cutting additional dealers. In other words, there is a whole question of was there any ethical consideration on your part? You knew exactly what you were doing. Yes, January is different than June 12, but now it's all very clear to Mr. Whatley exactly what you were planning back then. And it strikes me that you have not been forthcoming. You know, Mr. Lopez can't possibly absorb that. So now you are forcing the terminated dealerships to sell those vehicles in 26 days, which is 6 more days.

Now you say you have made a lot of progress in reassigning those vehicles. You have said that quite proudly. My question to you is will you commit here today to buy back any cars that are left after June 9?

Mr. PRESS. I must address the *Automotive News* comment at some point. Is this the time? May I have approval to do that?

The CHAIRMAN. Go ahead. The floor is yours.

Mr. PRESS. OK. Thank you, sir. I appreciate that. Because I want to be responsive to your question, but I think it's important.

The *Automotive News* is not a KGB agent. They are the newspaper for the industry. And they reported correctly the comments that were made, but not in context. Our company had just come through the December period of time with no production and no revenue. We had less than \$2 billion of cash in the bank. February 17th was the viability plan submission to the U.S. Treasury to get a bridge loan to continue to operate and negotiate our alliance.

In the month of February, we needed 78,000 units of production to at least keep the company operating to the point that we could get the extension of a loan from the U.S. Treasury. And the fact of the matter is, I love the dealers. I love this company. And because of that, I made it clear to them that if we don't buy the cars now, we will lose everything in February. If we buy the cars now, and we gave them substantial incentives to buy the cars and retail them, not to hold them, in a manner that we could generate cash, and my comment was that if 70 percent of the dealers had already taken the challenge—it's like a fire, a bucket brigade—70 percent of the buckets have water in them, 30 percent don't. Don't burn us down. Let's all get in this and let's not get bankrupt. Let's not have to do this to the dealers. And that was our desire. And that was the comment that I made. And I still wish that we hadn't gone through this process, and I wish we could employ all the dealers and add more.

The CHAIRMAN. I have great trouble believing that you actually believe that with those 78,000 additional purchase requirements that that was somehow going to make a new world for Chrysler. I just don't believe that.

Mr. PRESS. It did work. We did not go broke and liquidate in the month of February.

The CHAIRMAN. Quite as quickly.

Mr. PRESS. No, we did not. We did not liquidate. And I think it's important to know. The reason we are here, Senator, is a meteor hit the industry and it's a third less than it was. Nobody can cope with that unless they are able to continue to get cash. And that's why we needed the February 17 deadline. We got that. We were able to save the company. We've got bankruptcy, DIP financing, and soon we will have a new alliance with a new company, and we will save the company. And if we hadn't done that in February, none of us would be here at Chrysler.

The CHAIRMAN. But the car dealers will be—and I am thinking of Mr. Lopez right here—Spencer, West Virginia, 3,800 people are going to be left with the inventory and the parts and they are not going to have any help whatsoever from you.

Mr. PRESS. We will. We have taken the challenge and we will redistribute the inventory of cars and parts. And we will continue to work with them after June 9, and yes, Senator, we are committed to take virtually every car we can, and redistribute it. The 97 percent that we have already gotten commitments for is a pretty good signal that we are serious about delivering on that. Yes, sir.

The CHAIRMAN. And continue to work with them means what to you, Mr. Lopez?

Mr. LOPEZ. I just don't know. Right now, what I want to respond to was if their whole intention is to put Chrysler, Dodge and Jeep under one roof, and I am that. And I am a profitable store. They have asked me to make some changes for our software. I have. If I have to make some changes for my building, I will be glad to do that. I am looking—and it's not personal. It's not just for me or my income. We are a profitable store. But our community, just like you said, and that's—and I want to thank you. I appreciate everything that you do for us, Senator. You look out for us and that's why we are here today. And if I seem intense, it's because my livelihood and my community cares about what happens to Spencer Auto Group. And I thank you.

The CHAIRMAN. I thank you. Senator Hutchison.

Senator HUTCHISON. Thank you, Mr. Chairman. I just want to come back, because I hear you saying 90 percent, 97 percent are going to be transferred, and you have that out. You have the information out and yet, I've heard from these two, from Mr. Whatley and Mr. Lopez, but also from other dealers, that they have not heard this. They don't have a comfort level that they are going to be taken out. So many of these dealers, I am told, are selling at fire sale prices to the surviving dealers and that's not right.

And when we left here 10 days ago, I thought that was going to be avoided because of your commitment to work with the dealers. So there really is a disconnect that I want to connect right now. Why don't they and others know that they don't have to sell at fire sale prices: not parts, not specialized equipment, not inventory?

Mr. PRESS. I know only of Mr. Lopez's situation. I don't know about Mr. Whatley, but we have had communications with the dealers and offered them the opportunity to enlist our assistance in the redistribution process. The majority of the dealers signed an

agreement, allowing us to do that. A small number of dealers have not. They are preserving their effort through a legal effort to stop this process. We went ahead and got commitments for that inventory anyway. And as soon as they sign the agreement, they will be notified of how the status of their inventory is, and if you would like, I would more than happy today to discuss that directly with Mr. Lopez, because I think it's important that this transparency be known.

Senator HUTCHISON. Well, you said earlier that you appealed to the dealers and because Mr. Whatley took everything you asked him to take, every time you asked, you're not—you didn't go into bankruptcy earlier this year, you are now, but here is Mr. Whatley. I hear what you are saying and I hear what they are saying, and it's not the same thing. So we want—

Mr. WHATLEY.—I just don't understand the 97 percent. I don't doubt Mr. Press at all. I think they may have identified 97 percent of the vehicles, but I have talked to—I talk to 10 to 15 dealers a day, from East Texas to West Texas, and no one has heard a thing from the business center. No one has seen a report. No one has been inquired about their inventory. No one has even asked what inventory they have. I just don't know where this 97 percent is coming from.

Senator HUTCHISON. Mr. Press, can you today tell every Chrysler dealer that got, the 789, that they do not have to sell at fire sale prices, that they will have a communication from you, that you will arrange—that you have arranged for 97 percent, or whatever the percentage is, for the transfer, so they know? Can they count on that right now?

Mr. PRESS. Absolutely yes, and as soon as the dealers who haven't signed a release allowing us to take that responsibility, we will provide that to them directly as well.

Mr. WHATLEY. But see, everything about this is a request to other dealers to buy. There is no actual firm—they are requesting other dealers to buy the inventory, and they are going to try and assist in the sale, but there is no actual plan. The dealers, every dealer's biggest fear is that on June 9, we lose all options on these cars. We can no longer sell them. No can no longer dealer trade them. They have no incentives, no rebates, no warranties. They are just planter boxes on June 9th. Our biggest fear is that on June 9, Chrysler will attempt to relocate these cars, and we get a call on about June 12, June 13, saying, "Fellas, we did our darnedest and we just couldn't get 'er done. Good luck."

What are we supposed to do at that point?

Mr. LOPEZ. Or they sell them for \$12,000 and they are \$25,000 cars. And we have to pay off our floor plan.

Mr. WHATLEY. Yes, because on the report it also says that dealers will pay for any loss or deficiency on the final sale of the vehicle. I am scared that that means that we are just going to end up going to the auction, and whatever they bring, you pay us the difference and there you go.

Mr. LOPEZ. We have to pay the difference.

Mr. PRESS. I am sorry, gentlemen.

Senator HUTCHISON. Mr. Press, Mr. Press?

Mr. PRESS. We have published to those dealers who have signed the release exactly how much money they will be paid. They are paid everything that they have in the car, except for a charge for inspection and transportation, and in fact, we do not plan to have the dealers left with the cars. We must take them so we can control all of the residual values and put them back into our system. And as I said, right now, our inventory is the lowest it has ever been since we kept track. Since we are not building cars, there is a substantial demand for these vehicles, and I think the disconnect may be only talking to those dealers trying to preserve a legal case who have not signed the release, that would be the same information. But the bulk of these dealers who have signed the release, they would have good information, and I would love to keep communicating with these gentleman.

Mr. WHATLEY. Senator Hutchison, I did sign the release, and I was informed by the business center, mine was the very first one in, so they have had it plenty long enough to get me a report.

Senator HUTCHISON. Can I just count, Mr. Press, on your word today that you have made in this public forum, to every dealer who has signed the agreement, that they don't have to sell at fire sale prices, and they don't have to have the fear that has just been stated by both of these dealers?

Mr. PRESS. Absolutely, yes.

Senator HUTCHISON. Thank you.

Mr. LOPEZ. Thank you.

The CHAIRMAN. We have been joined, gloriously and happily by Senator Bill Nelson, who has not even had a chance to ask a question, much less make an opening statement, which I know he is not going to do.

**STATEMENT OF HON. BILL NELSON,
U.S. SENATOR FROM FLORIDA**

Senator NELSON. Mr. Chairman, I did not make an opening statement. I will submit it for the record. But I just have one question, and I would like to address to the two CEOs. Between the two of your companies, you received \$80 billion in bailout, and you have now, between the two of your companies, requested another \$36 billion. That's \$116 billion. Now, if you quibble with the numbers, whatever it is, it's large. And so, what I would like you to address because of the failures of the management of your two companies, a lot of people are losing their jobs. And I would like for you all to address the mechanics that are losing their jobs, the clerical workers, the kids that do the detailing of the cars, and the salesmen, and please, share with them, where did all that bailout money go?

Mr. HENDERSON. In the case of General Motors, the monies that have been received so far, Senator, have been used to finance the losses that we incurred, this year and late last year. And with respect to the monies that will be dispersed to us pursuant to the bankruptcy, it would be our expectation to use them to both fund losses and restructure the business. That's how the monies will be used.

Mr. PRESS. I can't confirm the amount. I think our company is around \$15 billion or so, so I am not sure what the amount is. It

would sound much bigger. From our standpoint, we are spending about \$100 million-a-day of DIP financing, through the bankruptcy. That's one of the reasons we need to get through that. That's taxpayer money. And we utilized the initial funds for the fact because of the meteor hitting the industry, and we are in a depression, and there is insufficient volume to be able to pay the cost to keep the companies afloat, we did find and were given approval for an alliance and a new company to be formed with Fiat, that will give us a new product line, a new company, a new start, and a return on an investment to the taxpayers that will be much better than most investments they'll have.

Mr. HENDERSON. Senator, just to clarify, our number is also big, so your second point is absolutely right. I didn't understand where the first number came from, but that's beside the point. Your point is absolutely right. It's our responsibility, as it is in Chrysler's case, to justify not only the support we were provided by the U.S. taxpayer, the Canadian taxpayer; the taxpayers of Ontario, that will be the principal shareholders of the company, as well as the beneficiaries of a healthcare trust to get their healthcare from the stock, if you will, to justify the confidence, to perform, to deliver value for them, and to make the sacrifices that are being made today worthwhile, so we only do it once. Thank you.

Senator NELSON. Well, you see, we have to ask ourselves the question in trying to protect the interest of the American people. We committed an awful lot of taxpayer money to try to save all those jobs that are now being cut. And a lot of the condition that you find yourself in is because the executives were too hard-headed over the course of the last three decades, when many of us were begging with you to make higher miles per gallon, to do cars that would revolutionize the transportation system of personal people, and that would compete with what you saw was happening. But you wouldn't do that. And each year we tried a simple little thing like raising miles per gallon, a combination of the automobile lobby, aided and abetted, I might say by the dealers, in combination and cohort with the oil industry, beat us back every time. If it had anything to do with higher miles per gallon, we got beat.

As a matter of fact, on most of the innovations, the automobile industry of America was the last to bring in innovations. And let me give you an example. Back in the early 1980s, we had forced the automobile industry to start experimenting with airbags. And there just happened to be in one of those experimental vehicles that the owner did not know, because it was put in there for that purpose. A grandmother and her granddaughter in a head-on collision on Highway A1A in Satellite Beach, Florida, and the grandmother and the granddaughter walked away from the wreck. What dramatic testimony on behalf of airbags. And yours truly, who was a member of the House of Representatives at the time, begged and begged to get airbags because there was demonstrable truth that it worked.

But no, it was too costly. The American public didn't want it and so forth. It's another indicator of the choices of management that have led us to this day, where \$116 billion of taxpayer money is going in, and people are still losing their jobs.

So, Mr. Chairman, I get a little worked up, but I don't like to see our people suffer like they are. I don't like to see—it was earlier talked about—Tamiami Chrysler Dodge. Now as I understand it, you all are working something out. They are Hispanic. You want them to move to another location, but you are still going to put them on the list next week.

I don't like to see Sunshine Dodge going out, with all those jobs. This, of course, is personal to us because we live in those communities. And here we are, the U.S. Government having been seduced and cajoled and fooled, Mr. Chairman, for years and years and it has led us to this point.

The CHAIRMAN. Very well said. Senator Klobuchar.

Senator KLOBUCHAR. Thank you very much. I will be brief here. I just wanted to make one point that I have heard from some of my colleagues about being uncomfortable because of this unique situation. And I just want all of the witnesses to know that we have had hearings before that don't involve a company that have received government funds. We have had hearings about—I was just thinking back. We just had one on the newspaper industry and how we could try to figure out if there is changes to the laws to help them. We have had hearings on the Delta-Northwest merger, hearings on Chevron, hearings on pro sports players and their pensions. So I just wanted to say to the Chairman that I don't think it's uncomfortable to be talking about this. We would rather not, we would rather not be here right now, but our job as the Commerce Committee is to deal with peoples' jobs and companies and the livelihoods of people. So I just wanted to make that point because people have kept saying about their level of discomfort. This is what we are supposed to be doing.

And along those lines, my focus here is on, I mentioned some our dealers here, Laurel Nelson. I notice that there are a lot of women dealers as well. And George McGuire from Shakopee, and these people, and I am very focused, as I have noticed that Senator Hutchison is on the nuts and bolts or this, or maybe we should say the windshield wipers and the tire rims, just trying to figure out what we can do here. And so just to summarize here, what we have here is some commitment that we will—a commitment that from Chrysler, that in fact, it's very clear that you are going to redistribute these parts and they are not going to have to pay cheaper prices; is that right? And can you tell them that they are going to be sold?

Mr. PRESS. We will tell them that they will be redistributed, both the vehicles, the parts and the special tools.

Senator KLOBUCHAR. But you are not—you can't commit that they will be sold, even though they bought, some at your urging? Do you remember when there were a number of our dealers that were told please buy these to keep Chrysler alive, you know, back earlier in the year? So they bought more cars than they might have otherwise.

Mr. PRESS. We will—redistribution would be selling those cars from the dealers that are not going forward to the dealers that are going forward. They will be sold to those dealers.

Senator KLOBUCHAR. And what do you think the chances are that they are going to be sold? So redistribute to you means 100 percent commitment that they will be sold?

Mr. PRESS. They will all be redistributed.

Senator KLOBUCHAR. Sold?

Mr. PRESS. They will all be redistributed. They will all be sold to other dealers, if that's—I don't want to get caught up by terminology.

Senator KLOBUCHAR. So they will get their money?

Mr. PRESS. They will get their money for all of the cars that are redistributed.

Senator KLOBUCHAR. Then—I am just going to get what I can here. Mr. Henderson, also you said that you would commit that this appeals process would happen, and that you have already said that a few of the decisions have been reversed. I don't think that anyone is Pollyannish about this. They don't think every decision will be, but you—that GM will be looking at these decisions, and in good faith?

Mr. HENDERSON. Senator, you have our commitment in that regard.

Senator KLOBUCHAR. All right. And then your situation is that if these people sign the agreements that they then—the cars, you are going to buy back these cars and parts?

Mr. HENDERSON. In the case they sign the wind-down agreements, we have every confidence that they will sell down the cars and parts in a 16-month period.

Senator KLOBUCHAR. And then, we don't want to get here, but if they are closed down, they will—and you do reopen, you won't commit to them, but they will be in the running to be a new dealer; is that what you are saying, both of you? I am just trying to figure out—Senator Hutchison's Waco example, where you are shutting down all three dealerships—my guess is they are going to have a dealership in Waco?

Mr. LOPEZ. Excuse me, Senator. He just guaranteed that to us, Senator Rockefeller, 10 minutes ago.

Senator KLOBUCHAR. OK. Very good. Well, thank you, Mr. Lopez. I am just summarizing everything, because it's always good to get it once, twice, or three times; don't you think, like all those signatures you guys require when we buy cars? OK.

So that the plan here would be that they would be able to be a dealer, and we feel we have some profitable dealers in Minnesota that would be very interested in doing that. So that's—any other commitments that we can get here, for helping these guys?

Mr. HENDERSON. Everything we will do, as I said, is in our continuation agreement. We will be meeting with the NADA this week, Friday actually, to address their concerns about our continuation agreement for those dealers who will be going forward with us. Thank you.

Senator KLOBUCHAR. OK. Very good. And one last question, just for you Mr. Press. I know it is getting late. Did Fiat require you guys to reduce the number of dealers?

Mr. PRESS. Fiat did not require a number. The agreement does have a new dealer organization, a viable dealer organization going

forward is one of the requirements, and we are producing that. They did not require a reduction.

Senator KLOBUCHAR. OK. Thank you and thank you for your time.

The CHAIRMAN. Thank you, Senator. And our final question will be from Senator Johanns.

Senator JOHANNNS. Mr. Chairman, thank you. How many, Mr. Press, how many minority dealers are going to be put out of business by your action here?

Mr. PRESS. The minority dealer reduction is exactly the same of the total dealer body reduction. Actually, the share of dealers that are minority dealers increases a small amount.

Senator JOHANNNS. I am not interested in share. Raw numbers, tell me how many are going to be out of business.

Mr. PRESS. Thirty-eight.

Senator JOHANNNS. Thirty-eight? Mr. Henderson, how many minority dealerships will be out of business because of your action?

Mr. HENDERSON. Of our 230 minority dealers who are in the brands that will go forward with us, 44 will be affected by this action, or 19 percent, which is less than the average, sir.

Senator JOHANNNS. OK. You talk about the Auto Task Force putting pressure on you to close more dealerships. The report on March 30 criticized you for not being aggressive enough. Did you have a plan or a notion prior to March 30 as to how many dealership General Motors would close?

Mr. HENDERSON. Two things changed, sir. One is we actually accelerated our brand rationalization. So, for example, we have dropped the Pontiac brand, which brought forward a series of actions that we otherwise would have taken later, number 1.

And number 2, our plan called for us arriving at about the same level of dealers at the end of our business plan period, which was 2014, and the view was that was too long, that we needed to actually move faster on this, which we did. And so we will arrive at roughly the level that was in our original plan by the end of 2010, not 2014.

Senator JOHANNNS. OK. So you have aggressively accelerated it as a result, partially, at least, to the criticism you received from the Task Force?

Mr. HENDERSON. We knew what the right business decision was. The question is what time? So, yes, we took the action because we thought it was the right thing to do, but in fact, we needed to and did take into account the findings of the Task Force.

Senator JOHANNNS. So as a result, how many dealerships that might have been given three, four more years were now accelerated?

Mr. HENDERSON. Some part of them, again, as I said, Senator, were driven by our brand decisions. So those were company decisions that had nothing to do with the Task Force. And with respect to the acceleration, it would be hard for me to actually put the number on it, but I would think you would say probably 500 to 1,000.

Senator JOHANNNS. Five hundred to 1,000?

Mr. HENDERSON. Yes.

Senator JOHANNNS. And I am assuming you know, today, although I would prefer not to say this, today I represent 1.7 million people in Nebraska who own your company, 60 percent at least, when it is all said and done. I don't think that most of them want to own your company. But having said that, I am assuming that when the government now speaks, you are going to pay attention. After all, we are the owners.

Mr. HENDERSON. In our case, sir, with 60 percent held by the taxpayer, we absolutely need to respect that, yes.

Senator JOHANNNS. OK. Now let me ask you another question, if I could. State franchise laws, I am a former Governor, we worked with these dealers. You know, they worship with us, they buy groceries with us. They are a part of our community. And I will tell you personally, I buy vehicles based upon the trust they create, not on the fanciness of their dealership, to be very blunt about it. I think most people feel that way. So when you look at going forward, how are you going to factor in small communities, where maybe they are not selling a lot of cars, but they are contributing to the community. They do support the softball program, or are they just out of luck now?

Mr. HENDERSON. Senator, as I said, in the case of General Motors, of about the 3,600 dealers, in the mid point of the range, about 1,500 of them that will be in the small towns in the U.S. and we will have, by far, the largest footprint still, even with the reductions.

Senator JOHANNNS. Those jobs are nearly impossible to replace. Having been a Governor and a mayor, I can tell you that.

Let me wrap up with this, and I will ask you both this question. I have heard what you have kind of represented and promised, but I have to tell you, just to be honest with the dealers in the room, I think you are going to walk out of this hearing today, and 95 percent of what was decided before hearing started isn't going to change. They are still going to lose their dealership. We may work with them. You may work with them. Not me, you may work with them a little bit more, but in the end, they are going out of business, aren't they? Mr. Press? And don't give me a long answer. The gavel is going to come down. Just give me a yes or no.

Mr. PRESS. Yes.

Senator JOHANNNS. Mr. Henderson?

Mr. HENDERSON. Yes, sir.

Senator JOHANNNS. Thanks.

