



Weekly Car Dealers Newsletter

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C&A: A CAUTIONARY TALE FOR CHRYSLER? When David Stockman showed up Detroit in the late 1990s with a pocketful of money from some big-time backers and some of the cash he earned as one of the first partners of the now legendary Blackstone Group, he looked like an answer to the Motor City's needs. Last week, federal prosecutors in New York indicted Stockman and three subordinates from Collins & Aikman, the bankrupt supplier company that was the focus of an experiment in financial management - an experiment which misfired, and misfired badly. The federal indictment charges Stockman and his subordinates with securities fraud. Meanwhile, the U.S. Pension Benefit Guarantee Corp. stepped in to guarantee the pensions of Collins & Aikman employees. In a round of interviews before and after, Stockman, a former Michigan Congressman who rose to prominence in the early 1980s as Ronald Reagan's youthful budget director, insisted he had done nothing wrong and the so-called fraud charges amounted to a dispute over judgment calls and accounting practices. The charges reflect what he described as hyper-technical accounting issues. Stockman also said he lost a small fortune personally when Collins & Aikman collapsed. Some of the charges do seem thin on paper at least. For example, in one of the charges the government claims C&A had breached its covenants on earlier bonds even while it was taking on more debt. However, covenants are also written down somewhere and presumably the lender had lawyers around, lawyers capable of reading all the fine print and advising their clients on the various technicalities, including breach of a covenant. While it sounds like something out of the *Antiques Road Show*, breach of covenant is a critical issue and one which should have been carefully reviewed by any lender disbursing cash to a company showing signs of distress. The real danger for Stockman is that four other Collins & Aikman employees named in the indictment have pled guilty and have agreed to cooperate with the prosecution in return for leniency. In addition, their testimony will be backed up by mountains of documentary evidence that is confusing on its face and subject to a number of interpretations. Collins & Aikman reached a settlement with the Department of Justice and Securities Exchange Commission in which it promised not to violate federal

securities laws in the future.

Stockman, in his effort, to remake C&A into a powerhouse in interiors, built a highly leveraged company that went under as interest rates started to rise. By the spring of 2005, the C&A Stockman built was more than \$300 million in debt and, at a time when material costs were rising and more and more suppliers were complaining about rising costs, had under-bid the competition for new business. C&A was never able to honor the contracts it had won with its aggressive sales pitches. Its cost were too high and Stockman wound up complaining bitterly about the purchasing practices from which his company had made a momentary gain. In fact, the chief executive officer of another longtime supplier to the domestic auto industry said last week that the low bidder always gets the contract now. For a time, Collins & Aikman always was the low bidder.

Collins & Aikman's low bidding unsettled other suppliers, notably Lear Corp., and ultimately proved of little value to the carmakers. Ford, DaimlerChrysler, and General Motors all wound up spending millions of dollars to keep Collins & Aikman from collapsing entirely and jeopardizing critical vehicle programs ranging from the Ford Fusion to GM's new crossover vehicles.

The real lessons of Stockman's reign at Collins & Aikman haven't been fully digested yet in Detroit. However, one veteran observer, who asked not to be identified, said it might serve as a cautionary tale to anyone thinking that private equity is the answer to what ails the U.S. auto industry. "This could be the future of the Chrysler Group," he said.

RENAULT CONSIDERS SUING WHISTLEBLOWER Renault is considering taking court action against a former employee who has blown the whistle on alleged safety issues with one of its cars. Graeme Holt was until recently a long-standing PR manager with the French company's U.K. operation, but left his role just before the Geneva Motor Show. This week he appeared on a popular and highly respected British primetime TV consumer investigations show called *Watchdog*.

For the last year *Watchdog* has been reporting on claims that the Renault Clio II has an unsafe hood that can fly up into the windshield at speed because the catch fails. Renault has consistently denied there's been a problem, saying it was all down the customers not closing it properly. The complaints to *Watchdog* and Renault have now topped 1000, with many reports of accidents. Holt appeared on the show saying the car maker knows it has a problem and is gambling with drivers' lives by not issuing a recall. Renault continues to maintain that the hood on the Clio II has no design or build defect. However, it's now recalling more than 400,000 U.K. cars to have the system checked. Ironically, that's all the *Watchdog* reporters were calling for when they first broadcast the story a year ago. Renault refutes the claim that it is putting lives at risk or that there's been a cover-up. Asked whether Holt could be sued for his comments a Renault spokeswoman said: "As this matter may be subject to court proceedings we would prefer to say nothing further at this stage."

