

Weekly Car Dealers Newsletter

May 5, 2009

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 4, 2009
(and what a week it was, these two articles sum it up.)

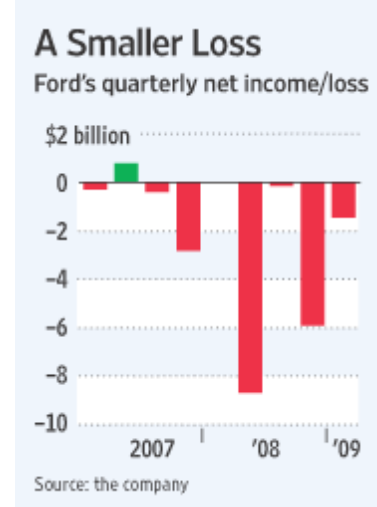
FORD TARGETS RIVALS AS LOSS EASES

[Ford Motor](#) Co. said it likely wouldn't need a government bailout in reporting a smaller-than-expected loss for the first quarter. But it warned that an uncontrolled bankruptcy reorganization of [General Motors](#) Corp. or Chrysler LLC could change that by taking down their shared networks of suppliers and dealers. Chief Executive Alan Mulally said "we do not expect to require a bridge loan from the U.S. government." His optimism reflects Ford's effort to remake itself as a leaner car company without government oversight. Ford posted a net loss of \$1.4 billion, or 60 cents a share, a reversal from net income of \$70 million, or three cents a share, for 2008's first quarter. But the loss was lower than analysts expected and a marked improvement from the \$5.5 billion Ford lost in last year's fourth quarter. Revenue fell 37% to \$24.8 billion. The results reflect in part Ford's strategy: to steal customers from its weakened crosstown rivals and separate Ford from GM and Chrysler in the minds of the public, investors and lawmakers.

The strategy is part of a longer-term vision that would have Ford rise above its age-old competitors to form a new, global Big Three with the two largest car makers, [Toyota Motor](#) Corp. and [Volkswagen](#) AG, say people familiar with the company's thinking. Also Friday, GM prepared to sell or fold Pontiac, as Chrysler's lenders softened their stance toward cutting debt. In its earnings report, Ford offered a glimpse at the latest thrust in its strategy. The company said it will boost production of midsize sedans such as the Ford Fusion, raising its overall U.S. production estimate for the first time in 15 months. The additional cars will help step up its drive to grab customers and market share from GM and Chrysler, which are slashing production. In certain U.S. markets, Ford has been offering \$1,000 in "conquest cash" to customers who trade in Chrysler vehicles. Its dealers also are running ads to emphasize how it differs from the other two.

One ad placed by Chicago-area dealers argues that "Ford's progress in the past two years demonstrates why it doesn't need a bridge loan from Congress." The ad assures customers that the dealers look "forward to serving you for many years to come" -- a barbed reminder that Ford, unlike GM and Chrysler, isn't on the

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edge of bankruptcy. Chrysler and GM owners "have been defecting to Ford and Lincoln-Mercury products in great numbers since the beginning of the year," Amanda DeMouthe, a marketing manager for Ford's Northeast operations, wrote in an April 9 email to dealers. Independent numbers seem to back up Ms. DeMouthe's assertion. In March, 48% of Ford buyers turned in cars or trucks of other manufacturers, up from 38% in August, according to Edmunds.com, an auto-shopping Web site. Meantime, the "conquest rate" for GM's Chevrolet was 47% last month, down from 49% in August, and for the Chrysler brand the rate was 59% last month, down from 67% in August, according to Edmunds. GM said the data are consistent with its own numbers. Chrysler declined to comment.

Still, Ford isn't out of the woods. Its monthly sales have fallen year over year by more than 40% for the past three months. Since Mr. Mulally became CEO in 2006, the company pulled back from its promise to return to profitability in 2009 and has lost \$31.4 billion. Ford insists it's on track to break even in its critical North America operations by 2011. The fate of Chrysler, which could fall into a managed bankruptcy by next week, is another pressing concern. A similar fate hangs over GM, which has until the end of May to secure givebacks from its unionized workers and debt holders or face getting cut off from additional government loans. Even a managed bankruptcy at GM or Chrysler could disrupt the industry's supply chain, triggering plant shutdowns, including at Ford. A person familiar with the matter said Ford has drawn up list of critical suppliers to decide which ones it would prop up under that scenario and which ones to pull out of in favor of a more stable competitor. "The health of the supply base is probably the most critical issue as the government helps GM and Chrysler restructure," Mr. Mulally said Friday.

Just six months ago, fearful of an industry collapse, Ford appeared to be joined at the hip to its two main rivals. In October, at a meeting of Detroit's three CEOs, Chrysler's Robert Nardelli and GM's then-chief, Rick Wagoner, asked Mr. Mulally to join them in Washington to present a united front in pleading for aid for Detroit, according to a person familiar with the matter. The Ford boss eventually agreed. "There was a lot of debate back and forth but at the end of the day we said, 'Hey, listen, we need to show support to the industry,'" Mark Fields, Ford's president of the Americas, recalled in a recent interview. Unlike his counterparts, Mr. Mulally didn't ask Congress for taxpayer dollars, but instead sought only a \$9 billion line of credit in case the recession worsened significantly. Nevertheless, Mr. Mulally was shellacked along with Messrs. Nardelli and Wagoner, criticized for past management mistakes and flying on corporate jets to seek public assistance.