The CHAIRMAN. Those were thoughtful and helpful questions. In closing, I should point out that Senators Lincoln, Senator Nelson of Nebraska, and Senator Kohl of Wisconsin had asked for the Committee to pursue a line of questioning surrounding the closing of the dealerships, presumably in their states. Without objection to these statements, questions on their part would be a matter of the record.

Also, without objection, all full statements of Committee members will be included in the hearing record. And at the advice of my distinguished Ranking Member, if members have questions, further questions, they would like to be able to get them to you and have them—and this may be hard, but it can be done—have them answered by Friday.

Are you willing to do that?

Mr. HENDERSON. Yes, sir.

Mr. PRESS. Yes.

The CHAIRMAN. Good. Finally, I want to thank everybody for being here. It's a long hearing, a lot of emotion, a lot of things weren't said that people wanted to say. It was a tough hearing, but it was sort of at the very fulcrum of where we are going in America, or where we are not. Who is going to make it and who is not. How are our systems working? How are we paying attention? And I consider it a very valuable hearing. I considered the audience a very courteous audience, and the panel, all of them, helpful and straightforward with us. Having said that, this hearing is adjourned.

[Whereupon, at 5:52 p.m., the hearing was adjourned.]

A P P E N D I X

PREPARED STATEMENT OF HON. JOHN F. KERRY,
U.S. SENATOR FROM MASSACHUSETTS

For many months now, we have followed the very public struggles of the Big Three Auto Manufacturers. Perhaps no other industry has felt the pain of this economic recession as acutely as the U.S. auto market. Last month, that pain found its way into just about every community in America as Chrysler announced the termination of its relationship with nearly 800 dealerships.

In my home state, we are seeing the effects of 12 of those terminations. As a result, hundreds of jobs will be lost and millions in income and state tax revenue will vanish. Dealerships that have stood for decades in towns across Massachusetts and across the country will be forced to shut their doors and workers' families are wondering what happens next. And just this week, we learned that 1,100 General Motors dealerships will meet the same fate at the end of 2010.

For the dealerships that received notices in the mail and for the millions of employees that have built careers and lives around them, there can be little consolation. As part of the massive restructuring that is required to sustain a viable and competitive U.S. automobile industry, short-term pain at every level of the supply chain is unavoidable.

But during this process, we need to take every step to make sure that the pain is minimized, and that the dealerships and their employees do not bear undue hardship as a result of the rules of the bankruptcy process. Ranking Member Hutchison introduced an amendment that I cosponsored during the debate on the Supplemental Appropriations bill to block Federal aid payments unless the termination date for Chrysler dealerships was extended. I also wrote to Secretary Geithner expressing my concerns and asking for his help to prioritize and preserve as many jobs as possible and to limit the impact on workers and their families.

I hope that we hear a commitment from both manufacturers today that steps will be taken to ease this transition, and I will continue to work with my colleagues to examine every possible approach for mitigating the pain at the end of the supply chain.

CHRYSLER LLC
Auburn Hills, MI, June 12, 2009

Hon. JOHN D. ROCKEFELLER IV,
U.S. Senate,
Washington, DC.

Hon. KAY BAILEY HUTCHISON,
U.S. Senate,
Washington, DC.

Dear Chairman Rockefeller and Ranking Member Hutchison:

Thank you for the opportunity to respond to the concerns raised in your June 9 letter. As I highlighted last week at the Senate Commerce Committee hearing, it is critically important that the new Chrysler Group have a viable, realigned dealer network on day one. Despite a painful restructuring, Chrysler Group LLC will retain 86 percent of Chrysler dealers by volume and 75 percent by location. I can empathize with the dealers who were not brought forward into the new company, and can understand their disappointment. This has been the most difficult business action I have personally ever had to take.

The concerns you have raised are addressed in order below:

Vehicle Inventory, Parts and Special Tools

Regarding the concerns you have outlined relative to inventories, parts and special tools, Chrysler has made a commitment to its discontinued dealers that 100 per-

cent of the inventory on their lots will be purchased at cost minus a \$350 inspection, cleaning and transport fee. Through a letter dated June 5, 2009 Chrysler informed all discontinued dealers that we will guarantee the re-distribution of 100 percent of eligible vehicle inventory. *We have successfully found buyers for 100 percent of the outstanding vehicle inventory, and dealers requesting our assistance have received commitments for 80 percent of their parts inventory. We will continue to work with the discontinued dealers to redistribute their parts inventory for the next 90 days. After that time we will commit to repurchase remaining qualified parts inventory from those dealers at the average transaction price for all parts already redistributed. We will also continue to work to redistribute all remaining special tools.*

Dealer Terminations and Market Re-entry

While some profitable dealers were not retained by Chrysler, it is important to note that profitability alone is not an adequate measure and is one of several elements that determine a dealer's viability and value to Chrysler. The factors we considered in making these decisions included:

- Total sales potential for each individual market
- Each dealer's record of meeting minimum sales responsibility
- A scorecard that each dealer receives monthly, and includes metrics for sales, market share, new vehicle shipments, sales satisfaction index, service satisfaction index, warranty repair expense, and other comparative measures
- Facility that meets corporate standards
- Location in regard to optimum retail growth area
- Exclusive representation within larger markets (Dualed with competitive franchise)
- Opportunity to complete consolidation of the three brands (Project Genesis)

Dealers may be profitable while not meeting their Chrysler new vehicle "minimum sales responsibility" level. For example, a dealer may focus on maintaining a low cost structure through a lack of modernization, a heavy emphasis on used vehicles, lack of investment in training and capacity. Therefore, a dealer could be profitable while not meeting their new vehicle sales and customer satisfaction obligations.

Also, we understand and value the loyalty and experience represented in many of the discontinued dealers. As we consider market re-entry or expansion in the future, *Chrysler Group LLC will commit to provide non-retained dealers with an opportunity for first consideration of new dealerships that the company may contemplate.*

Providing Transparency in the Decision-making Process

To achieve the necessary realignment, we used a thoughtful, rigorous and objective process designed to have the least negative impact while still creating a new dealer footprint scaled to be viable and profitable for the long-term. Factors in the decision-making are outlined in the second question above.

Upon request, we will share with any dealer the rationale and specific data used in making the decision on the dealer separation.

Consumer Protection

Bankruptcy is a very difficult process requiring hard choices and painful decisions. The bankruptcy process has impacted all existing stakeholders. With a failed enterprise, there are many who suffer significant losses. Traditionally in a bankruptcy, liabilities such as product liability claims are not carried forward into the new enterprise. The judge found this decision to be within the debtor's sound business judgment, and it is a customary bankruptcy outcome. Any product-related claims arising from vehicles sold by the New Chrysler will be addressed by the new company. This is consistent with the goal of a Chapter 11 bankruptcy, which is to create a framework enabling a vibrant, sustainable new company to emerge.

Consumer Access to Service in Rural Areas

There will be over 2,300 remaining Chrysler, Jeep and Dodge dealerships conveniently located with the parts and trained technicians to service consumers' vehicles. Based on registration data, our customers reside an average of 6.28 miles from the nearest Chrysler, Jeep or Dodge dealer now; this distance will increase to 6.80 miles after the consolidation. With regard to rural dealers, the distance increases from 9.72 to 10.70 miles. Even with the consolidation, our dealers on average are more conveniently located to customers than Toyota or Honda dealers are to their customers.

Additionally, we will consider companion facilities to address potential sales and service issues in areas of concern. Chrysler will send a letter to all customers notifying them of the four nearest dealers who can provide service. It is not in Chrysler's interest to abandon existing customers to the detriment of future parts and new vehicle sales.

Customer Convenience Comparison
Average distance in miles a customer must drive to reach a dealership

	Old Chrysler	New Chrysler	Change	Toyota	Honda	Chevy	Ford
Metro	4.45	4.82	0.37	5.01	5.11	4.10	4.23
Secondary	6.08	6.44	0.36	7.38	7.58	5.69	5.76
Rural	9.72	10.70	0.98	19.27	24.27	8.04	8.69
<i>Total</i>	<i>6.28</i>	<i>6.80</i>	<i>0.52</i>	<i>9.11</i>	<i>10.31</i>	<i>5.58</i>	<i>5.81</i>

Placement Assistance for Chrysler Technicians

Chrysler is sensitive to the job loss associated with the non-retained dealers. In an effort to assist employees, a job posting website is currently being developed in partnership with Careerbuilder.com. This website will list jobs that are available at Chrysler dealerships nationwide to the extent such information is provided to us. Additionally, there will be a resource section to provide "how to" tips on items like resume building and job interview techniques.

Again, I appreciate your concerns and want to assure you that we are doing everything we can to support the dealers that are not going forward and to ensure that the new company going forward is successful.

Sincerely,

JAMES E. PRESS,
Vice Chairman and President.

cc:

Senator Daniel K. Inouye
Senator Olympia J. Snowe
Senator John F. Kerry
Senator John Thune
Senator Byron L. Dorgan
Senator Roger F. Wicker
Senator Bill Nelson
Senator Sam Brownback
Senator Maria Cantwell

Senator Mike Johanns
Senator Mark L. Pryor
Senator Frank R. Lautenberg
Senator Amy Klobuchar
Senator Claire McCaskill
Senator Mark R. Warner
Senator Mark Begich
Senator Barbara Boxer
Senator Tom Udall

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN D. ROCKEFELLER IV
TO JAMES PRESS

Question 1. In your testimony, you stated that Chrysler will terminate multiple franchises in several specific areas, then open a new, large dealership under different ownership that covers that same area. How many current Chrysler, Dodge and Jeep franchises are scheduled to be closed down and then replaced by a new dealership after Chrysler leaves bankruptcy? Please list the name and address for each of these dealerships.

Answer. There were 152 dealerships rejected that will ultimately result in 119 Chrysler Jeep and Dodge dealerships. (The list of dealers is in Appendix A.)

Question 2. Several West Virginia dealers have asked why terminated Chrysler dealerships cannot continue to serve as Chrysler service-only centers that do not sell new cars? Is Chrysler open to having former Chrysler dealerships service cars in rural areas where the next Chrysler dealer is hours away?

Answer. Chrysler and its dealers agree in the Sales and Service Agreement that only authorized Chrysler dealers are permitted to perform warranty work. Permitting warranty service by non-franchised dealers would adversely impact the financial performance of remaining dealers. Further principal reasons for this requirement are to provide for proper performance of safety and emissions recalls, and for customer satisfaction. Consequently many state franchise laws prohibit service operations without a new vehicle franchise.

Question 3. Can terminated Chrysler dealers continue to purchase used Chrysler cars through Chrysler's "closed sales"?

Answer. Not retained dealers will still be able take advantage of the many open auctions but they will not have access to closed auctions. Providing such access would adversely impact the ability of the remaining dealers to maintain buy and sell this product.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. DANIEL K. INOUE TO
JAMES PRESS

Question 1. I thank the leaders of Chrysler and General Motors, and auto dealership owners from West Virginia and Texas for coming to Congress today to testify about the termination of auto dealerships across America and its impact on many U.S. workers. As a result of these terminations, American consumers face a number of disadvantages, namely less competition among dealerships, less access to original manufacturer parts, longer distances to service centers that can perform original warranty service, and longer distances to service centers for specialist repairs.

In my home state of Hawaii, the matter is not as simple as the inconvenience of driving to another town or another city for auto parts and services. Island Dodge, a Chrysler dealership on Maui, received notice of termination from the manufacturer, and was given 17 business days to close, and that action has grave effect on both Island Dodge and its employees, as well as Maui Chrysler car owners. Car owners calling the customer service line have been instructed to contact service centers on the island of Oahu, and the cost of shipping alone from Maui to Oahu is more than \$300. I would like to find out on behalf of these car owners how Chrysler plans to provide warranty work on vehicles located on Maui when the only authorized Chrysler dealership on that island is being closed.

Answer. Discussions are underway with a local service provider in this market. Customers will be able to have all service needs addressed, including warranty. A communication plan is in effect to advise owners of this service facility.

Question 2. I am also told that Chrysler will not purchase the expensive inventories of parts and special tools that can only be used on Chrysler, Dodge and Jeep products. I wish to inquire what plans Chrysler has to help dealerships wind up business, and whether Chrysler will, in earnest, assist companies like Island Dodge to transfer parts and tools inventories to dealerships that are not losing their franchise, and to do everything that Chrysler can to prevent isolated franchises like Island Dodge on Maui from being left with owning Chrysler parts and tools.

Answer. Yes—Chrysler will assist Island Dodge with the re-distribution of vehicle inventory, parts and special tools (they have signed the Inventory Assistance Acknowledgement Form.)

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN KERRY TO
JAMES PRESS

Question 1. Please explain in detail the specific criteria and information you are using to decide on what dealerships and plants to close.

Answer. With respect to Dealerships:

The decisions made to either continue or discontinue dealer contracts were based on a consistent process that looked at all market types, Metro, Secondary, and Rural. This analysis reviewed many factors that are unique for each market and dealer.

These factors included:

- Total sales potential for each individual market
- Each dealer's record of meeting minimum sales responsibility
- A scorecard that each dealer receives monthly, and includes metrics for sales, market share, new vehicle shipments, sales satisfaction index, service satisfaction index, warranty repair expense, and other comparative measures
- Facility that meets corporate standards
- Location in regard to optimum retail growth area
- Exclusive representation within larger markets (Dualed with competitive franchise)
- Opportunity to complete consolidation of 3 brands (Project Genesis)

Plant closure decisions are largely based on industry volumes and forecasted demand. As Jim Press mentioned, we are going to be a much smaller company by volume when the new company emerges from bankruptcy. This significant reduction in volume translates to plant actions.

Question 2. What assistance (financial and support services) does Chrysler plan to provide to the thousands of displaced workers and their families?

Answer. As we have stated previously we anticipate that most not retained dealerships will remain open because of dual franchisees and used vehicle sales. We are establishing a website to help place dealership employees who lose their positions—helping them to transition to dealers who will be continuing with us. Due to our current financial situation, we cannot provide any financial support to the displaced workers and families. In normal circumstances, we could not compensate displaced employees of independently owned businesses and we do not have the funding to make an exception.

Question 3. I understand that your dealer franchise agreements require Chrysler, as the manufacturer, to repurchase a dealer's new car inventory and parts inventory at the dealer's cost in the event of a termination or surrender of the dealer's franchise. Is that correct?

Answer. Yes—Under normal business operation, Chrysler would repurchase the eligible vehicles, parts and tools of a terminating dealer. (Not all vehicles or parts are eligible for repurchase—many states have different statutes that determine this.)

Question 4. In the bankruptcy, will Chrysler honor this obligation?

Answer. Through a letter dated June 5, 2009, Chrysler informed all not retained dealers that we will now guarantee the re-distribution of 100 percent of eligible vehicle inventory for dealers who have signed the "Inventory Assistance Acknowledgement Form". Additionally we will facilitate the re-distribution of parts and special tools.

Question 5. If not, how can a terminated dealer be expected to dispose of the inventory in a short timeframe?

Answer. Chrysler has and will continue to assist not retained dealers, upon receipt of the signed "Inventory Assistance Acknowledgement Form" with the re-distribution of vehicle inventory, parts and special tools.

Question 6. Is it realistic to expect customers to buy new cars from a dealer that has been terminated or designated for termination?

Answer. Actual customer behavior indicates that the answer to this question is yes. Historically the not retained dealers have accounted for 14 percent of sales (and 25 percent of dealer count). In the month of May the not retained dealers accounted for 20 percent of retail sales. So far in June they account for 26 percent of sales.

Question 7. Is it fair to put that burden on the dealers that have been terminated?

Answer. There's no question that Chapter 11 has been a painful process. While a number of elected officials, commentators, and other observers of the industry have advocated bankruptcy for the company, it was not Chrysler's first choice. However, at this point, we are committed to do our best to create a new company that will succeed in the long term. We recognize that you and your constituents have a stake in our success, and that's why we are committed to take the tough but necessary actions to build a new Chrysler that is fully able to compete and win. To do that we must provide the American public fuel-efficient vehicles with strong consumer appeal and a strong, high-quality and viable dealer network: One without the other will fail.

Many of our stakeholders have made unprecedented sacrifices. In that perspective, the sacrifices of the dealer network are comparable considering that 27,000 Chrysler jobs were eliminated, the UAW accepted wage and benefit cuts that place them on a par with workers at transplant operations; many suppliers have experienced pricing reductions in addition to significant job losses resulting from reduced volumes, and many are retirees losing a significant portion of their pensions. Given the auto industry depression, Chrysler had no choice but to seek Chapter 11 protection. Facing that reality, we used a thoughtful, fair process, and we are doing everything possible to soften the impact to everyone affected.

Question 8. Would allowing the Dealers scheduled for termination or non-renewal to continue on as Certified Used Vehicle Dealers, without the ability to sell new vehicles, change your cost savings estimates?

Answer. All major auto manufacturers have some form of Certified Used Vehicle program. Generally these vehicles are obtained through auctions open to franchised dealers only. Permitting non-franchise dealers to participate in these auctions and certified programs would be a financial detriment to retained dealers.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. BYRON DORGAN TO
JAMES PRESS

Question 1. I have heard from many of the dealers in my state that cutting dealerships will not save your company money. They point out that they are your customers, not cost centers. Can you outline the specific costs associated with maintaining a dealer network?

Answer. Examples of Lost Revenue and Cost Associated with Discontinued Dealers:

- Product engineering and development for "sister products" \$1.4B over 4 years
- Lost sales due to dealer underperformance: (789 dealers underperformed by 55,000 units in 2008) \$1.5B revenue annually
- Administrative cost to maintain the 789 discontinued dealers: \$33M annually
- Marketing and advertising \$150M annually

Question 2. Our dealers point out that your companies don't spend money on ad buys in North Dakota communities. Most of the advertising comes from national ad buys. They also tell me that they pay for the training, materials, signs, etc. And it's my understanding that your reps don't call on our rural dealers very often. So I assume that your cost of maintaining a rural dealership is less than a large dealer in an urban area. Can you tell me what it costs you to have a franchise in a rural community?

Answer. On average it costs the Corporation \$41,700 annually to support a dealer in our network. (See Appendix B)

Question 3. I assume most car dealers are smart small business men and women. If their operation is not profitable, why would they continue to be in business?

Answer. The decisions made to either continue or discontinue dealer contracts were based on a consistent process that looked at all market types, Metro, Secondary, and Rural. This analysis reviewed many factors that are unique for each market and dealer.

These factors included:

- Total sales potential for each individual market
- Each dealer's record of meeting minimum sales responsibility
- A scorecard that each dealer receives monthly, and includes metrics for sales, market share, new vehicle shipments, sales satisfaction index, service satisfaction index, warranty repair expense, and other comparative measures
- Facility that meets corporate standards
- Location in regard to optimum retail growth area
- Exclusive representation within larger markets

Question 4. You noted that most of the dealers you are closing will continue to operate as used car businesses. But our dealers say that without the new car business, it will be hard to survive. Their used car business depends on trade-ins and their reputation. Can you comment on that?

Answer. There are thousands of solely used car dealers in the U.S with good reputations. As we have publicly stated, the vast majority of the not retained dealers have established successful used car businesses. 83 percent of the not retained dealers sell more used vehicles than new and 24 percent selling 2 used for every new.

Question 5. Why wouldn't you allow the dealers that you are closing to continue to perform service work under warranty?

Answer. Chrysler and its dealers agree in the Sales and Service Agreement that only authorized Chrysler dealers are permitted to perform warranty work. Permitting warranty service by non-franchised dealers would adversely impact the financial performance of remaining dealers. Further principal reasons for this requirement are to provide for proper performance of safety and emissions recalls, and for customer satisfaction. Consequently many state franchise laws prohibit service operations without a new vehicle franchise.

Question 6. On May 14, what was the average day of supply on the ground at the dealers you decided to close? Was the level of existing inventory considered when you set the 26 day timeframe?

Answer. End of April:

Assumed Dealers: 143 Days supply (289k units in stock)

Not Retained Dealers: 154 Days supply (44k units in stock)

End of May:

Assumed Dealers: 102 Days supply (234k units in stock)
 Not Retained Dealers: 45 Days supply (26k units in stock)

End of June Projection:

Assumed Dealers: 91 Days supply (201k units in stock)
 Not Retained Dealers: 0 Days supply (0k units in stock)—due to redistribution assistance

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. BILL NELSON TO
 JAMES PRESS

Question 1. In my state of Florida, the unemployment rate is at 10 percent. I am hearing from terminated dealers daily and just read in the paper that GM plans to close its distribution center in Jacksonville and lay off one-hundred ten employees. I'm very concerned about the impact of these dealer and distribution center closings not only on the jobs at the dealerships and distribution center but on the surrounding industries that do business with Chrysler and GM in the region.

What programs/relocation assistance etc., have you identified as sources of possible mitigation of job loss be it temporary or long time that would provide relief for these workers impacted by the closing of the distribution or dealership?

Answer. As we have stated previously we anticipate that most not retained dealerships will remain open because of dualled franchises and used vehicle sales. We are establishing a website to help place dealership employees who lose their positions—helping them to transition to dealers who will be continuing with us. Due to our current financial situation, we cannot provide any financial support to the displaced workers and families. In normal circumstances, we could not compensate displaced employees of independently owned businesses and we do not have the funding to make an exception.