HAVE CARMAKERS LOST THE CO2 ARGUMENT? The U.S. Supreme Court may have sounded the death knell for the large sport-utility vehicle and set the U.S. on a path that will require carmakers to sell smaller, lighter vehicles and vehicles with hybrid and even electric powertrains. The decision involved a case brought to the court by the State of Massachusetts,

which had demanded the U.S. Environmental Protection Agency (EPA) begin regulation of emissions from cars and trucks. The EPA had declined, saying it had no specific authority to regulate so-called greenhouse gasses. The Alliance of Automobile Manufacturers, which represents American, Asian, and European carmakers, had sided with the Bush administration against Massachusetts' plea for tougher regulations.

The court ruled yesterday, 5-4, that the EPA had the authority to regulate emissions of carbon dioxide and could be sued if it does not. The court's decision in the Massachusetts case could have a decisive influence on a thicket of litigation now in process in California where the state legislature, with support from Governor Arnold Schwarzenegger, is attempting to curb emissions of greenhouse gases. Automakers have argued the state of California doesn't have the authority to regulate carbon dioxide emissions and have gone to court to stop California from imposing its tough new standards. Carmakers also have argued both publicly and privately that the California CO2 regulations would force them to build smaller vehicles. The downsizing of vehicles would pose special problems for companies such as General Motors, Ford, and DaimlerChrysler, which historically relied on the sale of large vehicles for the bulk of their revenue. During the 1990s and through the turn of the century, the Detroit companies have adamantly refused to compromise with critics in the environmental community or accept any kind of tighter fuel-economy precisely because they had become so dependent on trucks and SUVs.

The no-compromise policy on tougher regulations, however, seemed to be running on empty in recent months. A host of new bills have been introduced in Congress since January, calling for tougher fuel-economy standards. Even the Bush administration is now calling for tighter regulations that go beyond the targets the carmakers have deemed acceptable. Part of the pressure reflects the shift from a Republican to a Democratic Congress. But global automakers also face calls for tighter fuel-economy regulations in the European Union and even in China where the standards are actually rather strict. Executives from the American car companies, which invested almost nothing in fuel-economy improvements during the 1990s and early part of the 2000s, are now scrambling to catch up. Even European car companies such as Porsche are experimenting with electric-hybrid powertrains in the face of mounting pressure to curb emissions. American auto executives have argued for a long time that politicians don't understand their business and have bandied the long lead times required to develop new vehicles. Vehicles entering development this year generally won't be ready until 2010 or 2011 and the following generation of vehicles would likely not appear until 2014 or 2015, when the regulations proposed by the State of California really begin to take hold.

Until the Supreme Court decision was handed down on Monday, automakers believed they had the process under control. The Supreme Court's decision, however, suggests they have lost it.

DC Says Chrysler for Sale – Or Profit DaimlerChrysler AG's top executive confirmed Wednesday that the automaker has discussed the sale of the Chrysler Group with "interested parties." "I can confirm that we are talking with some of the potential partners who have shown a clear interest," Dieter Zetsche, DaimlerChrysler chief executive officer, told shareholders at the very start of the company's annual shareholders meeting in Berlin. "It would therefore be irresponsible not to thoroughly explore all options or to report on initial considerations that have not been finalized," Zetsche said. Zetsche also indicated he doesn't have any kind of deadline for a final decision on Chrysler's fate. "It is also true that we need to keep all options open and

that I cannot disclose any details because we need to keep all options open, and that I cannot disclose any details, because we need to have the maximum scope for maneuver," Zetsche told the more than 9000 shareholders, who turned up for the meeting.

"The company's management requires the greatest possible flexibility so that we can identify and then professionally implement the best possible solution," which is consistent with the "recovery and transformation" plan outlined back in February, Zetsche added. "We have defined clear criteria for a carefully prepared decision-making process. We want to enhance DaimlerChrysler's financial strength in a sustainable way and increase enterprise value; create the right conditions for a clear strategic focus for DaimlerChrysler and makes the Chrysler Group's business system competitive and profitable on a sustainable basis and find the best possible option for our employees," he added. "Having values does not mean that we are incapable of making tough decision," he added. "Sometimes these values require use to make such decisions - especially if it's the only way to safeguard the future of our company and the vast majority of the jobs it provides," Zetsche said at the end of his speech.

