



## *Weekly Car Dealers Newsletter*

May 26, 2008

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This information that follows is taken from sources including *The Carconnection*, *Autoweek*, and other industry sources. For more information please call our Edmonton office.

# Week of May 26, 2008

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### **DEALERSHIP UNCOVERS ACCESSORIES FRAUD INVOLVING HIGH-LEVEL MANAGERS** *(More than \$500K lost in phony aftermarket scheme)*

A frequent recommendation for avoiding internal theft at dealerships is to segregate important financial duties among several employees. The idea is that it is far less likely for several employees to conspire to commit a crime. But sometimes even segregation of duties doesn't work, as one Texas dealership owner found out the hard way. The McAllen (TX) *Monitor* reports that a large chain of car dealerships in southern Texas lost more than \$500,000 to an embezzlement scheme led by some of its high-level managers. The scheme involved phony billing from an aftermarket accessories company that was complicit in the alleged fraud.

The theft, which was discovered earlier this month by internal auditors at the dealerships, is likely to result in criminal charges for at least three longtime employees and a significant financial hit to the company. "Half a million dollars is a very conservative estimate," said the Hidalgo County sheriff. "But as far as we can tell, no customer was directly affected. Nobody got hurt except (the dealership owner)." According to affidavits filed to obtain a search warrant, the dealership managers defrauded the company over a period of at least three years. The men are accused of filing hundreds of vouchers for accessories work that was never done. In each case, the same aftermarket installation firm was the "vendor." The work orders were for the installation of dash kits and upgraded sound systems on dealership vehicles. The work was never performed. Investigators believe the aftermarket company's owner received and later split up the payments with co-conspirators. But the fraud unraveled when a dealership service employee discovered a car that should have had an aftermarket sound system only had the standard factory-installed system. When asked about the irregularities, the dealership's aftermarket manager resigned immediately. The general sales manager and the new-car manager, were fired shortly thereafter. "We're looking at hundreds and hundreds and hundreds

of vouchers," the sheriff said. "This is one of those cases that is going to be very labor intensive and take a while."

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## **WARRANTY FRAUD BRINGS CRIMINAL CHARGES AGAINST CAR DEALER**

Newsday reports that a New York City area car dealer has been charged with filing fake warranty claims for vehicle repairs that were never performed. According to police reports, the owner of Riverhead Suzuki, Peter Moutafis, used vehicles bought at the dealership with extended warranties, without the owners' knowledge to create bogus records of mechanical failures.

Mr. Moutafis reportedly then falsely billed warranty companies for repair work done by the dealership. He surrendered to detectives and was charged with insurance fraud, grand larceny, falsifying business records, and possession of a forged instrument

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## **AMERICAN AXLE WORKERS OK CONTRACT, ENDING LONG STRIKE**

UAW workers at American Axle & Manufacturing Inc. ratified a contract between the union and the company Thursday, union officials said, ending a 12-week strike against the Detroit supplier that rippled through the auto industry. The landmark deal for American Axle drops the company's labor costs to become more competitive and marks a painful turning point for workers who face adjustment to steeply lower wages. The vote in favor of the contract at UAW Local 235 in Hamtramck — representing 2,000 workers — ensured that the deal would be ratified nationwide. The UAW said 78% of workers nationwide approved the contract. In Hamtramck, 71% of workers voted for the contract — 1,172 in favor to 479 opposed, said Erik Webb, cochairman of the local's election committee. On Monday, union locals in Three Rivers near Kalamazoo and near Buffalo, N.Y., representing about 1,650 workers in all, ratified the deal. The deal ends a strike that forced General Motors Corp. to shut or cut output at more than 30 plants, forcing the automaker — and as a result, several suppliers — to lay off thousands of workers. The lost production further weakened the nation's economy, and the layoffs ensured Michigan would continue to have one of the nation's highest unemployment rates.

The automaker offered \$218 million to help settle the strike.

"Our members have had to make some tough decisions for themselves and their families and have done so with careful deliberation," UAW President Ron Gettelfinger said in a statement.

"I'm pleased that the local will be getting back to work," said Bill Alford Jr., incoming president of UAW Local 235. While the vote at the UAW's largest local at American Axle & Manufacturing Inc. was expected to pass, those who opposed it said the vote with was their last chance to express dissatisfaction with the deal and the company. Some workers are expected to return to work Tuesday, said UAW Local 235 President Adrian King. Workers in Three Rivers also would return to work Tuesday. But surely, returning will be difficult because the strike soured the relationship between workers and company chairman and Chief Executive Officer Dick Dauch, known for walking the plant floor and knowing workers' names.