Question 2. How will the extensive dealership closings impact the ability of consumers to obtain non-warranty related repair and maintenance for their vehicles? Will you ensure that appropriate information is available to independent service providers so that consumers will have options?

Answer. There will be over 2,300 remaining Chrysler, Jeep and Dodge dealerships conveniently located with the parts and trained technicians to service consumers vehicles. Upon approval of rejection Chrysler will send a letter to all customers notifying them of the 4 nearest dealers who can provide service.

Question 3. What were the threshold requirements used to determine who received a termination letter? What formulas were employed to make that determination? What demographic considerations went into making that decision?

Answer. With respect to Dealerships:

The decisions made to either continue or discontinue dealer contracts were based on a consistent process that looked at all market types, Metro, Secondary, and Rural. This analysis reviewed many factors that are unique for each market and dealer.

These factors included:

- Total sales potential for each individual market
- Each dealer's record of meeting minimum sales responsibility
- A scorecard that each dealer receives monthly, and includes metrics for sales, market share, new vehicle shipments, sales satisfaction index, service satisfaction index, warranty repair expense, and other comparative measures
- Facility that meets corporate standards
- Location in regard to optimum retail growth area
- Exclusive representation within larger markets (Dualed with competitive franchise)
- Opportunity to complete consolidation of 3 brands (Project Genesis)

Question 4. Did you violate the spirit of its agreements with the dealers by requesting that they take in additional inventory and facility improvements when they knew that there was a high likelihood that they would go into bankruptcy?

Answer. Chrysler in good faith worked with all of our dealers to continue to purchase vehicles to increase sales and hopefully avoid bankruptcy. As an independent business it is the dealer's choice to purchase production.

Question 5. The Stimulus Package was designed to get people back to work and put capital in the hands of workers so that it would revive our ailing economy. Don't

the plans by Chrysler do just the opposite of what the Stimulus Package was designed to do by putting people with good paying jobs out of work?

Answer. The alternative of liquidation would have a much more severe negative impact on our economy.

Question 6. Would you provide a list of all the dealerships that you provided closure notices to?

Answer. The list has been submitted to Majority and Minority Committee staff.

Question 7. What is being done for franchise owners many of which are family businesses now obligated to repay debt incurred because of the decisions by Chrysler?

Answer. Chrysler has and will continue to assist not retained dealers, upon receipt of the signed "Inventory Assistance Acknowledgement Form" with the redistribution of vehicle inventory, parts and special tools.

Throughout the past weeks, we have been working on achieving commitments to redistribute vehicle inventory to dealers who will be assigned to the potential new company going forward.

We began with 42,000 units in stock to be redistributed. 16,000 of these vehicles have been sold out of stock to customers, leaving 26,000 to be redistributed. I am very pleased to announce that as of today, Friday, June 5, we have only 400 vehicles to be reassigned to dealers between now and Tuesday evening. We are now close enough to guarantee that we will redistribute 100 percent of the affected inventory.

As of June 5, nearly 75 percent of the active parts inventory have a potential buyer identified, have already been sold, or the dealer has elected to keep the inventory. For those dealers requesting assistance, we will continue to identify potential buyers and will provide a complete parts inventory listing to them for review. Also, we will transfer the Automatic Replenishment Order guarantee for qualified parts to the purchasing dealers.

An e-mail went out Tuesday, June 2, to dealer principals and service/parts managers announcing the Essential Tool Redistribution website—<http://www.millerspecialtools.spx.com>. This site provides dealers the opportunity to post essential tools available to other dealers for purchase. Dealers who post tools on the website will be contacted by a Chrysler Essential Tool representative to inquire about any additional assistance they may need. As of this morning, dealers have already begun to post tools for sale on the website.

A "Redistribution Process" feature was made available on DealerConnect to receive feedback and questions regarding the redistribution process (vehicle, parts, special tools), and we will respond back to you within 24 to 48 hours of receipt of your question. Also, dealer-specific issues are being sent to your local business center for direct follow-up.

Question 8. It is my understanding that, under the proposed Chrysler bankruptcy plan families driving any Chrysler now on the road (about 10 million vehicles), whose occupants are severely injured or killed in a crash will have limited avenues of recourse against the company.

I know that warranty claims and lemon law claims for old vehicles will be honored by the new companies, in the hopes of preserving brand loyalty among Chrysler customers.

Why did Chrysler decide to honor warranty and lemon law claims, but not current and future product safety liability? Is that fair?

Many state laws specify that the dealers (including those forced to close) will stand in your shoes and be responsible for product safety issues associated with Chrysler products. Why should they and not you be responsible?

Answer. Bankruptcy is a very difficult process requiring hard choices and painful decisions. Its purpose is to leave behind certain liabilities and obligations so that a vibrant, sustainable new company can emerge. The bankruptcy process has impacted virtually everyone, including injured persons who have claims against the company. But those claims, like other claims, will be addressed in the bankruptcy court under the guidance of Judge Arthur Gonzalez. Product-related claims arising from vehicles sold by the new company will be addressed by the new company. And the handling of claims against dealerships will depend upon the underlying facts and basis for each individual claim.

Question 9. Thousands of Chrysler workers are living out their retirement years in Florida, including more than 10,000 nonunion retirees and their spouses, 4,000 retired autoworkers who live at least part time in Southwest Florida and an estimated 3,000 retired autoworkers living in the Tampa Bay Area.

In the event Chrysler cannot continue to maintain their pension plans, the Pension Benefit Guaranty Corporation could be responsible for paying the benefits of about 600,000 people who receive pension payments from Chrysler.

To the extent these additional claims substantially increase PBGC's accumulated deficit and decrease its long-run liquidity, there could be pressure for the Federal Government to provide PBGC financial assistance to avoid reductions in guaranteed payments to retirees or unsustainable increases in the premium burden on sponsors of ongoing plans.

Because of the potential role of the Federal Government in backing these pension plans and because this is an important to so many Floridians, I would like to know what steps are being taken to continue support for these pension plans? In the event the pension obligations cannot be fulfilled, what steps are being taken to ensure that beneficiary payments are not disrupted? Are you confident in the ability of PBGC to meet these pension obligations?

Answer. Vince Snowbarger, Acting Director of the PBGC, issued the following statement:

Chrysler's entry into Chapter 11 bankruptcy protection today does not change the status of its defined benefit pension plans. The plans remain ongoing under the sponsorship of Chrysler, and are insured by the Pension Benefit Guaranty Corporation. As the bankruptcy process unfolds, the PBGC will work with Chrysler, its unions, and all other stakeholders to ensure continuation of the pension plans.

In addition, the PBGC recently reached an agreement with Daimler regarding Chrysler's pension plans. Regarding that settlement, the PBGC announced:

The Pension Benefit Guaranty Corporation (PBGC) today announced a term sheet agreement with Daimler AG on additional protections for the pension plans of Daimler's former Chrysler North America division.

Under the agreement, also signed by Chrysler and its controlling owner, Cerberus, Daimler will contribute \$200 million dollars into the pension plans immediately upon final execution of the agreement. Daimler also will pay \$200 million into the plans in 2010 and again in 2011.

In addition, if the Chrysler pensions terminate before August 2012 and are trustee by the PBGC, Daimler will pay \$200 million to the PBGC insurance program. The agreement replaces the \$1 billion termination guarantee negotiated by the PBGC at the time of Daimler's sale of Chrysler in 2007.

Finally, the agreement closes out Daimler's 19.9 percent share of Chrysler, and waives repayment of Daimler's outstanding loans to Chrysler.

Chrysler continues to sponsor and administer the various pension plans. Benefit payments from qualified pension plans have continued without interruption through this process. The contributions from Daimler will improve the funded status of the pension plans and the viability plan submitted to Chrysler and the courts included contributions over the repayment period as required by law.

Regarding the PBGC's ability to meet its obligations, we defer to the PBGC.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARIA CANTWELL TO
JAMES PRESS

Question 1. How will closing 789 dealerships directly benefit consumers?

Answer. A key factor in the health of a dealer network is sales per dealership (throughput). Given current and forecasted industry sales the sales per dealership will be too low to ensure the long-term health of our dealers. Dealers that are profitable and financially successful are better able to invest in their facilities and business operations and therefore better able to compete with dealers of other distributors. The strengthening of competition will be to the consumer's benefit.

Question 2. If it was not for the protection of the bankruptcy court, could Chrysler have terminated its franchise agreements with those 15 dealers in Washington State under Washington State law? If so, what would have that entailed? After DaimlerChrysler discontinued its Plymouth brand and terminated its dealer agreements a several years ago, what compensation options, if any, did the company offer its terminated dealers?

Answer. Under normal business circumstances, Chrysler would be able to terminate a franchised dealer agreement in Washington State based on finding that there was "good cause" for termination and that it had acted in "good faith" regarding the termination, cancellation or nonrenewal of the franchisee's dealer agreement.

In such event, Chrysler would be required to repurchase the following: (1) unused, undamaged, and unsold new vehicles in the dealer's inventory acquired from Chrysler or another Chrysler dealer within the previous 12 months; (2) all unused, undamaged, and unsold supplies, parts, and accessories in original packaging, if the supply, part, or accessory was acquired from Chrysler or from another Chrysler

dealer ceasing operations as a part of the dealer's initial inventory as long as the supplies, parts, and accessories appear in Chrysler's current parts catalog, list, or current offering; (3) all unused, undamaged, and unsold dealer inventory, whether vehicles, parts, or accessories, the purchase of which was required by Chrysler; (4) the fair market value of each undamaged sign owned by the dealer that bears a common name, trade name, or trademark of Chrysler, if its acquisition was recommended or required by Chrysler and it is in good and usable condition, less reasonable wear and tear, and has not been depreciated by the dealer more than 50 percent of the value of the sign; (5) the fair market value of all equipment, furnishings, and special tools owned or leased by the dealer that were acquired from Chrysler, or sources approved by Chrysler, and that were recommended or required by Chrysler and are in good and usable condition, less reasonable wear and tear; and (6) the cost of transporting, handling, packing, and loading of the vehicles, supplies, parts, accessories, signs, special tools, equipment, and furnishings.

The discontinuation of the Plymouth brand occurred in 2001 under normal business circumstances. At that time, the compensation options that Chrysler offered the Plymouth dealers included the repurchase of: (1) of all new, unused, and undamaged Plymouth vehicles; (2) all new and undamaged Plymouth-unique parts and accessories; (3) all Plymouth product and facilities signage; and (4) all Plymouth-related special tools.

Question 3. After Chrysler exits bankruptcy, will the renegotiated "Dealers Sales and Service Agreement" between the company and the dealers of "New Chrysler" going forward be subject to state franchise laws or are the terms and conditions in these agreements structured in a way so that state franchise laws will be essentially moot?

Answer. The franchise agreements that will be in place with the dealers of "New Chrysler" will be subject to State franchise laws.

Question 4. When did Project Genesis begin? Since the inception of Project Genesis, has Chrysler sent out any letters to dealers approving new single point dealerships? During Project Alpha, did Chrysler or its predecessor companies indicate to its dealer network of the long-term strategy to consolidate all three of its brands under one roof at the best locations? Did Chrysler or its predecessor companies send out letters approving new single point dealers during Project Alpha?

Answer. Project Genesis began in January of 2008.

Yes since the inception of Project Alpha in 2001 and with Project Genesis in 2008, Chrysler did communicate on a consistent basis the strategy to combine all three brands under one roof in the optimal location.

Yes—Under project Alpha, in some cases Chrysler would approve a single point dealership as an interim step to consolidating all 3 brands under one roof.

Question 5. Project Genesis calls for surviving dealers to sell Chrysler, Dodge, and Jeep brands under the same roof. After Chrysler exits bankruptcy, by your own estimate, Project Genesis will still not be complete. It will stand at 84 percent. How does Chrysler intend to complete Project Genesis?

Answer. Chrysler will continue to facilitate network deals between willing sellers and buyers to complete project Genesis.

Question 6. Ideally, how many months supply of new vehicles does Chrysler believe its dealers should have on its lot? On average, how many months supply of new vehicles do your dealers currently have on their lots today? Assuming all vehicles of the terminated dealers are redistributed to the remaining dealers, on average, what would this increase represent in monthly supply?

The ideal level of stock is 90 days of total supply (Depending on sales rate)

End of May:

Assumed Dealers: 102 Days supply (234k units in stock)

Not Retained Dealers: 45 Days supply (26k units in stock)

End of June Projection:

Assumed Dealers: 91 Days supply (201k units in stock)

Not Retained Dealers: 0 Days supply (0k units in stock)—due to redistribution assistance

Question 7. My understanding is that some of the vehicles on the lots of the terminated (as well as remaining) dealers have sat unsold for an extended period of time where banks are requiring the dealer to make monthly payments on the floor plan financing, because they realize the vehicle is unlikely to be sold? Do you expect that some vehicles at the terminated dealers will be able to be distributed because the remaining dealers have concluded that the vehicles are unlikely to be sold at retail? If so, would Chrysler consider auctioning off these vehicles?

Answer. Through a letter dated June 5, 2009, Chrysler informed all not retained dealers that we will now guarantee the re-distribution of 100 percent of eligible vehicle inventory for dealers who have signed the "Inventory Assistance Acknowledgement Form".

Question 8. Can you describe what is a dealer's Minimum Sales Responsibility is and the basis Chrysler uses for calculating the metric? Can a dealership be profitable while still being below its Minimum Sales Responsibility?

Answer. In the Sales and Service Agreement a dealer contractually agrees to achieve his Retail Minimum Sales Responsibility (MSR). Basically MSR is the number of new retail vehicles a dealer must sell to equal their state market share in their defined sales locality. MSR is calculated the same for every dealer. Dealerships can still be profitable below MSR by leveraging used vehicle sales and retail customer service.

Question 9. How is Chrysler facilitating the redistribution of (Automatic Replacement Order and obsolete) parts, signs, and special tooling at the terminated dealers? What, if any, financial and legal liability does Chrysler have associated with these activities?

Answer. The remaining dealers that purchase Automatic Replenishment Order (ARO) Inventory have been offered the transfer of the parts protection. In addition, for those dealers that have requested assistance (signed the acknowledgement form), a complete listing of their inventory is being provided to any dealership interested in purchasing this inventory, including the obsolete parts.

Question 10. How do you rebuild the trust with your remaining dealer network? Answer. We will build trust by offering a long term, viable dealer business opportunity through our new company in partnership with Fiat.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARK PRYOR TO
JAMES PRESS

Question 1. Chrysler has notified 789 dealerships, including 8 in Arkansas, representing at least 150 jobs, that they need to close by June 9.

Please describe the specific metrics of how you determined which dealerships should shut down?

Answer. With respect to Dealerships:

The decisions made to either continue or discontinue dealer contracts were based on a consistent process that looked at all market types, Metro, Secondary, and Rural. This analysis reviewed many factors that are unique for each market and dealer.

These factors included:

- Total sales potential for each individual market
- Each dealer's record of meeting minimum sales responsibility
- A scorecard that each dealer receives monthly, and includes metrics for sales, market share, new vehicle shipments, sales satisfaction index, service satisfaction index, warranty repair expense, and other comparative measures
- Facility that meets corporate standards
- Location in regard to optimum retail growth area
- Exclusive representation within larger markets (Dualed with competitive franchise)
- Opportunity to complete consolidation of 3 brands (Project Genesis)

Question 2. Would you describe the specific cost savings that come with these closures?

Answer. Examples of Lost Revenue and Cost Associated with Discontinued Dealers:

- Product engineering and development for "sister products" \$1.4B over 4 years
- Lost sales due to dealer underperformance: \$1.5B revenue annually
- Administrative cost to maintain the 789 discontinued dealers: \$33M annually
- Marketing and advertising \$150M annually

Question 3. What are your buyback plans for closed dealerships (inventory, parts, tools, signs, etc.)?

Answer. Through a letter dated June 5, 2009, Chrysler informed all not retained dealers that we will now guarantee the re-distribution of 100 percent of eligible vehicle inventory for dealers who have signed the "Inventory Assistance Acknowledgement Form".

ment Form". Additionally we will continue to support the re-distribution of parts and special tools to the remaining dealers.

Question 4. It is my understanding that some of the Chrysler dealers targeted for closure are dealers who, at Chrysler's request and their own expense, made expensive modernizations to their facilities. In addition, most of these dealers purchased vehicles that they did not need at Chrysler's request when they were told that it was the only way to keep the company out of bankruptcy—a request that you were vital in delivering, according to press reports. What are Chrysler's plans to reimburse dealers for their inventory and facilities?

Answer. Through a letter dated June 5, 2009, Chrysler informed all not retained dealers that we will now guarantee the re-distribution of 100 percent of eligible vehicle inventory for dealers who have signed the "Inventory Assistance Acknowledgement Form". Additionally we will continue to support the re-distribution of parts and special tools to the remaining dealers. We will not assist with any reimbursement for a dealer's facility.

Question 5. To date, GM has received \$20 billion with a plan to provide an additional multi-billion dollar sum to get through bankruptcy. In return, the Federal Government will hold a 60 percent share in GM.

Chrysler received a \$4 billion loan from the Federal Government in 2008, \$3 billion in debtor-in-possession financing to continue operations during bankruptcy, and an agreement to receive an additional \$4.5 billion to restart operations after bankruptcy. Can you please tell me how or when your companies will repay the government?

Answer. Chrysler intends to repay its loans according to the maturity schedule outlined in the First Lien Credit Agreement. The final payment is expected in 2017.

Question 6. In your discussions with the Auto Task Force, have your companies or the Auto Task Force considered or developed any plans to deal with the impact of dealership and plant closures on home foreclosures, increased unemployment assistance, job training, lost local tax revenues, etc.?

Answer. Our goal is to emerge from bankruptcy with a new vibrant and sustainable company that will continue to employ workers and support numerous stakeholders. The alternative of liquidation would have a significantly more deleterious effect on the items listed above. We would refer you to the Auto Task Force regarding whether they have developed any such plans.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. CLAIRE McCASKILL TO
JAMES PRESS

Question 1. Please provide me with a complete accounting of the wages/salary, benefits and any bonuses of each individual employee to be retained by Old Chrysler for their assistance with the liquidation of the company.

Answer. The specific people and their compensation levels have not yet been agreed to nor proposed at this time.

Question 2. As you know, I am hearing from thousands of Missourians who are concerned that Chrysler is continuing to operate their Mexican plants at the same time that you are closing U.S. plants, and Federal taxpayers are funding your operations. Do you plan to invest or increase production in any of your Mexican plants? If so, please identify which plants they are and what the increased production/investment will be.

Answer. In September 2009, Ram Box (vehicle with integrated storage system) production will begin at Warren Truck Assembly Plant in Warren, Michigan. Ram Box required an investment of \$32 million to facilitate the plant. Warren will then be fully utilized. Small remaining standard cab production currently at St. Louis North will be handled at Saltillo Truck Plant for no incremental investment.

Chrysler maintains an engine plant in Saltillo which is currently fully facilitated and ready to produce the Phoenix engine. The plant is currently idled and is not expected to commence production before the second half of 2010 at the earliest. This plant would not require any additional investment to begin production.

Question 3. Regarding the Saltillo plant in Mexico that makes the same Dodge Ram that is made in the Fenton plant: I assume the move to keep Mexico operating and to shutter the Fenton plant was because the production in Mexico is cheaper than in MO, is that the case? If so, is the consumer seeing the benefit of this cost reduction? Has the price of the truck been reduced? If costs were not the reason, what are the justifications for the closure of the Fenton plant?

Answer. The Saltillo plant does not make the same product that is made at the St. Louis North plant. In fact, the Saltillo plant is the only plant that makes the

Dodge Ram heavy duty truck. The decision to idle the St. Louis North Assembly Plant was based on market demand and capacity.

Chrysler has three truck assembly plants, Warren Truck Assembly Plant in Warren, Michigan, St. Louis North Assembly Plant in Fenton, Missouri and Saltillo Truck in Mexico. Warren Truck is a high volume plant. St. Louis North is running on one shift and does not have the capacity level of Warren Truck. Saltillo Truck Plant is a low volume facility.

In late 2007 and 2008, deterioration in industry volume resulted in decreased demand for Dodge Ram pick up trucks. Between January 2007 and December 2008, sales volumes of the Ram dropped over 30 percent. With this decrease, the market does not support the operation of two truck assembly plants making the same product, therefore a decision was made to close St. Louis North.

Question 4. When Chrysler invested in the St. Louis South plant, they received a 70 percent tax abatement from the City of Fenton on the property they installed in the plant. This saved Chrysler approximately \$46 million. Does the City of Fenton get an indemnity if this equipment is sold or moved from the plant for the abated taxes? If so, how will repayment be impacted by the bankruptcy?

Answer. The agreements between Chrysler LLC and the City of Fenton do not require a repayment of past tax benefits if the equipment is sold or moved. To the extent the agreements with the City of Fenton are assumed by Chrysler Group LLC, the obligations under the agreements should be satisfied as part of the cure payments.

Question 5. It is my understanding that some of that equipment, the right-hand drive equipment specifically has moved to the plant in Windsor, Canada. Has indemnity been provided to the city for this move?