SHELBY BACK AS "KING OF THE ROAD" Carroll Shelby seems to be everywhere at this year's New York International Auto Show, signing autographs, giving interviews - and introducing two new muscle cars bearing his name, including a convertible version of the limited-edition GT-H, specifically developed for Hertz car rental lots. But the big news from the octogenarian legend is the rebirth of the Shelby Mustang GT500KR.

It's been 40 years since Carroll Shelby first walked into the office of Lee Iacocca, then president of Ford Motor Co., only to learn that arch-rival Chevrolet was about to launch an "ultimate" version of its Corvette, tentatively dubbed the "king of the road." Unfortunately for Chevy, it had failed to protect the name and Shelby sent his lawyer racing to the trademark office - and his engineers to speed up development of his own king-of-the-road Mustang. The new GT500KR will burst out of the showrooms in the spring of 2008 making a serious 540 horsepower. And according to a very, very, very senior source on the Shelby side, we will expect to see a readily-available tuner kit that should boost the numbers to well in excess of 600. "This is a street car you can take to the racetrack," explained Shelby.

Don't dither, is the word from Ford, as the company expects to produce just 1000 copies of the King of the Road.

TOYOTA PUTS \$2000 SPIFF ON PRIUS With fuel prices at or near record levels, Toyota Motor Sales, U.S.A., is offering new "Eco-Nomic savings bonus" incentives on 2007 Toyota Prius models. Cuts of as much as \$2000 on certain option factory-installed packages are now in effect - about what analysts estimate is the minimum price premium that hybrids command when compared with similar gasoline engine models. The base MSRP for the Toyota 2007 Prius is \$22,175 and the Touring Edition Prius MSRP starts at \$23,070. Price reductions were first offered on the Prius this past January, with financing and lease rate incentives added in February and March, resulting in what Toyota said were record-breaking sales.

With combined sales of 169,797 units in 2006, the Toyota Prius, Camry Hybrid, and Highlander Hybrid are the industry's three top-selling hybrid models. With the addition of Lexus vehicles, TMS sold a quarter-million hybrids last calendar year.

TRACINDA OFFERS \$4.5B FOR CHRYSLER Twelve years, nearly to the day after launching a first, unsuccessful bid for what was then the Chrysler Corp., billionaire Kirk Kerkorian's Tracinda Corp. is weighing in again, offering up \$4.5 billion to acquire what is now the deeply-troubled U.S. arm of DaimlerChrysler AG. The proposal, outlined in an unusual press release, contains a number of equally unorthodox elements, including an offer to provide Chrysler's union workers with an equity stake - which would certainly carry a trade-off in terms of concessions on such things as wages and healthcare benefits. The letter said Tracinda is convinced it is best-positioned "to build Chrysler into a robust and lasting, stand-alone entity." Once the automaker's largest investor, it suggested "we are very familiar with both Chrysler and the automotive industry, and have come to believe, all factors considered, that a private ownership approach is in the best interests of all Chrysler constituencies."

For the moment, the automaker is declining to comment on the offer; in fact, those company officials so far reached by TheCarConnection.com say it is unclear whether the offer, as outlined in Tracinda's release, has actually been delivered to DCX chairman Dieter Zetsche. "This thing came out of the blue," said Chrysler spokesman Han Tjan, referring to the Tracinda announcement. If the investment firm, as stated, forwarded its bid at 1:30 p.m. EDT Thursday, it would have arrived in Germany at 7:30, just as that country begins the long Easter holiday weekend, one of the most somber holidays in Germany. It is unclear if Zetsche would be readily available, said Tjan.

Tracinda's apparently unsolicited move comes only a couple days after DaimlerChrysler's fractious annual shareholder's meeting, during which a chorus of investors loudly demanded the sale of Chrysler. For his part, Zetsche declined to lay out any specific plans, insisting that "all options" remain open, apparently even maintaining the corporate status quo. But most observers came away convinced that it is now only a matter of time before Chrysler is sold off.