The union lost its leverage, in part, because of the shift in U.S. vehicle sales toward small cars. The strike, took place just as production for American Axle's bread-and-butter products — SUV and pickup axles — is declining. Automakers are cutting production of those vehicles as consumers turn to more fuel-efficient cars. On Thursday, lawn chairs, burnt-out steel barrels and even a barbecue remained at former strike sites along Holbrook and the streets surrounding American Axle's sprawling manufacturing complex that straddles Detroit and Hamtramck.

Strikers withstood several blizzards during a walkout that stretched from the heart of winter into spring. But the weather wasn't their toughest test. Striking workers survived on \$200 a week in strike pay from the UAW, and some of the strikers' supporters recently started to lobby for that pay to be doubled.

Throughout the strike, American Axle said it needed concessions to become competitive with its U.S. rivals, including Dana Holding Corp., which is freshly out of bankruptcy. American Axle has been considered the last of the major auto suppliers paying assembly-line-level wages of about \$28 an hour. Along with the national agreement, workers voted Thursday to accept a local contract that spells out work rules for the Detroit gear and axle plants along Holbrook. The local contract includes a stricter attendance policy. It ends the use of indoor, designated smoking areas, which means that if workers want to take a smoke break, they must go outside. It also reinforces a new overtime policy included in the national agreement. Instead of overtime starting after 8 hours of work in a day, it starts after 40 hours of work in a week.

Meanwhile, the company's stock continued to decline Thursday. Shares dropped 45 cents, or 2.3%, to \$19.25. Since last week, the shares have lost 14.6% of their value. - *Detroit Free Press*

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## **HONDA CONFIRMS PRIUS FIGHTER, TWO-DOOR HYBRID AND FIT HYBRID**



Honda's taking aim on the Toyota Prius, as it confirms plans for not just a single new hybrid model--but three new hybrids for the coming model years.

Last year at the Tokyo Motor Show, Honda revealed that it would offer a new hybrid vehicle for production in early 2009. Today, Honda confirms that the new vehicle will be a five-door, five-passenger hybrid vehicle with a shape along the lines of the FCX Clarity fuel-cell vehicle. A name for the new vehicle and production details aren't available yet from Honda, which promises more on

that car later this year. Honda expects to sell 200,000 copies of the new vehicle worldwide each year--with 100,000 of them headed to the U.S., where Toyota's Prius is selling nearly 150,000 units a year.

As for the other hybrids, Honda confirms that a new sporty car based on the CR-Z concept

(shown here) is also headed for production. Honda also says it's set to produce a Fit Hybrid. Combined, including the Honda Civic Hybrid, the company will build four hybrids with a total volume worldwide of 500,000 units.

Honda also says that a new version of its IMA hybrid system will make its vehicles more efficient and inexpensive to produce.

"Honda has been at the forefront of hybrid development since it first introduced the American public to hybrid technology with the Insight in 1999," said John Mendel, executive vice president of American Honda. "These new advancements in Honda's technology and production systems will result in cost reductions that will allow us to make hybrid technology available to a whole new generation of buyers." - *TheCarConnection.com*

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## **PORSCHE BID FOR VW MAY BE DEAD**

One of the automotive world's oddest marriage bids may have been blocked by the German government. Regulators have taken steps to protect state control of Volkswagen, potentially ending a bid by sports car maker Porsche to take control of the larger, mainstream brand.



The ties between the two companies date back decades; Ferdinand Porsche designed the original VW Beetle before developing his

own, eponymous car company, and more recently, the German marques collaborated on the development of sporty SUVs that became the Volkswagen Touareg and Porsche Cayenne. But until recently, the sports car manufacturer was always the weaker, if more exclusive brand.

In recent years, however, Porsche's star has ascended. It is today one of the world's most profitable automotive companies, with margins that even Japanese giant Toyota has to envy. That has led the cash-rich Porsche to push for control of its German counterpart.

But VW executives have been cool to the idea, as have officials in Lower Saxony. The German state holds a 20 percent stake in the company -- which is a major source of jobs and tax dollars -- but under the so-called Volkswagen law, it also has dominant voting rights, which gives it the power to veto any takeover bid.

That runs afoul of European Union regulations, but reports out of Germany say the federal government has decided to ignore the EU and will permit the state to maintain its dominance.



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Barring a battle in European courts, the Porsche bid now appears to be scuttled –  
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