Answer. The agreements between Chrysler LLC and the City of Fenton do not require a repayment of past tax benefits if the equipment is sold or moved. To the extent the agreements with the City of Fenton are assumed by Chrysler Group LLC, the obligations under the agreements should be satisfied as part of the cure payments.

Question 6. Thirty-two Chrysler dealerships are slated for closure in California. What criteria did Chrysler use to determine which dealerships will be closed? What steps will Chrysler take to ensure the closure of these dealerships does not impact the ability of car owners to obtain service?

Answer. Criteria:

The decisions made to either continue or discontinue dealer contracts were based on a robust process that looked at all market types, Metro, Secondary, and Rural. This analysis reviewed many factors that are unique for each market and dealer.

These factors included:

- Total sales potential for each individual market
- Each dealer’s record of meeting minimum sales responsibility
- A scorecard that each dealer receives monthly, and includes metrics for sales, market share, new vehicle shipments, sales satisfaction index, service satisfaction index, warranty repair expense, and other comparative measures
- Facility that meets corporate standards
- Location in regard to optimum retail growth area
- Exclusive representation within larger markets

Impact on the ability of customers to obtain service:

Customer convenience was taken into consideration in establishing our new network footprint:

For the State of California the average distance in miles a customer must drive to reach a dealership is competitive when compared to other OEM’s.

Customer Convenience Comparison

State	Current			Post-Rejection			Change			Honda	Toyota	Chevy	Ford
	Chrysler	Dodge	Jeep	Chrysler	Dodge	Jeep	Chrysler	Dodge	Jeep				
California	5.88	6.06	5.79	6.18	6.24	6.1	-0.3	-0.2	-0.3	5.34	5.08	4.71	4.63

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. TOM UDALL TO
JAMES PRESS

Question 1. Mr. Press, like many of my colleagues I am concerned about how Chrysler chose which dealerships to close and the way those dealerships have been asked to wind down. You have testified that the Chrysler dealership network is not profitable and therefore not viable—and we can understand. The people of New Mexico want you to do everything in your power to payback the taxpayers, but they also want to know that the dealership in their community was closed for a good reason.

When I go back to New Mexico and my constituents ask why you closed the dealership they work for, have bought cars and trucks from, or go to have their car serviced, how can I answer claims that only 1 of the 6 selection criteria directly refers to sales?

Answer. The decisions made to either continue or discontinue dealer contracts were based on a consistent process that looked at all market types, Metro, Secondary, and Rural. This analysis reviewed many factors that are unique for each market and dealer.

These factors included:

- Total sales potential for each individual market
- Each dealer's record of meeting minimum sales responsibility
- A scorecard that each dealer receives monthly, and includes metrics for sales, market share, new vehicle shipments, sales satisfaction index, service satisfaction index, warranty repair expense, and other comparative measures
- Facility that meets corporate standards
- Location in regard to optimum retail growth area
- Exclusive representation within larger markets (Dualed with competitive franchise)
- Opportunity to complete consolidation of 3 brands (Project Genesis)

Question 2. Mr. Press, I know this may seem like a simple question, but it is one that I have not yet received a direct and simple answer to—*Does a dealership cost Chrysler anything to operate?* Your written testimony cites only \$33 million in administrative costs to maintain the discontinued dealerships. That doesn't seem like a whole lot of cost savings for a company that is nearly \$173 billion in debt. You have also mentioned you spend approximately \$1,000 per car in dealership network related costs. I know that there are general costs of operating the dealership network—communicating with dealers and marketing, but those seem like necessary costs to any distribution network.

Answer. The old Chrysler had slightly over \$20 billion in debt. The \$1,000 per car in dealership network related costs is a GM figure.

Examples of Lost Revenue and Cost Associated with Discontinued Dealers:

Product engineering and development for "sister products"	\$1.4B over 4 years
Lost sales due to dealer underperformance:	\$1.5B revenue annually
Administrative cost to maintain the 789 discontinued dealers:	\$33M annually
Marketing and advertising	\$150M annually

Question 3. If the dealership pays for the car, parts, employee salaries and rent, what does having a dealership cost Chrysler and will closing dealerships save Chrysler significant money?

Answer. Examples of Lost Revenue and Cost Associated with Discontinued Dealers:

Product engineering and development for "sister products"	\$1.4B over 4 years
Lost sales due to dealer underperformance:	\$1.5B revenue annually
Administrative cost to maintain the 789 discontinued dealers:	\$33M annually
Marketing and advertising	\$150M annually

Question 4. Mr. Press, you have stated that taking Chrysler into bankruptcy is the "most difficult business action you have personally ever had to take." That is understandable. What I cannot truly understand is how, despite the pending deal with Fiat, you could not give dealerships more time to close their doors.

Was there no way to work out even a couple of extra weeks for dealerships to put their house in order? As we heard today, some dealers have been around for 90 years. Certainly, as your business partners the dealers deserve the time to re-

sponsibly wind their businesses. What efforts did you make to give dealerships sufficient time wind down their business?

Answer. The time-frame for discontinuing dealers was driven by the Chapter 11 process and the need for speed in order to preserve maximum value for Chrysler. Prior to May 1, Chrysler had planned to avoid bankruptcy. Only after filing did we begin the necessary process of actually identifying which dealers could go forward with the new company. Timing was mandated by the Chapter 11 proceeding, including the requirement to complete our strategic alliance with Fiat by June 15. It was important to Chrysler and Fiat that a new and stronger dealer network would be in place by the closing date. On May 14, we notified the dealers of our decisions, and later filed the list of discontinued dealers with the court.

In his approval of the sale motion, Judge Gonzalez confirmed, “while in Chapter 11, Chrysler is a wasting asset,”—meaning that while we’re not building cars, our assets are deteriorating and customers are losing confidence.

It is in the best interest of Chrysler and discontinued dealers to move quickly through this process. The number of days’ notice provided to discontinued dealers was similar to the 30 days provided under the Chrysler voluntary termination process, and it provided for a quick process in everyone’s best interest. Financial commitments from both the U.S. and Canadian governments require our alliance with Fiat be completed by June 15. This deadline determined a number of other deadlines, including the June 9 termination date for not retained dealers. That termination date is needed to ensure that our new dealership structure will be firmly in place at or about the time the new company is formed with Fiat—something understandably important to Fiat. The success of our new enterprise depends in large part on this new dealer body, and we must focus our limited resources on this. Similarly, we do not want customers to have any confusion about who is and who is not a dealer for the new company. The termination date for discontinued dealers was chosen, therefore, to meet the demands of our creditors and partners, to bring our new dealer network online as quickly as possible, and to strongly signal customers that the new dealer body will meet their needs.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARK BEGICH TO
JAMES PRESS

Question 1. Describe for the Committee what steps Chrysler is taking to ensure the long-term growth of the reformed company?

Answer. The new company will be a vibrant and competitive auto company. It will begin operations with significant strategic advantages, including a wage and benefit structure for active and retired employees that is competitive with those of transplant manufacturers; reduced debt and interest expenses; high-performing assets; a more efficient dealer network poised for profitability and sound agreements with our suppliers.

Chrysler can look forward to quickly developing a strong and synergistic partnership with Fiat, whose product portfolio, technology and global distribution network will complement Chrysler’s own strengths. Work with Fiat is underway to develop the next generation of environmentally friendly, fuel-efficient, high-quality vehicles.

This has been an extremely challenging chapter in the company’s history for all involved, requiring hard choices and painful sacrifices by all stakeholders. Now Chrysler has a tremendous opportunity to start anew and build something special in a global alliance with Fiat.

Question 2. As the new Chrysler reorganizes and grows, it will likely need dealership growth to expand as well. Once the reorganization is complete, how does Chrysler plan to expand their dealership network?

Answer. Chrysler’s efforts to consolidate our dealer network date back to 1992 and have continued since. In 2005, the consolidation effort was continued under a program known as Project Genesis. Chrysler has consistently communicated to our dealer network the need for a consolidation of dealers. We plan on continuing Project Genesis going forward.

Question 3. What happens to terminated dealerships that still possess Chrysler name-plated inventory after June 9, 2009?

Answer. Through a letter dated June 5, 2009, Chrysler informed all not retained dealers that we will now guarantee the re-distribution of 100 percent of eligible vehicle inventory for dealers who have signed the “Inventory Assistance Acknowledgment Form”.

Question 4. Are there situations where you will extend the June 9, 2009 deadline to allow dealers to sell off their remaining inventory and recoup their investment?

Answer. If a not retained dealer allows us to re-distribute their inventory, we will continue to sell those units to remaining dealers throughout the month of June. Terminated dealers will be unable to sell any remaining inventory as a new vehicle beyond their termination date.

Question 5. What mitigation practices are in place for terminated Chrysler employees?

Answer. As we have stated previously we anticipate that most not retained dealerships will remain open because of dual franchise and used vehicle sales. We are establishing a website to help place dealership employees who lose their positions—helping them to transition to dealers who will be continuing with us. Due to our current financial situation, we cannot provide any financial support to the displaced workers and families. In normal circumstances, we could not compensate displaced employees of independently owned businesses and we do not have the funding to make an exception.

Question 6. What mitigation practices are in place for terminated dealerships and their employees to ensure dealerships have the ability to deal with the transitions they will have to make as a result of termination?

Answer. As we have stated previously we anticipate that most not retained dealerships will remain open because of dual franchise and used vehicle sales. We are establishing a website to help place dealership employees who lose their positions—helping them to transition to dealers who will be continuing with us. Due to our current financial situation, we cannot provide any financial support to the displaced workers and families. In normal circumstances, we could not compensate displaced employees of independently owned businesses and we do not have the funding to make an exception.

Question 7. How will you ensure vehicle owners in small towns with terminated Chrysler dealerships will have a place to have warranty-service performed on their vehicles?

Answer. There will be over 2,300 remaining Chrysler, Jeep and Dodge dealerships conveniently located with the parts and trained technicians to service consumers vehicles. Upon approval of rejection Chrysler will send a letter to all customers notifying them of the 4 nearest dealers who can provide service. Further note that Customer Convenience (average distance from our customers have to travel to Chrysler, Jeep or Dodge) prior to rejection is 6.67 miles and will be 7.09 miles post rejection. These distances still compare favorably to Toyota at 9.11 miles and Honda at 10.31 miles.

Question 8. Please provide documentation on the actual savings Chrysler will achieve by closing dealerships, detailing what specific items Chrysler has calculated into the cost factor.

Answer. Examples of Lost Revenue and Cost Associated with Discontinued Dealers:

Product engineering and development for "sister products"	\$1.4B over 4 years
Lost sales due to dealer underperformance:	\$1.5B revenue annually
Administrative cost to maintain the 789 discontinued dealers:	\$33M annually
Marketing and advertising	\$150M annually

Question 9. Please confirm for the Committee that notwithstanding the terms of the "agreements" you have imposed on the terminated dealerships that the new Chrysler Corporation will not use funds made available to it by the U.S. Treasury to contest the ability of these dealerships to challenge the terminations in court.

Answer. Chrysler LLC cannot make representations on behalf of the new Chrysler Group LLC which we hope will take selected "Old Chrysler" assets into the new company. As we are sure you are aware, Chrysler LLC has opposed dealers contesting the rejection of their dealership agreements in the bankruptcy court. That matter is currently pending before the court.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. KAY BAILEY HUTCHISON TO
JAMES PRESS

Question 1. According to your testimony, nationwide you have sold or assigned for redistribution 89 percent of the 42,000 vehicles in discontinued dealerships' inventory. What about the progress in moving other excess inventory—parts and special tools?

Answer. For parts, nearly 75 percent of the original inventory has been either sold, committed to by remaining dealers or kept by not retained dealers. For

special tools, we have launched a web-site to facilitate the sale of not retained dealers' inventory.

Question 2. Can you clarify the difference between "sold" and "redistributed?" When you say a car has been redistributed does that mean a new dealer has been found to accept the automobile and has the financing to do so? Or does it simply mean you have identified a dealer that might need that car but has not agreed to accept it yet? Please clarify in detail the definitions of this terminology.

Answer. In terms of moving inventory from a not retained dealer to a retained dealer they mean the same thing. When we state a vehicle has been re-distributed, it means that we have a commitment from a retained dealer to accept the vehicle and pay for it. The financing is a matter between the retained dealer and their finance source.

Question 3. As of June 3, how many vehicles are still being financed by OldCo dealer floorplans?

Answer. As of June 3, there are 25,000 units remaining in OldCo Dealer inventory.

Question 4. Of the vehicles that have been redistributed, how many have been accepted by the new dealers?

Answer. As of June 3, we have secured over 22,000 commitments from remaining dealers.

Question 5. As of June 3, what is the total value of the parts inventory of the 789 OldCo dealers? This does not include those vehicles sold to customers by non-retained dealers.

Answer. Our best estimate of total inventory is \$98M as of June 3.

Question 6. Of the parts inventory that has been redistributed, how much has been accepted by the new dealers?

Answer. Nearly 75 percent of the not retained dealer inventory has verbal commitments from accepted dealers to purchase. The transfer will not occur until the not retained dealers' financial obligations are cleared with their lenders. This includes the removal of any liens, including those on parts inventory.

Question 7. There is some confusion regarding when vehicles can physically be transferred from a discontinued dealer to a continuing dealer. Is the transfer dependent on the finalized "new co" deal, around June 10, or is the transfer dependent on a continuing dealer's floorplan approval with GMAC? If the former, what is your estimated timeline for completion of transfers after June 10th, and what steps are you taking with Chrysler Financial to ensure discontinued dealers' floorplan financing is not disturbed as a result of their franchise termination? If the latter, where does the GMAC approval process stand and what are you doing to facilitate those approvals and transfers prior to June 9?

Answer. The transfer of inventory is dependent upon the NewCo deal being finalized as well as the continuing dealers floorplan finance source approval. We are working with Chrysler Financial to ensure a smooth transition and re-distribution of inventory to the remaining dealer, however floorplan is between the dealer and their finance source.

GMAC is adding dealers daily and has completed 77 percent of Old Co Chrysler Financial dealers to GMAC floorplan. All transfers of inventory in the redistribution process will occur shortly after June 9. Any transfer of inventory prior to June 9, is between the respective dealers and their finance sources.

Question 8. My dealers inform me that your assistance to redistribute their inventory comes with a few rather stringent requirements. For example, I am told that if a vehicle is missing a key fob or a floor mat, then the car is not allowed for redistribution. So instead of charging the dealer \$100 for the key fob or floor mat as they would have expected, he would lose close to \$15,000 per vehicle because of a missing key fob or floor mat. Also items like a door ding or tinted windows will disallow the redistribution of a vehicle. Is this true? Is this a practice that is considered to be standard in the normal course of dealer transfers? Will you commit to revisit this matter with the dealers?

Answer. Through a letter dated June 5, 2009 Chrysler informed all not retained dealers that we will now guarantee the re-distribution of 100 percent of eligible vehicle inventory for dealers who have signed the "Inventory Assistance Acknowledgement Form". Additionally we will facilitate the re-distribution of parts and special tools.

If there are any missing items, a dealer can purchase these to ease the transition. Dings or damage that can be repaired will also be transferred provided the vehicle can be still be sold as a new vehicle after the repairs are completed. If a vehicle

has been modified, we will attempt to facilitate the transfer provided the vehicle can still be sold as a new vehicle.

Question 9. In your testimony, you note that Chrysler started this process with 3,181 dealers, and you are winding down to 2,392 dealers. There are concerns that some of the terminated franchises will be offered to new dealers in the near future. Will you be adding back franchises? If so, will the closed dealers have a right of first refusal or opportunity to compete for that franchise?

Answer. As we have shown in our plan we will continue to consolidate our network beyond 2,392 as we move from 85 percent CJD to 100 percent CJD over the next several years. Consequently the dealer count will decline. We have stated that we will accept applications from any qualified candidate for consideration as a Chrysler dealer.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JIM DEMINT TO
JAMES PRESS

Question 1. Chrysler and GM dealer closings will create many burdens for local communities and car owners. For car owners, especially in rural areas, the distance and associated travel costs to surviving dealerships to maintain and repair their cars will increase, in some cases dramatically. How will the dealership closings impact the ability of consumers to obtain non-warranty related repair and maintenance for their vehicles?

Answer. The remaining dealerships will continue to provide both warranty and retail customer service. There will be over 2,300 remaining Chrysler, Jeep and Dodge dealerships conveniently located with the parts and trained technicians to service consumers vehicles. Upon approval of rejection Chrysler will send a letter to all customers noticing them of the 4 nearest dealers who can provide service. Further note that Customer Convenience (average distance from our customers have to travel to Chrysler, Jeep or Dodge) prior to rejection is 6.67 miles and will 7.09 miles post rejection. These distances still compare favorably to Toyota at 9.11 miles and Honda at 10.31 miles.

Customer Convenience Comparison by State

State	Current			Post-Tiger			Change			Honda	Toyota	Chevy	Ford
	Chrysler	Dodge	Jeep	Chrysler	Dodge	Jeep	Chrysler	Dodge	Jeep				
South Carolina	8.28	8.28	8.31	8.7	8.93	8.7	-0.4	-0.7	-0.4	11.09	10.52	6.41	7.65

Question 2. You have shared with the Committee some vague estimation of savings you, as manufacturers, expect to achieve from these dealership closings. Dealers dispute that they are a net cost to your company at all. Would you quantify for the Committee what the economic impact will be for communities affected by these closings, including: jobs; personal income; sales, property, and income tax revenue; local spending on community relations activities; local advertising, etc.?

Answer. As you highlighted in a December 10, 2008 press conference, the bankruptcy process provides the ability to restructure to save the maximum number of jobs. Our goal is to emerge bankruptcy with a new vibrant and sustainable company that will continue to employ workers and support numerous stakeholders. The alternative of liquidation would have a significantly more deleterious effect on the items listed above.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN THUNE TO
JAMES PRESS

Question 1. In response to my question regarding whether or not dealers who are being closed would have the opportunity to obtain new dealerships if and when they are established in the same town, both of you responded, "yes." Please elaborate on what, specifically, that means. Will they be given the right of first refusal, or were you suggesting merely that they would have the opportunity to apply, like anyone else might be able to do?

Answer. We will accept applications from any qualified candidate for consideration as a Chrysler dealership. Qualifications will include available capital, historical performance, management talent pool, facility and other elements.

Question 2. What level of influence does the U.S. Treasury, Secretary Geithner, the White House, or the President's Auto Task Force have on your company's business decision-making process?

Answer. Treasury is our lender of last resort. The Administration has left the business decisions up to company management.

Question 3. How do you plan to communicate with customers of dealerships that are scheduled to be closed? Will they have the information they need with regards to warranties and access to parts and service?

Answer. There will be over 2,300 remaining Chrysler, Jeep and Dodge dealerships conveniently located with the parts and trained technicians to service consumers vehicles. Upon approval of rejection Chrysler will send a letter to all customers noticing them of the 4 nearest dealers who can provide service and parts. Additionally there is a plan in place for individual dealers to communicate with the customers on an ongoing basis

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. ROGER WICKER TO
JAMES PRESS

Question 1. Mississippi has some parts that are quite rural, what assurances can you give to rural Mississippians that they will continue to have access to dealerships in their surrounding communities for future purchases and servicing of previously purchased vehicles?

Answer. There will be over 2,300 remaining Chrysler, Jeep and Dodge dealerships conveniently located with the parts and trained technicians to service consumers vehicles. Upon approval of rejection Chrysler will send a letter to all customers noticing them of the 4 nearest dealers who can provide service and parts. Specifically in Mississippi the effect for all markets will be:

Customer Convenience Comparison by State

State	Current			Post-Tiger			Change			Honda	Toyota	Chevy	Ford
	Chrysler	Dodge	Jeep	Chrysler	Dodge	Jeep	Chrysler	Dodge	Jeep				
Mississippi	11.99	12	12	12.55	12.55	12.55	-0.6	-0.6	-0.6	20.18	15.1	8.36	9.54

Question 2. Mississippi and many other states have franchise laws on the books that protect dealerships and consumers by ensuring a rational framework is in place for franchise termination. Some are suggesting Chrysler and GM are using their bankruptcy proceedings to get around these state laws. Would you care to respond to that claim?

Answer. The time-frame for discontinuing dealers was driven by the Chapter 11 process and the need for speed in order to preserve maximum value for Chrysler. Prior to May 1, Chrysler had planned to avoid bankruptcy. Only after filing did we begin the necessary process of actually identifying which dealers could go forward with the new company. Timing was mandated by the Chapter 11 proceeding, including the requirement to complete our strategic alliance with Fiat by June 15. It was important to Chrysler and Fiat that a new and stronger dealer network would be in place by the closing date. On May 14, we notified the dealers of our decisions, and later filed the list of discontinued dealers with the court.

Question 3. In your testimony you mention that 44 percent of the dealerships set to close earned a profit last year. Why is Chrysler closing dealerships that turned a profit last year? What other factors were taken into consideration?

Answer. The decisions made to either continue or discontinue dealer contracts were based on a consistent process that looked at all market types, Metro, Secondary, and Rural. This analysis reviewed many factors that are unique for each market and dealer.

These factors included:

- Total sales potential for each individual market
- Each dealer's record of meeting minimum sales responsibility
- A scorecard that each dealer receives monthly, and includes metrics for sales, market share, new vehicle shipments, sales satisfaction index, service satisfaction index, warranty repair expense, and other comparative measures
- Facility that meets corporate standards
- Location in regard to optimum retail growth area

Exclusive representation within larger markets (Dualed with competitive franchise)
Opportunity to complete consolidation of 3 brands (Project Genesis)

Appendix A

Business Center	Dealer Code	Dealership DBA Name	Dealer Principal	Street Address	City	ST	Zip Code
DENVER	43188	MEDVED CHRYSLER JEEP DODGE INC	JOHN F MEDVED	1100 SOUTH WILCOX STREET	CASTLE ROCK	CO	80104
DENVER	24238	PHIL LONG DENVER JEE-CHRY	ROBERT T LILEY	7800 WEST STANFORD AVENUE	DENVER	CO	80123
DENVER	44148	GO DODGE SOUTHWEST	HENRY S PHILLIPS	7980 W TUFTS AVE	LITTLETON	CO	80123-2400
DENVER	60182	LITHIA CHRYSLER JEEP DODGE OF	SIDNEY B DEBOER	5402 L STREET	OMAHA	NE	68117-1378
DENVER	66735	STEVEN CHRYSLER JEEP DODGE,INC	MICHAEL E STEVEN	11028 W KELLOGG ST	WICHITA	KS	67209-1227
DENVER	67360	PAINTER CHRY-DODGE-JEEP	PATRICK L PAINTER	1100 N MAIN ST	NEPHI	UT	84648
DENVER	67558	KOTBY MOTORS	MOHAMED G KOTBY	969 N 3RD ST	LARAMIE	WY	82072-2509
DENVER	67535	BARBER BROS MOTOR CO INC	FRED R BARBER	1339 NORTH MAIN STREET	SPANISH FORK	UT	84660-2411
DENVER	67407	PAINTERS SUN CTRY CHR INC	JAMES L PAINTER	1600 SOUTH HILTON DR	ST GEORGE	UT	84770-6763
DENVER	58812	JIM CLARK MOTORS INC	LORIS G BRUBECK	2121 W 29TH TERRACE	LAWRENCE	KS	66047-3163
DENVER	54433	ROBERT H HINCKLEY INC	DEALER PRINCIPAL	2810 WASHINGTON BLVD	OGDEN	UT	84401-4299
DENVER	66598	ROCKY MOUNTAIN CHRYSLER JEEP	HOMER K CUTRUBUS	770 WEST RIVERDALE ROAD	OGDEN	UT	84405-3716
GREAT LAKES	64950	SPITZER AUTOWORLD AKRON LLC	ALAN SPITZER	1535 V ODOM BLVD	AKRON	OH	44320-4027
GREAT LAKES	44717	KERRY CHRYSLER JEEP DODGE, INC.	PATRICK DECASTRO	701 CHAMBER DRIVE	MILFORD	OH	45150
GREAT LAKES	66559	ZIMMER CHRYSLER-JEEP	THOMAS W ZIMMER	1086 BURLINGTON PIKE	FLORENCE	KY	41042-1236
GREAT LAKES	55816	SPITZER MOTOR CITY INC	ALAN SPITZER	13001 BROOKPARK RD	CLEVELAND	OH	44142-1883
GREAT LAKES	63747	BIRMINGHAM CHRY PLYM JEEP EAGLE	RICHARD MEALEY	2100 W MAPLE RD	TROY	MI	48084-7128
GREAT LAKES	43947	NEIL HUFFMAN DODGE	DOW A HUFFMAN	4136 SHELBYVILLE ROAD	LOUISVILLE	KY	40207-3223
GREAT LAKES	68107	NEIL HUFFMAN CHRYSLER-JEEP	DOW HUFFMAN	4126 SHELBYVILLE ROAD	LOUISVILLE	KY	40207-3218
GREAT LAKES	52422	KEMPTHORN DODGE-DGE TRUCK	RICHARD J KEMPTHORN	1449 CLEVELAND AVE N W	CANTON	OH	44703-3181
GREAT LAKES	67568	KEMPTHORN MOTORS INC	RICHARD J KEMPTHORN	1449 CLEVELAND AVE N W	CANTON	OH	44703-3181
GREAT LAKES	23405	ELHART JEEP INC	WAYNE J ELHART	822 CHICAGO DR	HOLLAND	MI	49423-3006
GREAT LAKES	43251	ELHART DODGE INC	JEFFREY L ELHART	870 CHICAGO DRIVE	HOLLAND	MI	49423-3006
GREAT LAKES	62356	VER HAGE OF HOLLAND INC	LLOYD A VERHAGE	343 EAST 8TH STREET	HOLLAND	MI	49423-3787
GREAT LAKES	26160	ORRIN B HAYES JEEP-EAGLE	ROBERT O HAYES II	543 WEST MICHIGAN	KALAMAZOO	MI	49007-3796
GREAT LAKES	42267	M & M DODGE	RAND L KOETJE	3829 LAKE ST	KALAMAZOO	MI	49048-3313
GREAT LAKES	68591	MAPLE HILL CHRYSLER	JAMES K VANDENBERG	5622 W MAIN ST	KALAMAZOO	MI	49009-1014
GREAT LAKES	23428	MARTIN CHRY-JEEP	WILLIAM M MARTIN	8800 GRATIOT RD	SAGINAW	MI	48609-4809
GREAT LAKES	44571	DRAPER DODGE	ROBERT T DRAPER	4200 BAY ROAD	SAGINAW	MI	48603
GREAT LAKES	44188	GURLEY-LEEP DODGE INC	MICHAEL R LEEP	215 WEST DOUGLAS	MISHAWAKA	IN	46545
MID ATLANTIC	44755	BERGEY'S DODGE	KEVIN R BERGEY	1201 N BROAD ST	LANDSDALE	PA	19446
MID ATLANTIC	62431	KREBS CHRYSLER JEEP INC	JAMES J KREBS	1015 WILLIAM FLYNN HWY RTE 8	GLENSHAW	PA	15116
MID ATLANTIC	26616	KREBS DODGE	CHRISTOPHER C KREBS	100 KREBS DRIVE	GIBSONIA	PA	15044
MID ATLANTIC	39517	AIRPORT CHRYSLER JEEP	WALTER L LAWRENCE II	5400 S LABURNUM AVE	RICHMOND	VA	23231-4416
MID ATLANTIC	54193	REED BROTHERS DODGE INC	RICHARD L GARTNER	15955 FREDERICK ROAD	ROCKVILLE	MD	20855-2290
MID ATLANTIC	66264	LAKEFOREST CHRYSLER JEEP, INC	JOHN J FITZGERALD JR	903 N FREDERICK AVENUE	GAITHERSBURG	MD	20879-3307
MID ATLANTIC	63813	EAREHART CHRYSLER INC	GUS J FARRIS	250 AUTO PLAZA DRIVE	BECKLEY	WV	25801
MID ATLANTIC	68012	SCHAEFER & STROMMINGER DELMARVA	LOUIS M SCHAEFER	3132 AIREYS ROAD SPUR	CAMBRIDGE	MD	21613
MID ATLANTIC	68651	NELSON DODGE	BARRY L NELSON	303 W CHURCH ST	MARTINSVILLE	VA	24112-2613
MID ATLANTIC	26786	SCOTT NEWCOMB CHRYSLER JEEP	S. SCOTT NEWCOMB	7461 VIRGINIA AVE	BASSETT	VA	24055-6300
MID ATLANTIC	43024	BILL SPURLOCK DODGE INC	WILLIAM S SPURLOCK	351 FOURTH AVENUE	HUNTINGTON	WV	25701-1223
MID ATLANTIC	26413	DULLES JEEP	HAMID SAGHAFI	107 CATOCTIN CIRCLE SOUTHEAST	LEESBURG	VA	20175-3712
MID ATLANTIC	60220	POHANKA CHRYSLER DODGE OF LEESBURG	SCOTT A CRABTREE	219 CATOCTIN CIR SE	LEESBURG	VA	20175-3707
MID ATLANTIC	23318	KERN MOTOR COMPANY INC	RICHARD D KERN JR	2110 VALLEY AVE	WINCHESTER	VA	22601-2754
MID ATLANTIC	63143	PARSONS & PARSONS LC	FREDERICK K PARSONS	2525 VALLEY AVENUE	WINCHESTER	VA	22601-2761
MIDWEST	60230	ARLINGTON CHRYSLER JEEP DODGE	ROBERT V ROHRMAN	925 W DUNDEE RD	BUFFALO GROVE	IL	60089-4101
MIDWEST	68218	RICHARD CHRYSLER JEEP DODGE	ROCCO MASSARELLI	1845 E MAIN ST	ST CHARLES	IL	60174-2307
MIDWEST	41098	DON MILLER DODGE INC	DAVID J MILLER	754 E WASHINGTON AVE	MADISON	WI	53703-2934
MIDWEST	68165	DON MILLER CHRYSLER-JEEP INC	DAVID J MILLER	5339 WAYNE TERRACE	MADISON	WI	53718-6384
MIDWEST	42085	DODGE CITY OF MILWAUKEE INC	ROBERT SCHLOSSMANN	4640 SOUTH 27TH STREET	MILWAUKEE	WI	53221-2199
MIDWEST	68383	BRAEGER CHRYSLER JEEP	TODD M REARDON JT	6133S. 27TH ST	MILWAUKEE	WI	53221-4836
MIDWEST	66185	HENDRICKSON ENTERPRISE IN	DAVID L HENDRICKSON	3144 W HIGHWAY 62	BOONVILLE	IN	47601-9592
MIDWEST	44301	ERNIE VON SCHLEDORN LOMIRA, INC.	ERNST V SCHLEDORN	700 EAST AVENUE	LOMIRA	WI	53048
MIDWEST	43613	PLACH AUTOMOTIVE	CHARLES E PLACH	INTERSECTION HWY 45 & 54	NEW LONDON	WI	54961
MIDWEST	26040	UFTRING JEEP	GARY L UFTRING	500 FAIRLANE DR	EAST PEORIA	IL	61611
NORTHEAST	44906	WALSH DODGE INC	PETER WALSH	271 CULVER AVE	JERSEY CITY	NJ	07305-1121
NORTHEAST	60273	HUDSON CHRYSLER JEEP	KEVIN SREENAN	599 ROUTE 440	JERSEY CITY	NJ	07305-4878
NORTHEAST	68549	LOMAN CHRYSLER JEEP	DAVID LOMAN	3469 ROUTE 46	PARSIPPANY	NJ	7054
NORTHEAST	67225	A B C MOTORS INC	AARON BEECHER	395 WEST MERRICK RD	VALLEY STREAM	NY	11580-5243
NORTHEAST	42375	MOTOR MART DODGE	DONALD A CERRONE	800 WASHINGTON STREET	SOUTH ATTLEBORO	MA	02703-7598
NORTHEAST	60316	TARBOX CHRYSLER JEEP, LLC.	JAMES TARBOX	676 PLEASANT ST	ATTLEBORO	MA	02703-2529

Appendix A—Continued

Business Center	Dealer Code	Dealership DBA Name	Dealer Principal	Street Address	City	ST	Zip Code
NORTHEAST	42792	AMENIA MOTORS	THOMAS J BEVILACQUE	ROUTE 22	AMENIA	NY	12501
NORTHEAST	57104	WILLIAM T PRITCHARD INC	WILLIAM T PRITCHARD	304 S CAYUGA ST # 6	ITHACA	NY	14850-5512
NORTHEAST	58166	BALLENGER AUTOMOBILE CO	STEVEN H MCCANN	12 ROBERTS STREET	SANFORD	ME	04073-3998
NORTHEAST	25064	MILLER MOTOR CAR CORPORATION	WENDELL H MILLER	4455 VESTAL PARKWAY	VESTAL	NY	13851
NORTHEAST	62248	MATTHEWS CHRYSLER INC	JAMES F MATTHEWS	2100 VESTAL PARKWAY EAST	VESTAL	NY	13850-1999
NORTHEAST	43593	HOLLEY CHRYSLER DODGE JEEP	ROBERT G HOLLEY	1000R NEWFIELD ST	MIDDLETOWN	CT	06457-1818
NORTHEAST	23017	SEACOAST MOTORS OF SALISBURY INC	NICHOLAS G DIMOPOULOS	2 MERRILL ST	SALISBURY	MA	01952-2308
SOUTHEAST	45387	JOHN CULLEN DODGE, LLC	BARRY J CULLEN	40 WALT SANDERS MEMORIAL DR	NEWMAN	GA	30265-2169
SOUTHEAST	68992	SOUTHTOWNE MOTORS OF NEWMAN II INC	STEPHEN N MADER	800 BULLSBORO DR	NEWMAN	GA	30265-1034
SOUTHEAST	60332	MARK DODGE CHRYSLER JEEP, LLC	MARK E BONIOL	11300 HIGHWAY 92	WOODSTOCK	GA	30188-4331
SOUTHEAST	23808	DON DRENNEN CHRYSLER JEEP INC	DONALD W DRENNEN III	1626 MONTGOMERY HWY	HOOVER	AL	35216-4918
SOUTHEAST	67045	SUSAN SCHEIN CHRYSLER DODGE, INC.	SUSAN S SCHEIN	3311 HWY 31 SOUTH	PELHAM	AL	35124
SOUTHEAST	45190	GREATER BIRMINGHAM DODGE CHRYSLER	EDWIN H MILLER, JR.	9820 PARKWAY E	BIRMINGHAM	AL	35215-7302
SOUTHEAST	45314	METROLINA CHRYSLER JEEP DODGE	REGINALD T HUBBARD	7601 SOUTH BLVD	CHARLOTTE	NC	28273-6917
SOUTHEAST	23815	PREBUL CHRY-JEEP-DODGE	JOSEPH PREBUL	2120 CHAPMAN ROAD	CHATTANOOGA	TN	37421
SOUTHEAST	59580	CARUSO CHRYSLER JEEP DODGE	JOHN E CARUSO	10979 ATLANTIC BLVD	JACKSONVILLE	FL	32225
SOUTHEAST	41299	SPITZER DODGE INC	MARK P ARNOLD	30101 S FEDERAL HWY	HOMESTEAD	FL	33033-3205
SOUTHEAST	23926	SOUTHEAST CHRYSLER JEEP DODGE	WILLIAM J PRATT JR	2800 NOLENSVILLE ROAD	NASHVILLE	TN	37211-2240
SOUTHEAST	23984	COURTESY CHRY-JEEP OF CASSELBERRY	TODD F TYREE	485 HIGHWAY 436	CASSELBERRY	FL	32707-4912
SOUTHEAST	45157	WINTER PARK DODGE, INC.	DOUGLAS D PLATTNER	1050 NORTH ORLANDO AVE.	WINTER PARK	FL	32789
SOUTHEAST	41291	BOB DANCE DODGE INC	TEMPORARY DEALER	3775 NORTH HIGHWAY 17-92	SANFORD	FL	32773
SOUTHEAST	68166	COURTESY CHRYSLER JEEP OF SANFORD	THOMAS C HARDEMAN	1100 RINEHART ROAD	SANFORD	FL	32771
SOUTHEAST	60319	JOHNSON CHRYSLER DODGE JEEP OF	CARL D JOHNSON, JR.	925 JACKIE ROBINSON DR	DURHAM	NC	27701-3653
SOUTHEAST	60045	JUSTIN DODGE CHRYSLER JEEP LLC	TODD D HACIAS	647 HIGHWAY 53 EAST	CALHOUN	GA	30701
SOUTHEAST	44437	FAMILY DODGE-CHRY-JEEP	WILLIAM H ECHOLS	2840 HWY 129 SOUTH	CLEVELAND	GA	30528
SOUTHEAST	68685	VICTORY MOTOR COMPANY	FATE L WAGNER	625 EAST MAIN	PRATTVILLE	AL	36067
SOUTHEAST	23820	CLOVERLEAF CHRYSLER DODGE JEEP	TONY W MOORE	725 BELTLINE RD SW	DECATUR	AL	35601-6335
SOUTHEAST	26763	WALLACE CHRYSLER JEEP LLC	DAVID L SMITH	5555 S U.S. HIGHWAY 1	FORT PIERCE	FL	34982-7371
SOUTHEAST	68900	GOLDSBORO CHRY-DODGE-JEEP INC	HAL M HOWARD	604 HIGHWAY 70 EAST BY-PASS	GOLDSBORO	NC	27530
SOUTHEAST	23828	DON HILL JEEP EAGLE	J D HILL	2523 E STONE DR	KINGSPORT	TN	37660-5858
SOUTHEAST	42002	ALLEY'S CHRYSLER DODGE WORLD	WALLACE D ALLEY JR	2761 E STONE DR	KINGSPORT	TN	37660-5860
SOUTHEAST	66867	MASSEY-YARDLEY CHRYSLER DODGE	HERBERT G YARDLEY	8401 SE FEDERAL HIGHWAY	HOBE SOUND	FL	33455
SOUTHWEST	45068	ALLEN SAMUELS DODGE	ROBERT E MULLINGS	7309 N IH 35	AUSTIN	TX	78752
SOUTHWEST	26591	HUFFINES CHRYSLER JEEP	FRANK J KEARNS	5150 S I-35 E # SOUTH	DENTON	TX	76210-2341
SOUTHWEST	44524	JIM MCNATT DODGE	JAMES L MCNATT	4100 I-35 SOUTH	DENTON	TX	76210
SOUTHWEST	63181	PRESTON CHRYSLER JEEP	GARY LAU	13439 PRESTON ROAD	DALLAS	TX	75240-5277
SOUTHWEST	41933	MANUEL DODGE	TOMMY J MANUEL	1295 N CENTRAL EXPY	RICHARDSON	TX	75080-4606
SOUTHWEST	41548	BANKSTON DODGE OF GRAND PRAIRIE	DANIEL G AGNEW	2615 INTERSTATE 20	GRAND PRAIRIE	TX	75052
SOUTHWEST	68987	TOMMY MANUEL CHRY-JEEP	TOMMY MANUEL	1501 EAST I-20	ARLINGTON	TX	76014
SOUTHWEST	43928	MEDVED CHRYSLER JEEP DODGE INC	ROBERT P ARCHER SR	1100 SOUTH WILCOX STREET	CASTLE ROCK	CO	80104
SOUTHWEST	66098	PHIL LONG DENVER JEE-CHRY	ROBERT P ARCHER	7800 WEST STANFORD AVENUE	DENVER	CO	80123
SOUTHWEST	60020	GO DODGE SOUTHWEST	GARY L CURRY	7980 W TUFTS AVE	LITTLETON	CO	80123-2400
SOUTHWEST	45351	LITHIA CHRYSLER JEEP DODGE OF	LARRY P CRAIN	5402 L STREET	OMAHA	NE	68117-1378
SOUTHWEST	45231	STEVEN CHRYSLER JEEP DODGE, INC.	STEVEN G BONNER	11028 W KELLOGG ST	WICHITA	KS	67209-1227
SOUTHWEST	64255	PAINTER CHRY-DODGE-JEEP	FRENZEL J PERE	1100 N MAIN ST	NEPHI	UT	84648
SOUTHWEST	67936	KOTBY MOTORS	DON R HENDERSON	969 N 3RD ST	LARAMIE	WY	82072-2509
SOUTHWEST	67252	BARBER BROS MOTOR CO INC	DONALD R BARRIER	1339 NORTH MAIN STREET	SPANISH FORK	UT	84660-2411
SOUTHWEST	44181	PAINTERS SUN CTRY CHR INC	DONNA S CORLEY	1600 SOUTH HILTON DR	ST GEORGE	UT	84770-6763
SOUTHWEST	68323	JIM CLARK MOTORS INC	TERRY W REYNOLDS	2121 W 29TH TERRACE	LAWRENCE	KS	66047-3163
SOUTHWEST	45416	ROBERT H HINCKLEY INC	GAINES STANLEY	2810 WASHINGTON BLVD	OGDEN	UT	84401-4299
SOUTHWEST	60095	ROCKY MOUNTAIN CHRYSLER JEEP	JAMES M MELTON	770 WEST RIVERDALE ROAD	OGDEN	UT	84405-3716
SOUTHWEST	60309	SPITZER AUTOWORLD AKRON LLC	GAINES B STANLEY	1535 V ODOM BLVD	AKRON	OH	44320-4027
SOUTHWEST	45367	KERRY CHRYSLER JEEP DODGE, INC.	GAINES B STANLEY	701 CHAMBER DRIVE	MILFORD	OH	45150
SOUTHWEST	59524	ZIMMER CHRYSLER-JEEP	JAMES K JACKSON	1086 BURLINGTON PIKE	FLORENCE	KY	41042-1236
SOUTHWEST	58875	SPITZER MOTOR CITY INC	R A WHATLEY JR	13001 BROOKPARK RD	CLEVELAND	OH	44142-1883
SOUTHWEST	66851	BIRMINGHAM CHRY PLYM JEEP EAGLE	JAMES M BOUANCHAUD	2100 W MAPLE RD	TROY	MI	48084-7128
SOUTHWEST	44620	CHAMPION CHRYSLER DODGE JEEP	THOMAS J BRUNER	2321 STATE HIGHWAY 155	PALESTINE	TX	75803-8601
SOUTHWEST	56259	E H GREEN MOTORS INC	E H GREEN III	700 VOSS AVE	ODEM	TX	78370

Appendix A—Continued

Business Center	Dealer Code	Dealership DBA Name	Dealer Principal	Street Address	City	ST	Zip Code
SOUTHWEST	26507	WILSON JEEP EAGLE	DATHAN V WILSON	4850 WEST 6TH ST.	STILLWATER	OK	74074
SOUTHWEST	45088	FENTON MOTORS OF STILLWATER INC	TRAVIS L FENTON	4300 WEST SIXTH STREET	STILLWATER	OK	74074
SOUTHWEST	23904	CARLISLE JEEP	F BLANKENBECKLER III	IH 35E AND U.S. 287 BYPASS	WAXAHACHIE	TX	75165
SOUTHWEST	60254	BOSSIER DODGE	SCOTT BOSSIER	2405 N. INTERSTATE 35E	WAXAHACHIE	TX	75165
SOUTHWEST	26548	LEGLUE AUTOMOTIVE INC	JAMES A LEGLUE	4601 COLUSEUM BLVD	ALEXANDRIA	LA	71303-3518
SOUTHWEST	59731	M & M DODGE INC	OLIVER L MCMICKENS	3220 S MACARTHUR DR	ALEXANDRIA	LA	71301-2931
SOUTHWEST	26447	ED PAYNE JEEP-EAGLE	JAMES A PAYNE	1101 SOUTH COMMERCE	HARLINGEN	TX	78550
SOUTHWEST	68521	BERT OGDEN HARLINGEN MOTORS INC	DELBERT R CRUM	602 W JACKSON	HARLINGEN	TX	78550-6467
SOUTHWEST	23893	EDDIE CORDES JEEP-EAGLE-DODGE	EDDIE CORDES	4800 CACHE ROAD	LAWTON	OK	73505-3411
SOUTHWEST	64033	MILO GORDON CHRYSLER, INC	MICHAEL T WYATT	5002 CACHE ROAD	LAWTON	OK	73505
SOUTHWEST	23903	MARSTALLER MOTORS INC	RON D MARSTALLER	3000 SPEIGHT	WACO	TX	76711-1599
SOUTHWEST	41132	WACO DODGE SALES INC	SAMUEL H NAY III	1220 N VLY MILL	WACO	TX	76710
SOUTHWEST	68190	JEFF HUNTER CHRYSLER	JEFFREY M HUNTER	1440 W LOOP 340	WACO	TX	76712-6836
WEST	45350	URBAN CHRYSLER JEEP DODGE	JOHN O DJANAZIAN	81 AUTO CENTER DR	FOOTHILL RANCH	CA	92610-2816
WEST	43535	VALLEY DODGE INC	HOWARD S SELLZ	6110 VAN NUYS BOULEVARD	VAN NUYS	CA	91401-3305
WEST	60335	BIG VALLEY CHRYSLER JEEP	HOWARD S SELLZ	6110 VAN NUYS BLVD	VAN NUYS	CA	91401-3305
WEST	44385	SERRAMONTE CHRYSLER JEEP DODGE	B S SMITH	1500 COLLINS AVENUE	COLMA	CA	94014-3228
WEST	45438	BURLINGAME CHRYSLER JEEP DODGE	ANTONIO MA	1025 ROLLINS RD	BURLINGAME	CA	94010-2501
WEST	24202	BOARDWALK CHRYSLER PLYMOUTH JEEP	JAMIE G KOPF	1 BAIR ISLAND ROAD	REDWOOD CITY	CA	94063-2764
WEST	45150	PENINSULA DODGE	DENNIS E HECKER	640 VETERANS BOULEVARD	REDWOOD CITY	CA	94063
WEST	43687	DIRECT AUTO PLAZA	DAVID C MERRILL	2351 SOUTH 4TH ST	EL CENTRO	CA	92243
WEST	68333	LIBERTY MOTORS DODGE CHRYSLER	GARY K ALCOMBRACK	600 FREEMAN LANE	GRASS VALLEY	CA	95949
WEST	68266	LIBERTY CHRYSLER DODGE JEEP	DWIGHT G NELSON	369 N 11TH AVE	HANFORD	CA	93230
WEST	24140	CAMPBELL MOTORS INC	LARRY R CAMPBELL	1550 NORTH FIRST STREET	HERMISTON	OR	97838
WEST	57812	ISLAND DODGE	ROY M KITAGAWA	110 SOUTH HANA HIGHWAY	KAHULUI	HI	96732-2399
WEST	42443	RICHARDSON DODGE CHRYSLER JEEP	LAWRENCE RICHARDSON	1376 EAST F ST.	OAKDALE	CA	95361
WEST	44092	OROVILLE MOTORS INCORPORATED	SHIRLEY J CARPENTER	2700 LINCOLN BOULEVARD	OROVILLE	CA	95966
WEST	67959	TAYLOR-PARKER MOTOR CO	GREG TAYLOR	300 CEDAR STREET	SANDPOINT	ID	83864-1413
WEST	65269	MOTHER LODGE MOTORS	STANLEY M FLAKE	13411 MONO WAY	SONORA	CA	95370-5398
WEST	42779	JONES DODGE CHRYSLER JEEP	THOMAS G JONES	781 W WICKENBURG WAY	WICKENBURG	AZ	85390
WEST	43120	DODGE CITY CHRY-JEEP	KENT B SOWELL	79-025 HIGHWAY 11	LA QUINTA	CA	92253
WEST	24190	BUTTS JEEP-EAGLE	DONALD C BUTTS	4 HEITZINGER PLAZA	SEASIDE	CA	93955-3613
WEST	66860	LARRY MENWE INC	DOUGLAS A GRAHAM	6 HEITZINGER PLAZA	SEASIDE	CA	93955-3613

Appendix B
Estimated Annual Cost to Serve a Dealer

Cost Categories	Cost Items	Estimated Cost
Dealer Systems	<ul style="list-style-type: none"> • DealerCONNECT (<i>dealer-recovered</i>) • Five Star Dealer Web Sites (<i>dealer-recovered</i>) 	\$1,100
Transportation	<ul style="list-style-type: none"> • Vehicles (<i>partially dealer-recovered</i>) • Parts 	\$21,200
Training	<ul style="list-style-type: none"> • Training personnel/travel costs (<i>dealer-recovered</i>) • Training materials (CD-ROMS, manuals, etc.) (<i>dealer-recovered</i>) 	\$0
Marketing	<ul style="list-style-type: none"> • Brochures, displays, etc. (<i>dealer-recovered</i>) 	\$0
Field/BCs	<ul style="list-style-type: none"> • BC personnel/travel costs 	\$6,700
Audits	<ul style="list-style-type: none"> • Sales audit personnel/travel costs 	\$400
Dealer I.D.	<ul style="list-style-type: none"> • Signage/fascia costs (<i>partially dealer recovered</i>) 	\$300
Dealer Placement	<ul style="list-style-type: none"> • Ongoing franchise activity 	\$1,000
Compact Mail	<ul style="list-style-type: none"> • Ongoing compact mail costs 	\$1,000
BC/Corp. Administration	<ul style="list-style-type: none"> • Other G & A costs associated with dealer administration 	\$10,000
		Total: \$41,700

RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. JOHN D. ROCKEFELLER IV
TO FRITZ HENDERSON

Question. How many franchises do you intend to terminate (or not renew in October 2010) in areas in which GM later plans to establish a wholly new dealership?

Answer. This is not in our plan, however, we do expect there to be a handful of such circumstances.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN KERRY TO
FRITZ HENDERSON

Question 1. Please explain in detail the specific criteria and information you are using to decide on what dealerships and plants to close.

Answer. The following criteria were used:

- Minimum Sales Threshold
- Sales Effectiveness Index
- Customer Satisfaction Index
- Working Capital
- Profitability
- Dualing Patterns . . . including non-GM brands
- Dealership Location
- Facility (modern or outdated)
- Overall number of dealers in the market
- Other market factors

The overwhelming majority of the dealers receiving wind-down agreements had new vehicle retail sales below 50 a year or were dealers with a performance rating (their Dealer Performance Score (DPS) which is made up of sales performance, Customer Satisfaction Index (CSI), profitability and capitalization) under 70 on a scale where 100 is average. Dealers with scores lower than 70 are considered to be poor performing dealers.

Question 2. What assistance (financial and support services) does GM plan to provide to the thousands of displaced workers and their families?

Answer. Our plan, subject to bankruptcy approval, has significant transition assistance payments available to dealers who sign wind-down agreements. The assistance will allow dealers to plan an orderly transition, including with their employees.

Question 3. I understand that your dealer franchise agreements require GM, as the manufacturer, to repurchase a dealer's new car inventory and parts inventory at the dealer's cost in the event of a termination or surrender of the dealer's franchise. Is that correct?

Answer. The dealer agreement provides for new vehicle and parts inventory repurchase in certain circumstances. If a dealer chooses not to execute a wind-down agreement or otherwise terminates the dealer agreement and has a floor plan financing agreement with GMAC, GM will ultimately rebill the new vehicle inventory to other dealers at no cost to the dealer, pursuant to the GMAC guarantee.

Question 4. In the bankruptcy, will GM honor this obligation?

Answer. GM plans to honor the GMAC obligation and will rebill new vehicle inventory financed through GMAC at no cost to the dealer. In addition, we have a wind-down program in place for dealers which will allow them to sell the new vehicle and parts inventory over a 16 month period if they choose.

Question 5. If not, how can a terminated dealer be expected to dispose of the inventory in a short timeframe?

Answer. GM plans to honor the GMAC obligation and we will rebill new vehicle inventory financed through GMAC at no cost to the dealer. Under the wind-down agreement, the dealer has up to 16 months to sell their inventory of vehicles and parts.

Question 6. Is it realistic to expect customers to buy new cars from a dealer that has been terminated or designated for termination?

Answer. Yes. We have not disclosed the names of these dealers publicly.

Question 7. Is it fair to put that burden on the dealers that have been terminated?

Answer. We believe our approach provides significant wind-down assistance to the dealers.

Question 8. Would allowing the Dealers scheduled for termination or non-renewal to continue on as Certified Used Vehicle Dealers, without the ability to sell new vehicles, change your cost savings estimates?

Answer. The wind-down dealers will not be able to continue as GM Certified Used Car Dealers. However, we are going to allow these dealers access to the GM auction so they can purchase late model off-lease and rental vehicles.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. BYRON DORGAN TO
FRITZ HENDERSON

Question 1. I have heard from many of the dealers in my state that cutting dealerships will not save your company money. They point out that they are your customers, not cost centers. Can you outline the specific costs associated with maintaining a dealer network?

Answer. GM spends \$3.9 Billion per year supporting its dealer network. An approximate breakdown of costs on a per vehicle basis follows:

Additional Dealer Margins	\$300
Incentives Paid Directly to Dealer and Wholesale Inventory Floorplan Support	approximately \$250-\$330
Greater Standards for Excellence Payments	\$150
Greater New Vehicle Inspection Payments	\$150
Greater Fuel Fill Payments	\$50
Increased Sales and Service Field Support	\$20
Total	approximately \$900-\$1,000 per vehicle

Question 2. Our dealers point out that your companies don't spend money on ad buys in North Dakota communities. Most of the advertising comes from national ad buys. They also tell me that they pay for the training, materials, signs, etc. And it's my understanding that your reps don't call on our rural dealers very often. So I assume that your cost of maintaining a rural dealership is less than a large dealer in an urban area. Can you tell me what it costs you to have a franchise in a rural community?

Answer. We don't agree with the assumption laid out in this question. However, it is important to note that there are significant costs associated with maintaining rural dealerships. All dealers, including rural dealers, have the opportunity to participate in the GM funded programs set forth above including GM co-op advertising programs. The costs for these dealers is as set forth above. It is important to note that GM has and will continue to have the largest rural dealer network even after the restructuring of the dealer network.

Question 3. I assume most car dealers are smart small business men and women. If their operation is not profitable, why would they continue to be in business? You noted that most of the dealers you are closing will continue to operate as used car businesses. But our dealers say that without the new car business, it will be hard to survive. Their used car business depends on trade-ins and their reputation. Can you comment on that?

Answer. First, 67 percent of GM that received the wind-down agreements were unprofitable (an annual average loss of over \$110,000 per dealer per year based on 2008 data). GM plans to allow dealers that accept the wind-down agreement to have continued access to GM auctions. This will allow the dealers to purchase late model GM vehicles coming in from lease and rental service and then resell them to their customers.

Question 4. Why wouldn't you allow the dealers that you are closing to continue to perform service work under warranty?

Answer. Dealers that sign the wind-down agreement will be allowed to perform warranty work through October 2010. After October 2010, all warranty service will be performed at continuing GM dealers.

RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. BARBARA BOXER TO
FRITZ HENDERSON

Question. The NUMMI plant in California employs 5,440 in the Bay Area and has a significant impact on the California economy. On June 1, 2009, Automobile Magazine reported the following,

"Toyota President Katsuaki Watanabe told reporters that he hopes to continue operations at the NUMMI plant with GM, and even said his company would consider aiding GM in its restructuring plans if approached. But GM CEO Fritz Henderson

has said there would be no need for NUMMI after Pontiac disappears. Currently, the NUMMI plant produces the Pontiac Vibe crossover, along with the Toyota Corolla sedan and Tacoma pickup. Henderson added that nothing had been decided regarding NUMMI at this point." Does GM consider a strong NUMMI facility critical to the long term success of GM? What is GM's intent for the future of the NUMMI plant and its workers?

Answer. GM has valued relationship with Toyota at our joint venture, NUMMI, in Fremont, California. Discussions between GM and Toyota are underway to explore all options and alternatives to maintain an ongoing relationship.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. BILL NELSON TO
FRITZ HENDERSON

Question 1. In my state of Florida, the unemployment rate is at 10 percent. I am hearing from terminated dealers daily and just read in the paper that GM plans to close its distribution center in Jacksonville and lay off one-hundred ten employees. I'm very concerned about the impact of these dealer and distribution center closings not only on the jobs at the dealerships and distribution center but on the surrounding industries that do business with Chrysler and GM in the region. What programs/relocation assistance etc., have you identified as sources of possible mitigation of job loss be it temporary or long time that would provide relief for these workers impacted by the closing of the distribution or dealership?

Answer. Subject to bankruptcy court approval, there is a transition assistance program to assist the dealers in an orderly wind-down (made up of \$1,000 per vehicle inventory plus 8 months "rental assistance"). Dealers who sign a wind-down agreement will get their share of this assistance which will allow them plan an orderly transition.

Question 2. One of the concerns that I have been hearing about is that terminated dealers are not receiving compensation for their investment in the GM Franchise. I am told that the wind-down agreements that GM is offering to the terminated dealers include a compensation amount for the dealers. How did you arrive at that amount?

Answer. In the wind-down agreement there is \$1,000 for each vehicle in dealer inventory at the end of May 2009. Also, the wind-down agreement includes 8 months of "rental assistance".

Question 3. How long is the appeals process taking? If those dealers decide to appeal their termination through GM's appeal process will they lose their opportunity to sign the wind-down agreement if the appeal is not finalized before the June 12 deadline to sign the agreement?

Answer. Dealers have until June 8, 2009 to submit any data for review and we will complete that review by June 12, 2009. As a result, all dealers will have the opportunity to execute the documents by the deadline.

Question 4. How will the extensive dealership closings impact the ability of consumers to obtain non-warranty related repair and maintenance for their vehicles? Will you ensure that appropriate information is available to independent service providers so that consumers will have options? For GM—What criteria did General Motors use in determining which dealerships to close?

Answer. We will personally notify customers of any changes that affect them, and regardless of the brand vehicle they own today, we will honor all warranties and direct customers to new dealership locations after their current dealership closes.

If a GM customer's local dealer goes out of business, the customer can call the GM Customer Assistance Center (CAC) or go to any GM Brand website to locate the nearest dealer. Any GM dealer can service any GM vehicle in the case of an emergency. When a customer calls a GM dealer they must indicate the need for "emergency service".

The following criteria were used:

- Minimum Sales Threshold
- Sales Effectiveness Index
- Customer Satisfaction Index
- Working Capital
- Profitability
- Dualing Patterns . . . including non-GM brands
- Dealership Location
- Facility (modern or outdated)

Overall number of dealers in the market

Other market factors

Question 5. What were the threshold requirements used to determine who received a termination letter? What formulas were employed to make that determination? What demographic considerations went into making that decision?

Answer. The overwhelming majority of the dealers receiving wind-down agreements had new vehicle retail sales below 50 a year or were dealers with a performance rating (their Dealer Performance Score (DPS) which is made up of sales, Customer Satisfaction Index (CSI), profitability and capitalization) under 70 on a scale where 100 is average. Dealers with scores lower than 70 are considered to be poor performing dealers.

Question 6. Did you violate the spirit of its agreements with the dealers by requesting that they take in additional inventory and facility improvements when they knew that there was a high likelihood that they would go into bankruptcy?

Answer. Absolutely not. GM did not make any such requests to dealers that were outside normal day to day business activities.

Question 7. The Stimulus Package was designed to get people back to work and put capital in the hands of workers so that it would revive our ailing economy. Don't the plans by GM do just the opposite of what the Stimulus Package was designed to do by putting people with good paying jobs out of work?

Answer. The plan to establish an effective distribution network is integral to the viability plan for General Motors. The GM viability plan, which included addressing the legacy dealership network, was developed and submitted to the Auto Task Force. A viable GM plan was required to secure continued financial support which preserved over 200,000 jobs at GM's remaining dealers along with hundreds of thousands of jobs within GM's direct manufacturing and supplier network.

Question 8. Would you provide a list of all the dealerships that you provided closure notices to?

Answer. Dealers have asked us to keep the dealer names confidential so they can communicate with their employees and customers directly in a way that facilitates the wind-down of their operation. We are working with the committee staff of the Senate Commerce Committee to provide this list in a manner that protects dealer confidentiality.

Question 9. One local dealership in Miami Shores, FL, Tropical Chevrolet, employs over 80 employees. The local government depends on its tax revenue in order to support essential services. Other local businesses depend upon it for revenue that they receive from making sales to it. It is the largest tax payer in Miami Shores. What data can you produce that shows the economic impact on communities like Miami Shores when GM makes this type of closure decision?

Answer. We do not have any such data but one of the reasons we are providing transitional assistance as outlined below is to allow an orderly wind-down of the business.

Question 10. What is being done for franchise owners many of which are family businesses now obligated to repay debt incurred because of the decisions by GM?

Answer. Subject to bankruptcy court approval, there is a transition assistance program to assist the dealers in an orderly wind-down (made up of \$1,000 per vehicle inventory plus 8 months "rental assistance"). Dealers who sign a wind-down agreement will get their share of this assistance which could be used to address such issues.

Question 11. It is my understanding that, under the proposed General Motors bankruptcy plan, families driving any General Motors vehicle now on the road (about 30 million vehicles), whose occupants are severely injured or killed in a crash will have limited avenues of recourse against the company. I know that warranty claims and lemon law claims for old vehicles will be honored by the new companies, in the hopes of preserving brand loyalty among GM customers. Why did GM decide to honor warranty and lemon law claims, but not current and future product safety liability? Is that fair?

Answer. Product defect claims are typically subject to court proceedings and litigation and it is standard practice for a company that has been forced to file for bankruptcy protection to seek current and future protection from such claims. With respect to customer warranties, GM plans to meet all obligations to repair its customers' vehicles under applicable warranties.

Question 12. Many state laws specify that the dealers (including those forced to close) will stand in your shoes and be responsible for product safety issues associated with GM products. Why should they and not you be responsible?

Answer. If a dealer signs either the wind-down or participation agreement GM will continue with its indemnification obligations to the dealers so dealers will not be in this position. This issue is specifically addressed in the agreements.

Question 13. Thousands of GM workers are living out their retirement years in Florida, including more than 10,000 nonunion retirees and their spouses, 4,000 retired autoworkers who live at least part time in Southwest Florida and an estimated 3,000 retired autoworkers living in the Tampa Bay Area.

In the event GM cannot continue to maintain their pension plans, the Pension Benefit Guaranty Corporation could be responsible for paying the benefits of about 600,000 people who receive pension payments from GM.

To the extent these additional claims substantially increase PBGC's accumulated deficit and decrease its long-run liquidity, there could be pressure for the Federal Government to provide PBGC financial assistance to avoid reductions in guaranteed payments to retirees or unsustainable increases in the premium burden on sponsors of ongoing plans.

Because of the potential role of the Federal Government in backing these pension plans and because this is an important to so many Floridians, I would like to know what steps are being taken to continue support for these pension plans? In the event the pension obligations cannot be fulfilled, what steps are being taken to ensure that beneficiary payments are not disrupted? Are you confident in the ability of PBGC to meet these pension obligations?

Answer. We believe that the General Motors Salaried Retirement Program and Hourly Pension Plan are generally strongly funded. Although they are currently less than 100 percent funded, we believe that shortfall reflects the present weakness of the financial markets and is likely to be corrected when market conditions improve.

As of December 31, 2008, our hourly pension plan was approximately 84 percent funded and our salaried retirement program was approximately 95 percent funded. Together, the plans had \$84.5 billion in assets as of the end of last year. If the December 31, 2008 funded status is adjusted to eliminate the pension pass-through benefit, which was recently agreed upon with the UAW, the hourly pension plan would have been approximately 88 percent funded as of the end of last year.

We have stated that we intend to continue to provide pay and benefits for our employees and retirees during this Chapter 11 process. Additionally, we have stated that it is our plan to bring the salaried retirement program and the hourly pension plans into the new company and that we do not expect any interruption in pension benefit payments at this time.

GM, of course, cannot comment regarding the PBGC's ability to make benefit payments. Such a response would have to come from the PBGC.

This said, it is important to restate that the GM pension and retirement plans are close to fully funded, and it is GM's intention, at this time, to continue to sponsor the plans and make the benefit payments as required under the plan provisions.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARIA CANTWELL TO
FRITZ HENDERSON

Question 1. How will closing 1,100 GM dealerships directly benefit consumers?

Answer. It will allow GM and the remaining 3,600–3,800 GM dealers to be viable long-term which benefits consumers and the country. Stronger dealers offer customers improved vehicle selection and ongoing service.

Question 2. How many dealerships did GM send termination notices to in Washington State?

Answer. 18 dealers received the GM wind-down agreement.

Question 3. In each of the past 5 years, how many dealership agreements have been terminated?

Answer. GM has terminated very few dealerships. However, many dealers have voluntarily elected to terminate. Over the past 5 years, 1,124 dealerships have voluntarily terminated.

Question 4. After GM exits bankruptcy, will the renegotiated "Dealers Sales and Service Agreement" between the company and the dealers of "New GM" going forward be subject to state franchise laws or are the terms and conditions in these agreements structured in a way so that state franchise laws will be essentially moot?

Answer. Yes, State franchise laws will apply to the participation agreement.

Question 5. How do you rebuild the trust with your remaining dealer network?

Answer. Frankly, many of our dealers are telling us our plan is exactly the right thing to do—that GM has had too many dealers for a viable long-term dealer network.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. CLAIRE McCASKILL TO
FRITZ HENDERSON

Question 1. How many General Motors dealerships in Missouri have received notification that General Motors will be terminating their contract? How many of those dealerships are in rural cities in Missouri? By rural I am referring to locations in cities of 20,000 or less.

Answer. 38 Dealers in the state of Missouri have received GM wind-down agreements and of those, 25 are located in rural cities.

Question 2. I am aware of many General Motors dealerships that have been notified of a pending termination. Several of them have contacted me regarding their appeals. Please have your staff contact Nichole Distefano, Legislative Counsel, when decisions are made regarding the appeals of Missouri dealerships.

Answer. We will work with Ms. Distefano regarding appeals from dealers that have contacted you.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARK PRYOR TO
FRITZ HENDERSON

Question 1. Our state auto dealer association has indicated that your bankruptcy plans could lead to the end of franchise contracts for 25–30 GM dealerships in Arkansas representing approximately 2,000 jobs. Can you tell me how many dealerships in Arkansas you expect to drop in the bankruptcy process?

Answer. 17 dealers received the GM wind-down agreement.

Question 2. Would you describe the specific cost savings that come with these closures in Arkansas?

Answer. GM spends \$3.9 Billion per year supporting its dealer network. An approximate breakdown of costs on a per vehicle basis follows:

Additional Dealer Margins	\$300
Incentives Paid Directly to Dealer and Wholesale Inventory Floorplan Support	approximately \$250–\$330
Greater Standards for Excellence Payments	\$150
Greater New Vehicle Inspection Payments	\$150
Greater Fuel Fill Payments	\$50
Increased Sales and Service Field Support	\$20
Total	approximately \$900–\$1,000 per vehicle

We do not have the costs broken down by state.

Question 3. Do you have an estimate on jobs that are at risk at these dealerships?

Answer. No. Many dealers operate multiple businesses and employees at affected dealers may have opportunities to work at other business operations of the dealer.

Question 4. I've been contacted by a handful of Arkansas dealerships that have received letters from GM that told them that they were to be shut down by Sept 2010. They don't believe that the information supplied in the letters is entirely accurate. One specific example comes from a dealer in Arkansas, who has been selling GM product for over 60 years. They are viable and profitable company in excellent credit standing. Last year they sold over 300 units. They employ 30 people and have donated tens of thousands for charity in their community of 6,500. They are also in a competitive market with Chrysler and Ford dealerships in the same town. They have informed me that the data used in determining their status under bankruptcy was incorrect and that if correct data were used they would have passed all the determining tests. What are you doing to provide a venue for dealerships to dispute or appeal the letters that you have sent?

Answer. Dealers' wishing to submit facts or request review of their specific situation must submit the request in writing to: gmdealernetworkquestions@gm.com (from the Dealer Operator named in Paragraph 3 of the Dealer Sales and Service Agreement). The submission must include BAC, Dealer Company Name, address, City and State and must be received on or before June 8, 5:00PM ET so GM has time to review it prior to June 12, 2009. GM is working around the clock to thoroughly review and reply to dealer submissions.

Question 5. To date, GM has received \$20 billion with a plan to provide an additional multi-billion dollar sum to get through bankruptcy. In return, the Federal Government will hold a 60 percent share in GM. Can you please tell me how or when your companies will repay the government?

Answer. We take our responsibility to the American taxpayer very seriously. A New GM will contribute to America's economic strength and competitiveness. With a viable GM the government will be able to sell its shares over time to repay the taxpayers.

Question 6. In your discussions with the Auto Task Force, have your companies or the Auto Task Force considered or developed any plans to deal with the impact of dealership and plant closures on home foreclosures, increased unemployment assistance, job training, lost local tax revenues, etc.?

Answer. Subject to bankruptcy court approval, there is a transition assistance program to assist the dealers in an orderly wind-down (made up of \$1,000 per vehicle inventory plus 8 months "rental assistance"). Dealers who sign a wind-down agreement will get their share of this assistance which will allow them to plan an orderly transition.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. TOM UDALL TO
FRITZ HENDERSON

Question 1. Mr. Henderson, I was listening to NPR recently and heard you say that GM would now focus on being the best, not just the biggest, auto manufacturer. When I heard that my first thought was—what does best mean? You may know that I support increasing fuel-efficiency in all vehicles because it's the right thing to do for our environment, our future, and I believe, our wallets. So when you said GM would strive to be the best automaker, does best mean making more fuel-efficient cars? What role do you see fuel-efficiency and environmental responsibility playing in the future of GM?

Answer. General Motors is among the industry leaders in fuel efficiency and is committed to a wide variety of technologies to reduce petroleum consumption. We are also committed to meeting or exceeding all Federal fuel economy standards. The company will achieve this through a combination of strategies, including: extensive technology improvements to conventional powertrains, and increased use of smaller displacement engines and 6-speed automatic transmissions; vehicle improvements including increased use of lighter, front-wheel drive architectures; increased hybrid offerings, and the launch of General Motors first extended-range electric vehicle, the Chevrolet Volt in late 2010; portfolio changes, including the increasing car/crossover mix referred to preciously, and dropping select larger vehicles in favor of smaller, more fuel-efficient offerings. At General Motors, we believe low gas prices are a thing of the past. As a result our product and technology plans assume that customer will make purchasing decisions based on high gasoline prices.

General Motors fully understands and appreciates the challenges to energy security and the climate from increased global consumption of petroleum. GM believes that as a business necessity it must do everything it can to help reduce the Nation's petroleum dependency and greenhouse gas emissions, with an emphasis on fuel efficiency, bio-fuels and vehicle electrification. As a result, we will be investing heavily in alternative fuel and advanced propulsion technologies during the 2009–2012 timeframe. This investment is substantially to support the expansion in hybrid offerings and for the Volt's extended range electric vehicle.

Eventually we intend to remove the vehicles from the environmental equation by developing and implementing fuel cell vehicles that run on hydrogen power.

Question 2. Mr. Henderson, My colleagues and I probably all remember when the saying—"What's good for GM is good for America"—was popular. It seems now that some people might not agree. Would you still say that what is good for GM is good for America? If so, how will closing these dealerships and filing for bankruptcy be good for the American people?

Answer. Over the course of 100 years, GM has been woven throughout the economic and social fabric of America. In large part to our business, we helped establish America as a manufacturing and industrial power. GM helped create the middle class through good paying jobs and extended opportunities to those who experienced the sting of discrimination in its many insidious forms. We were a part of the Arsenal of Democracy in World War II, building the planes and weapons that would keep the world free from unspeakable evil. We created upward mobility through training, tuition assistance and scholarships. Our innovation and creativity resulted in new technologies that made driving safer and our air cleaner. Our people and

facilities supported whole communities and countless worthy causes that united neighbors and assisted the less fortunate.

Our history and the economic contribution cannot be forgotten or diminished as we struggle through the recent unprecedented economic crisis that has affected all automakers around the globe. We have undertaken dramatic—and at times painful—action to reinvent GM in order to not only survive, but to thrive. We want to emerge as a New GM that will reassert its leadership and once again contribute to America's economic, technological and competitive strength.

The Company believes this Plan puts its business, both in the United States and around the world, on sound, sustainable and competitive footings. It builds on demonstrated, world class capabilities in design, engineering, fuel efficiency, purchasing and manufacturing, importantly closing competitive cost gaps and resolving long-standing legacy cost issues that have contributed to unsupportable debt levels.

This New GM will be built from the strongest parts of our business, including our best brands, and our very finest products. We will have far less debt, fully competitive labor costs, and the ability to generate sustained and positive bottom line performance. The New GM will have a significantly stronger and healthier balance sheet—and a dealership network properly sized to match—which will allow us to better support our brands and products through investment, increase our investment in new technology, and be able to weather difficult times.

While our preference was to create a New GM through other paths, the most important thing to do is to get to our destination, restructure General Motors permanently, and get there fast. The actions we need to take in order to do this include a number of extraordinarily difficult steps. Especially tough and painful are the actions to close additional plants, dealerships and further reduce our U.S. hourly and salaried employment. Many have sacrificed so much in this regard, who have sacrificed in the past and will sacrifice in the future, including our dealers, suppliers, retirees, plant communities, as well as those who will continue to invest and in fact share the sacrifice in the future and in the days ahead.

This sacrifice is undertaken to ensure a recovery will come—in the form of stock and warrants—and reminds us of the importance of delivering in the future, so that our country, the taxpayer and all stakeholders get a recovery on their investment, and they're able to reduce the amount of damage that they've sustained. It's the job of management to maximize the return on our stock by producing the results, including generating cash as soon as possible to invest in our business, to grow, to be product-focused and in fact to reward the confidence of the taxpayers of the U.S. and Canada, but of the very parties that we're asking to sacrifice so that there can be a New General Motors.

While painful, these initial weeks and months mark the beginning of what will be a new company, a New GM, dedicated to building the very best cars and trucks, highly fuel efficient, world class quality, green technology development, and with truly outstanding design. And above all, the New GM will be rededicated in our entirety as a leadership team to our customers. A number of our cars and trucks from the Chevy Volt, the Buick LaCrosse, the Chevrolet Camaro and Equinox, the GMC Terrain and the Cadillac SRX, amongst others, are already world-class or in the case of advanced technology, are breaking new ground. We need to make sure that all of our products are world-class and that will be our focus going forward. We need to make sure every single one of our vehicle launches is an outstanding car or truck.

We are grateful to the Congress, Administration and taxpayer for the opportunity that's being provided to us to reinvent General Motors. We know we need to prove ourselves and to do it every day and we will. And we will do it right and we will do it once. This is not the end of General Motors but the start of a new and better chapter, one that needed to happen and one that begins now.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARK BEGICH TO
FRITZ HENDERSON

Question 1. Describe for the Committee what steps GM is taking to ensure the long-term growth of the reformed company?

Answer. The New GM will be well-positioned to capitalize on the award-winning vehicles we have developed and launched during the past few years, and on our investments in exciting new technologies like the Chevy Volt, so that we can build and return value to our customers and to the millions who will have a stake in our success. The New GM will play a critical role in the future of the automobile, and assure that the U.S. has a strong stake in this rapidly changing global manufacturing industry.

Question 2. As GM reorganizes and grows, it will likely need dealership growth to expand as well. Once reorganization is complete, how will GM expand their dealership network?

Answer. There are no current plans to expand the GM dealer network. Our current plan is to have 3,600—3,800 viable dealers.

Question 3. What happens to GM dealers with remaining inventory who do not sign “wind-down” agreements by June 12, 2009?

Answer. If the dealer does not sign the GM wind-down agreement, GM will have no choice but to terminate the dealer given the bankruptcy process.

Question 4. What mitigation practices are in place for terminated GM employees?

Answer. Employees impacted by GM restructuring efforts receive the following: Severance pay, health care and life insurance coverage for up to 6 months. Outplacement services are provided for 3 months. Former GM employees are also eligible for the GM vehicle purchase discount for up to 4 years after the separation date.

Question 5. What mitigation practices are in place for terminated dealerships and their employees to ensure dealerships have the ability to deal with the transitions they will have to make as a result of “winding down”?

Answer. Subject to bankruptcy court approval, there is a transition assistance program to assist the dealers in an orderly wind-down (made up of \$1,000 per vehicle inventory plus 8 months “rental assistance”). Dealers who sign a wind-down agreement will get their share of this assistance.

Question 6. What compensation will GM offer to dealers for investments they have made in their land and in their buildings?

Answer. Subject to bankruptcy court approval, the wind-down agreement will provide assistance of \$1,000 for each vehicle in dealer inventory at the end of May 2009. Also, the wind-down agreement includes 8 months of “rental assistance”. The specific amount for a dealership is contained in the wind-down agreement.

Question 7. Are their situations where you will extend the deadline that allows dealers to sell off their inventory and recoup their investment?

Answer. The bankruptcy process will not allow for an extension of the deadline.

Question 8. How will you ensure vehicle owners in small towns with terminated GM dealerships will have a place to have warranty-service performed on their vehicles?

Answer. We will still have an extensive rural network of 1,505 dealers nationally. This compares very favorably with all our key competitors.

Question 9. Did GM work with the National Automobile Dealers Association on language for the “wind-down” agreement? If not, why not?

Answer. We shared the concept with some members of GM’s National Dealer Council and National Automobile Dealers Association representatives. We have been advised by numerous dealers that they are very pleased with the way GM is handling the wind-down agreement. As of Friday afternoon, June 5, 2009, over 490 dealers have executed and returned wind down agreements to GM with several hundred more expected to be received shortly.

Question 10. Please provide documentation on the actual savings GM will achieve by closing dealerships, detailing what specific items GM has calculated into the cost factor.

Answer. GM spends \$3.9 Billion per year supporting its dealer network. An approximate breakdown of costs on a per vehicle basis follows:

Additional Dealer Margins	\$300
Incentives Paid Directly to Dealer and Wholesale Inventory Floorplan Support	approximately \$250–\$330
Greater Standards for Excellence Payments	\$150
Greater New Vehicle Inspection Payments	\$150
Greater Fuel Fill Payments	\$50
Increased Sales and Service Field Support	\$20
Total	approximately \$900–\$1,000 per vehicle

Question 11. Please confirm for the Committee that notwithstanding the terms of the “agreements” you have imposed on the terminated dealerships that the new GM will not use funds made available to it by the U.S. Treasury to contest the ability of these dealerships to challenge the terminations in court.

Answer. We are not imposing agreements on dealers. If they elect to sign a wind-down or participation agreement we expect them to be bound by that agreement.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. KAY BAILEY HUTCHISON TO
FRITZ HENDERSON

Question 1. In your wind-down agreements offered to discontinued dealers, you state that no dealership signing the agreement will continue beyond October 2010, and from January 1, 2010 to October 2010, GM can terminate the dealership with 30 days notice. Will you terminate a dealer that signs this agreement prior to October 2010?

Answer. We retained this right in the wind-down agreement to address the rare case of a breach of the agreement by the dealer.

Question 2. Is 30 days a sufficient length of time for a GM dealer to wind-down operations?

Answer. Our plan does not contemplate a 30 day wind-down agreement. Our plan for dealers who sign wind-down agreements allows a 16-month period to wind-down. At the end of the 16-month timeframe, the dealer should have very limited inventory.

Question 3. If a dealer does not sign the wind-down agreement, will you seek to terminate that dealer during the bankruptcy proceeding?

Answer. Given the bankruptcy court process and timing, we will have no choice but to move to reject the dealer sales and service agreement.

Question 4. If a dealer does not sign the wind-down agreement, will the dealer have until October 2010 to wind-down his operations?

Answer. The bankruptcy court process requires us to reject the dealer sales and service agreement.

Question 5. If a dealer signs the wind-down agreement, is he precluded from appealing his termination?

Answer. We will have all requests for reviews submitted by dealers concluded before the June 12, 2009 deadline so this should not be an issue.

Question 6. The wind-down agreement appears to require a dealer to waive all of his rights under state and Federal law, now and in the future, for any and all claims arising from GM conduct. Why do you believe it is appropriate and necessary to require such a significant waiver of legal rights?

Answer. If the dealer does not sign the wind down agreement, the dealer agreement will be rejected in the bankruptcy court process. Given that fact, we believe the execution of a release of claim is appropriate for dealers executing a wind-down agreement.

Question 7. Did anyone in the Federal Government see or approve this agreement prior to its release to the dealers?

Answer. We did provide drafts of the participation agreements to the Task Force and counsel for the Treasury Department on an informational basis.

Question 8. For dealers being offered franchise renewal agreements, how long does the dealer have to sign the agreement?

Answer. They are not renewal agreements, but do supplement the existing dealer agreement. Dealers have until June 12, 2009 to execute the documents.

Question 8a. We have heard that the conditions in the continuing agreements vary significantly from the existing agreements. For example, I understand that after December 2009, any GM dealership will have to be an exclusive dealership—in other words if it currently is a GM and Ford dealership, the GM franchise can only continue if the Ford dealership is moved out. That seems to impose an additional financial burden on the dealership with very little time to comply. Is this true and, if so, why are you requiring this?

Answer. It is increasingly the standard of the industry to have exclusive facilities to sell and service brands. This will ensure that the focus of our dealerships is on the GM brands. We of course will work with dealers on their timing to accomplish this if there are specific issues outside of their control.

Question 8b. I also understand that the proposed agreements would allow GM to place a new dealership at least 6 miles from an existing dealership AND that the existing dealership has to waive its existing rights to challenge the new placement. Is this true and, if so, why are you requiring this?

Answer. Given GM's legacy network in some markets, dealer relocations and additions may be required. In no case does GM plan to increase the net number of dealers in a market over what it is today.

Question 8c. In the context of these renewal agreements, I understand the agreement requires a dealer to waive all of his rights under state and Federal law, now and in the future, for any and all claims arising from GM conduct. Why do you be-

lieve it is appropriate and necessary to require such a significant waiver of legal rights?

Answer. To clarify, the agreements are not renewal agreements, but do supplement the existing dealer agreement. The participation agreement does not require a waiver of future claims. It does, however, include the same waiver of all past claims that would apply as if the dealer agreement was rejected in bankruptcy in accordance with the bankruptcy process.

Question 8d. Did anyone in the Federal Government see or approve these new franchise agreements before their submission to the dealers?

Answer. There are no new franchise agreements. We did provide drafts of the participation agreements on an informational basis.

Question 9. On May 25, in the publication Automotive News, GM executive Jim Bunnell was quoted as saying, "Certainly we're going to comply with all of the state laws." Are you going to follow all state laws for dealerships you are terminating as well as those that are continuing beyond 2010 despite the fact that you are in bankruptcy proceedings?

Answer. We are complying with all applicable laws.

Question 10. There are concerns that some of the terminated franchises will be offered to new dealers in the near future. If so, will the closed dealers have a right of first refusal or opportunity to compete for that franchise?

Answer. This is not in our plan, however, we do acknowledge the possibility of a handful of such circumstances.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JIM DEMINT TO
FRITZ HENDERSON

Question 1. Chrysler and GM dealer closings will create many burdens for local communities and car owners. For car owners, especially in rural areas, the distance and associated travel costs to surviving dealerships to maintain and repair their cars will increase, in some cases dramatically. How will the dealership closings impact the ability of consumers to obtain non-warranty related repair and maintenance for their vehicles?

Answer. There should be no significant impact as we believe we still have very good market coverage. GM will still have 3,600–3,800 dealers compared to Toyota's 1,200 dealers. Our current plan is to have over 1,500 rural and nearly 1,000 hubtown dealers by 2010. Again, this is far more extensive than any of our competitors.

Question 2. You have shared with the Committee some vague estimation of savings you, as manufacturers, expect to achieve from these dealership closings. Dealers dispute that they are a net cost to your company at all. Would you quantify for the Committee what the economic impact will be for communities affected by these closings, including: jobs; personal income; sales, property, and income tax revenue; local spending on community relations activities; local advertising, etc.?

Answer. GM spends \$3.9 Billion per year supporting its dealer network. An approximate breakdown of costs on a per vehicle basis follows:

Additional Dealer Margins	\$300
Incentives Paid Directly to Dealer and Wholesale Inventory Floorplan Support	approximately \$250–\$330
Greater Standards for Excellence Payments	\$150
Greater New Vehicle Inspection Payments	\$150
Greater Fuel Fill Payments	\$50
Increased Sales and Service Field Support	\$20
Total	approximately \$900–\$1,000 per vehicle

We do not have the data on the other questions but our plan does include, subject to bankruptcy court approval, significant transition assistance for wind-down agreements. The assistance will assist dealers to wind-down their dealership in an orderly fashion, minimizing the impact to the extent possible on employees and communities.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN THUNE TO
FRITZ HENDERSON

Question 1. I understand that about 80 percent of GM dealers nationwide are financed by GMAC, and GM has a commitment to buy back unsold inventory from any GM dealership financed by GMAC. GM has also stated that it will allow af-

ected dealers to appeal a closure decision. Will all dealers whose contracts are not being renewed that have remaining inventory after October 2010 be purchased back?

Answer. The dealer agreement provides for new vehicle and parts inventory repurchase in certain circumstances. If a dealer chooses not to execute a wind-down agreement or otherwise terminates the dealer agreement and has a floor plan financing agreement with GMAC, GM will ultimately rebill the new vehicle inventory to other dealers at no cost to the dealer, pursuant to the GMAC guarantee.

Question 1a. To what extent, if any, do the new “wind-down” agreements impact whether or not unsold inventory is repurchased?

Answer. We do not expect dealers who sign the wind-down agreement will have any significant remaining inventory by October, 2010. The dealer agreement still provides for new vehicle and parts inventory repurchase in certain circumstances. In addition, if a dealer has a floor plan financing agreement with GMAC, GM will ultimately rebill the new vehicle inventory to other dealers at no cost to the dealer, pursuant to the GMAC guarantee.

Question 2. In my meeting with GM representatives, we discussed how many of the GM dealerships scheduled to be closed in South Dakota also sell used cars. Assuming at least some of these dealerships want to remain used car dealers, will they at least have the opportunity to retain their GM service license in order to provide service repairs for their GM customers?

Answer. No, we do not believe “service only” agreements are appropriate.

Question 3. In response to my question regarding whether or not dealers who are being closed would have the opportunity to obtain new dealerships if and when they are established in the same town, both of you responded, “Yes.” Please elaborate on what, specifically, that means. Will they be given the right of first refusal, or were you suggesting merely that they would have the opportunity to apply, like anyone else might be able to do?

Answer. There are no current plans to expand the GM dealer network. If new dealerships are needed in the future, individuals who receive a wind-down agreement will have the same ability to apply as anyone else.

Question 4. What level of influence does the U.S. Treasury, Secretary Geithner, the White House, or the President’s Auto Task Force have on your company’s business decision-making process?

Answer. With respect to the dealer plan of March 31, they stated in their formal response to our viability plan of February 17 that they felt our dealer network plans to be inadequate and not aggressive enough to ensure a viable General Motors.

Question 5. How do you plan to communicate with customers of dealerships that are scheduled to be closed? Will they have the information they need with regards to warranties and access to parts and service?

Answer. We will personally notify customers of any changes that affect them, and regardless of the brand vehicle they own today, we will honor all warranties and direct customers to new dealership locations after their current dealership closes.

If a GM customer’s local dealer goes out of business, the customer can call the GM Customer Assistance Center (CAC) or go to any GM Brand website to locate the nearest dealer. Any GM dealer can service any GM vehicle in the case of an emergency. When a customer calls a GM dealer they must indicate the need for “emergency service”.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. DAVID VITTER TO
FRITZ HENDERSON

Question 1. What criteria did General Motors use in determining which automobile dealers would be closed? Please provide specific background on the ranking or scoring system used by GM to determine which dealerships would be not renewed for contracts with GM.

Answer. The following criteria were used:

- Minimum Sales Threshold
- Sales Effectiveness Index
- Customer Satisfaction Index
- Working Capital
- Profitability
- Dualing Patterns . . . including non-GM brands
- Dealership Location

Facility (modern or outdated)
 Overall number of dealers in the market
 Other market factors

The overwhelming majority of the dealers receiving wind-down agreements had new vehicle retail sales below 50 a year or were dealers with a performance rating (their Dealer Performance Score (DPS) which is made up of sales, Customer Satisfaction Index (CSI), profitability and capitalization) under 70 on a scale where 100 is average. Therefore, therefore such dealers were performing at poor levels.

Question 2. It is my understanding that certain dealers that were closed were profitable. What was the process used by GM to close profitable dealers, and what is the reasoning to close profitable dealers when the company has filed for bankruptcy?

Answer. Our process is outlined in our response to question number 1. However, it should be noted that 67 percent of the wind-down dealers are unprofitable and profitability was one of the factors considered.

Question 3. You indicated in your testimony that GM will be offering an appeals process for dealers. However, before the hearing, I heard from constituents who were told by GM officials that they would not be offered an opportunity to appeal and that they have until June 12 to decide whether or not to accept the terms offered by GM.

Answer. Dealers have until June 8, 2009, to submit any data for review and we will complete that review by June 12, 2009. As a result, all dealers will have the opportunity to submit the documents by the deadline.

Question 3a. Please explain in detail what the appeals process will be and how owners can submit their appeal. Also, can that process be appropriately completed with next week's deadline looming?

Answer. Dealers' wishing to submit facts or request review of their specific situation must submit the request in writing to:

gmdealernetnetworkquestions@gm.com

The submission must include BAC, Dealer Company Name, address, City & State and must be received on or before June 8, 5:00PM ET so GM has time to review it prior to June 12, 2009. GM is working around the clock to thoroughly review and reply dealer submissions.

Question 4. GM sent a letter on June 1 to dealers who would face termination or non-renewal of dealer agreements. That letter clearly indicated that dealers must sign and execute the enclosed agreement and its conditions by June 12, or else GM would apply to the bankruptcy court to reject a dealer's dealer agreement. If affected dealers do not execute the agreement GM proposed on June 1, and then GM subsequently applies to the bankruptcy court to cancel dealer agreements, will those dealers be allowed to still order parts, service their customers, and continue normal operations short of ordering new vehicles from GM? If not, why not? If so, is it true that continuing operations under the bankruptcy court would only be allowed as long as it takes for GM to "come out" of bankruptcy?

Answer. No, the bankruptcy court process requires that the sales and service agreements of those dealers not signing the wind-down or participation agreement be rejected. Rejected dealers are not permitted to perform GM service or order GM parts.

Question 5. Please explain the form of assistance that GM will offer to closed dealers and how the dealers will be able to apply.

Answer. Subject to bankruptcy court approval, there is a transition assistance program to assist the dealers in an orderly wind-down (made up of \$1,000 per vehicle inventory plus 8 months "rental assistance"). Dealers do not have to apply. The amount for a specific dealership is contained in the wind-down agreement.

Question 6. With respect to the dealers that GM has notified will not be offered contract renewal, what is the exact time line these dealers can expect for actually closing the doors of their dealerships? Can the dealers expect business as usual until then?

Answer. If the dealer signs the wind-down agreements they can stay in business until October 2010 should they wish to do so.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. ROGER WICKER TO
FRITZ HENDERSON

Question 1. Mississippi has some parts that are quite rural, what assurances can you give to rural Mississippians that they will continue to have access to dealerships in their surrounding communities for future purchases and servicing of previously purchased vehicles?

Answer. At the conclusion of our dealership restructuring process we will still have an extensive rural network of 1,505 nationally, more than any other automaker. In Mississippi, we will have in total 45 dealers in rural and hub towns alone.

Question 2. Mississippi and many other states have franchise laws on the books that protect dealerships and consumers by ensuring a rational framework is in place for franchise termination. Some are suggesting Chrysler and GM are using their bankruptcy proceedings to get around these state laws. Would you care to respond to that claim?

Answer. We are compliant with all applicable laws. It is critical for GM's long-term viability that we establish a stronger, more competitive dealer network with higher sales and customer satisfaction levels.

RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. MARK PRYOR TO
JOHN MCELENEY

Question. What has been the role of your association in discussing bankruptcy plans with the Auto Task Force?

Answer. When Congress was debating the bridge loan package last year, NADA argued that bankruptcy was not the appropriate response to the current situation. When the legislation failed to pass the Senate, we urged the Bush Administration to provide the bridge loan financing to avoid a bankruptcy. We articulated our concerns that in bankruptcy there could be a real risk of liquidation, a real risk of depressed sales, and the potential for "fire sale" prices for the company in bankruptcy. After January 20, we made the same arguments to the Obama Administration. In our initial meeting with the Auto Task Force in March, we emphasized that point, as well as explaining that maintaining the dealer network does not impose any significant costs on the manufacturers while cutting dealers would result in revenue losses not offset by cost savings. Also, NADA closely followed the viability submissions of each manufacturer, especially the provisions related to the treatment of dealers. In those early submissions, Chrysler mentioned nothing other than continuing with their current program to address dealer consolidation. GM's submissions reflected the desire to eliminate some brands, but additional dealer rationalizations were to be accomplished over several years through attrition. Once the 363 bankruptcy discussions began to take shape within the Task Force, we began to hear from GM and Chrysler about a need for "faster, deeper" dealer cuts. In subsequent meetings with the Task Force, we challenged the assertion that accelerated dealers cuts would provide any savings and argued that dealer cuts would actually reduce revenue. Typically in a bankruptcy, the debtor seeks to reduce costs and increase current revenue, but the proposed cuts of the dealer network will have exactly the opposite effect. The dealer cuts structured by Chrysler and GM will provide not material cost reductions, but will reduce revenue and market share at a critical time in the life of each entity. The "faster, deeper" approach will impair, not enhance, the viability of GM and Chrysler. A true cost-benefit of this approach has never been provided by either company. For example, what is the effect of lost market share because of the closure of some many dealerships? The company executives have said that it would take 18 to 24 months to regain the sales of a closed dealership. Neither company has provided reliable analysis of this key question. Neither has the Auto Task Force.

RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. BILL NELSON TO
JOHN MCELENEY

Question. Your members, including those that are not affiliated with GM or Chrysler, are dealing with very difficult economic times, as are many of our constituents. I would imagine that as a result, dealers are going to be making important business decisions to help them remain viable. One area where we have already seen drastic cuts is in television and radio advertisements, there were double digit declines in auto advertising in the last half of 2008 and many analysts have predicted that decline to continue and deepen this year. Do you anticipate that your

members will look to further reduce the amount of TV and radio advertising going forward? Have they done so already? How do advertising plans figure into the revitalization of the automobile business?

Answer. Since the economic meltdown began in mid-September 2008, advertising expense as a percentage of dealership sales decreased each month versus the prior year (September–December 2008). For 2008, advertising expense declined by 9.4 percent versus 2007. In 2008, total dealership ad spending was \$6.8 billion, a decrease of 13 percent from 2007 levels.

Thus far in 2009, dealership advertising expense has decreased 21 percent from last year. We expect spending will continue to contract through the summer of 2009 before rebounding in the 3rd and 4th quarter of this year, coinciding with an anticipated increase in vehicle sales.

Below is a chart showing advertising expenditures by medium.

Advertising Expenditure by Medium

	2008	Avg. Dealership Expenditure Amount	2007	Avg. Dealership Expenditure Amount
Newspaper	23.3%	\$79,515	26.7%	\$100,839
Radio	15.3%	\$52,361	16.9%	\$64,094
Television	18.8%	\$64,090	17.4%	\$171,742
Direct Mail	10.2%	\$34,899	10.2%	\$38,466
Internet	17.2%	\$58,677	16.6%	\$62,607
Other	15.1%	\$51,643	10.2%	\$9,375
Total	100%	\$341,285	100%	\$378,346

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARIA CANTWELL TO JOHN McELENEY

Question 1. Will the closing of the GM and Chrysler dealers benefit or hurt consumers? Please explain.

Answer. There will be negative impacts on consumers as a result of dealership closings. First, consumers will be forced to drive longer distances to have their vehicles serviced. For vehicles still under warranty, or if the vehicle is recalled for safety, consumers have little choice other than to go to an authorized dealer for such repairs. This problem will be especially acute in rural areas. NADA has received anecdotal reports from dealers who will be closing that their customers will have to drive upwards of 60 miles to the next closest dealership for service. This clearly is an inconvenience to consumers who purchased a vehicle from their local dealer, believing the dealer would be in business to service the vehicle. Second, consumers are likely to face higher prices on vehicles, service and parts. With over 2,000 dealerships closing, this will result in fewer choices for consumers. With an expansive dealership network, consumers have the ability to shop multiple dealerships for the best price. With the decrease in the number of dealerships, consumers will likely pay more when they purchase a new vehicle, service their vehicle or purchase parts.

Question 2. Some argue that the way State franchise laws are written it is virtually impossible (or highly expensive) for a car manufacturer to close underperforming dealerships. How do you respond?

Answer. For more than 50 years, the number of dealerships has been shrinking at a consistent pace, dictated by market conditions. In 1949, there were almost 50,000 dealerships and by 1970 that number was 30,800. During that timeframe, the vast majority of the dealers were domestic-only franchisees. In 1987, there were 25,150 new-car dealerships; by the end of 2008 there were 19,700. Of the remaining dealerships, about 14,200 are domestic only. This steady, market-driven rationalization of the dealer population has occurred while state franchise laws were in effect and while the U.S. vehicle population that these dealers sell and service has increased from 125 million vehicles in 1976 to approximately 250 million vehicles today. Rather than prevent dealer termination or consolidation, the franchise laws have limited the unnecessary proliferation of dealerships sought by the manufacturers and have provided a rational framework for consolidation and reduction of dealerships.

Furthermore, under existing state laws the domestic manufacturers have instituted “channeling” arrangements which involve the combination of multiple brands within one dealership. This process, often implemented at the expense of the dealers involved, has enabled the domestic manufacturers to package several brands under one dealership roof.

Finally, state franchise laws have not prevented the termination of brands. Those individuals who used to have an Oldsmobile franchise or a Plymouth franchise will attest to that fact. The state franchise laws do not give the dealers veto authority over such decisions, or prevent the manufacturers from restructuring, but rather subject such decisions to administrative or judicial review. From the dealer's viewpoint, the manufacturer cannot have unfettered rights because the dealer has assumed all of the risks associated with establishing and maintaining the manufacturer's retailing network.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARK BEGICH TO
JOHN MCELENEY

Question 1. Did GM work with the National Automobile Dealers Association on language for the "wind-down" agreement?

Answer. No.

Question 2. Did Chrysler or GM work with NADA to identify the criteria or metrics by which decisions about dealership termination would be made?

Answer. No.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. KAY BAILEY HUTCHISON TO
JOHN MCELENEY

Question 1. Mr. McEleney, you are a surviving GM dealer. It sounds to me that the surviving dealers—while happy to not have been terminated—are concerned about GM's new contract offer. Do you care to comment on your and other GM dealers' concerns about the new contracts, which have to be signed in a little over a week?

Answer. The attached document entitled "GM 06-08-09" summarizes the present situation with GM and franchised dealers as of Tuesday morning, June 9.

While GM representatives met with NADA leadership last week to begin to address our concerns, several issues remain unresolved to the satisfaction of our dealers.

Question 2. What will the overall impact of these dealer terminations be to the consumer?

Answer. There will be negative impacts on consumers as a result of dealership closings. First, consumers will be forced to drive longer distances to have their vehicles serviced. For vehicles still under warranty, or if the vehicle is recalled for safety, consumers have little choice other than to go to an authorized dealer for such repairs. This problem will be especially acute in rural areas. NADA has received anecdotal reports from dealers who will be closing that their customers will have to drive upwards of 60 miles to the next closest dealership for service. This clearly is an inconvenience to consumers who purchased a vehicle from their local dealer, believing the dealer would be in business to service the vehicle. Second, consumers are likely to face higher prices on vehicles, service and parts. With over 2,000 dealerships closing, this will result in fewer choices for consumers. With an expansive dealership network, consumers have the ability to shop multiple dealerships for the best price. With the decrease in the number of dealerships, consumers will likely pay more when they purchase a new vehicle, service their vehicle or purchase parts.

Question 3. If having fewer dealers will result in more profitable dealers, how can that not happen without higher prices for consumers?

Answer. With over 2,000 dealerships closing, this will result in fewer choices for consumers. With an expansive dealership network, consumers have the ability to shop multiple dealerships for the best price. With the decrease in the number of dealerships, consumers will likely pay more when they purchase a new GM or Chrysler vehicle, service their vehicle or purchase parts.

ATTACHMENT

National Automobile Dealers Association
Industry Relations
8400 Westpark Drive
McLean, VA 22102

TO: All General Motors Dealers
FROM: NADA Industry Relations
DATE: June 8, 2009
RE: NADA Meets With GM Executives

As a follow-up to the June 3rd Senate hearing, NADA's leadership, led by Chairman John McEleney, Vice Chairman Ed Tonkin, and GM IR Franchise Chairman Mike Martin, requested a meeting with GM executives, including North American President Troy Clarke and Sales and Marketing Vice President Mark LaNeve. The meeting was held at NADA Headquarters in McLean on Friday, June 5. Duane Paddock, GM National Dealer Council Chairman, also participated. The purpose of the meeting was to relay the serious concerns dealers have with both the Wind-Down and Participation Agreements, especially the onerous provisions of the Participation Agreement, and the negative impact those would have on dealers going forward.

NADA is pleased to advise that GM has determined to make several important changes as a result of the meeting. The following summarizes the key issues addressed.

Wind-Down Agreement

In the meeting, NADA representatives first discussed the Wind-Down Agreement provisions and asked for several improvements to help the dealers who would, under GM's proposal, no longer have a GM franchise after October 31, 2010. While NADA reiterated its stance that eliminating dealers does not improve GM's viability because dealers are not a significant cost to manufacturers, the focus of the discussion was on specific items to improve this process.

GM has determined to clarify several points concerning the wind-down terms. GM said dealers who were sent a Wind-Down Agreement will receive a letter later in the week addressing:

- their right to purchase vehicles at GM's auctions, even beyond the end of the wind-down period;
- their right to buy vehicles from a "warehouse" account;
- the ability to obtain new vehicles by dealer trade;
- GM's determination not to enforce Channel Agreements regarding site control; and access to the RIMS parts system, in some cases previously not available.

In addition, GM will consider revising terms to allow a dealer to wind-down his GM franchise prior to December 31, 2009 and other issues.

Participation Agreement

As with the Wind-Down Agreement, NADA opened discussion of the Participation Agreement by emphatically stating its position that the current Sales and Service Agreements for the dealers going forward should be assumed without any modifications. GM, however, declined to do so. As a result, the discussion on the Participation Agreements concentrated on removing certain provisions and improving the provisions most important to dealers. NADA also asked GM to clarify its intent with regard to a number of other provisions.

GM has advised NADA that it will send a clarification letter to all GM dealers who received a Participation Agreement. *NADA has reviewed a copy of the letter and while NADA does not endorse the GM Participation Agreement, as modified, we commend GM for meeting with us and the National Dealer Council to improve the document.*

The points listed below summarize the key elements that GM's clarification letter will contain. Significantly, the terms of the clarification letter, upon execution, will formally be incorporated into the Participation Agreement itself.

1. The clarification letter makes clear that the sales performance requirements of paragraph 2 of the Participation Agreement are designed to take into account the ability of continuing dealers to sell a greater number of cars because of a reduced dealer body. The letter notes that in the first quarter of 2010, GM will hold a Reinvention Business Plan meeting with each continuing dealer where "appropriate" sales targets will be agreed upon. Those increased sales expectations will be implemented in the second half of 2010 or in the 2011 calendar year, based upon overall market factors.
2. GM has provided a similar clarification with respect to the increased inventory requirements of paragraph 3 of the Participation Agreement. The clarification letter notes that GM will expect inventories to match the updated sales expectations based upon the plans adopted at the Reinvention Business Plan meeting.
3. The clarification letter actually amends the exclusivity language of paragraph 4 of the Participation Agreement. The amendment does the following:
 - It clarifies that all dealers will be expected to have an exclusive GM showroom by December 31, 2009.

- In some markets, GM will expect totally exclusive GM facilities, while in other markets there may be dual use of facilities other than the showroom allowed.
 - GM will meet with dealers to develop a plan as to whether a dealer is to have exclusive facilities or facilities where there may be shared elements.
 - The letter expresses the willingness with GM to work with dealers reasonably with respect to exclusivity decisions if a dealer cannot meet the date or dates established for exclusivity.
4. The clarification letter amends section 5(a) of the Participation Agreement by noting that the dealer's waiver of protest is not designed to allow GM to add new dealers into an existing dealer's area of responsibility. GM intends only to realign current points, not add dealers to a market.
 5. GM has agreed to eliminate paragraph 8 of the Participation Agreement. This paragraph provided special rights for GM in case of an alleged breach by a dealer. Most problematic, it required a waiver of the dealer's rights under state law. Those special GM rights will be eliminated. Any remedy for GM will be determined by the dealer agreement construed according to state law.
 6. Because of the change, GM is extending the time for returning a Participation Agreement over the coming weekend. Rather than noting that the Participation Agreement with this letter of clarification and amendment be received by June 12, the clarification letter provides that it must be received by June 15.
 7. The Participation Agreement provides that Michigan law applies. The clarification letter will use the language from the Dealer Agreement that Michigan law applies except where the dealer's state law would make that inapplicable in which case the dealer's state law could apply.

To conclude, NADA is not in a position to endorse the modified Participation Agreement, but we believe the revised document addresses the most serious of dealer concerns.