Weeks later, Ford changed course when GM and Chrysler got their loans but agreed to all sorts of concessions -- restrictions on executive pay, requirements to slash debt and labor costs. If Ford were to end up needing government help, the Ford family's control of the 106-year-old company could be jeopardized by such requirements if its classes of stock were reorganized. Moreover, Mr. Mulally's turnaround efforts could be imperiled, said people familiar with the matter.

By late December, Mr. Mulally and his top lieutenants stopped talking publicly about their request for a \$9 billion U.S. line of credit, concluding it tended to make Ford be lumped in with the more-troubled GM and Chrysler in the public's mind. The company also realized it had to accelerate restructuring efforts to ensure Ford wouldn't have to seek a federal handout. The main issues to solve would be the same ones the government had told GM and Chrysler to tackle -- a new deal with the United Auto Workers union and a debt-reduction agreement with lenders. If Ford could make progress on those, it would solidify its financial foundation as GM

and Chrysler ground their way through their government-led reorganizations. "We were not going to allow ourselves to be victims," Ford Chief Financial Officer Lewis Booth said in an interview.

The UAW proved willing to deal with Ford, thinking the strongest of the Big Three would cut a more favorable agreement than GM and Chrysler would seek. "Ford for the moment is in better shape," one UAW official said. "This is nothing new -- go to a company in a better position." After a few weeks of talks, Ford and the union agreed to significant wage and work-rule changes in late February.

In its quarterly report Friday, Ford said it already has saved \$292 million from the elimination of the so-called jobs banks, an expensive system that once paid idled auto workers. By year's end, Ford could save \$500 million from the UAW agreement. To restructure its debt, Ford opted to approach the market with a tender offer to turn in bonds. Ford had an advantage over GM and Chrysler: It could afford to offer bondholders cash. A chief reason is that in 2006, Ford mortgaged many of its assets to raise \$23.5 billion to pay for its restructuring. The auto maker eventually retired \$9.9 billion by offering \$2.4 billion in cash from its credit arm or other debt securities to bondholders. Investors accepted about 38 cents on the dollar. Ford's interest expenses should fall by \$500 million to \$600 million a year.

With its labor and bondholder deals complete, Ford is moving on to seeking concessions from its dealers while cutting its own overhead costs.

Ford "is successfully differentiating itself from its wounded domestic competitors in operating performance and with consumers," Efraim Levy, an auto analyst with Standard & Poor's, wrote in a note Friday. Ford's stock has risen from a low of \$1.26 on Nov. 19, the day after the first Washington hearing, to \$5 today. –Source: *The Wall Street Journal*

THE CHRYSLER FIAT ALLIANCE

Shared Sacrifice

- The alliance will retain Chrysler's existing factory footprint and continue producing Chrysler cars in U.S. factories. The alliance will create the sixth-largest global automaker, spreading R&D and design development costs over higher volumes, making it more competitive in an increasingly global and consolidating industry.
- Fiat is contributing billions of dollars in advanced technology and intellectual property, and offering Chrysler access to a global distribution network. Fiat's technology will allow Chrysler to build new fuel efficient cars and engines in U.S. factories.

The UAW has made important concessions on wages, benefits, and retiree health care that, while difficult, will help save jobs for active employees, pensions and health care for retirees and make Chrysler more competitive.

- Chrysler's largest secured creditors have agreed to exchange their portion of the Company's \$6.9 billion secured claim for their pro-rata share of \$2 billion in cash at closing. The Bankruptcy Court process will be used to confirm this treatment on those lenders that failed to accept the offer that was accepted by a majority of the lenders.

- Daimler, Chrysler's current minority shareholder, has agreed to waive its share of Chrysler's \$2 billion of second lien debt, give up its 19% equity interest in Chrysler's ultimate parent, and settle its guaranty obligation to the PBGC by agreeing to pay \$600 million to Chrysler's pension funds.
- Cerberus has agreed to waive its share of Chrysler's \$2 billion of second lien debt and forfeit its entire equity stake in Chrysler. Cerberus has also agreed to transfer its ownership of the Chrysler headquarters in Auburn Hills, Michigan to the new Chrysler alliance. Lastly, Cerberus will contribute a claim it had against Daimler to assist in the Daimler settlement with the PBGC.

Details on the Chrysler Fiat Alliance:

- Fiat will contribute a free license to use all of its intellectual property and "know how" to capitalize Chrysler in exchange for 20% of the equity of the reorganized Chrysler. Fiat will have the right to select three directors of Chrysler once reorganized. In addition, Fiat will have the right to earn up to 15% in additional equity in three tranches of 5% – each in exchange for meeting performance metrics, including introducing a vehicle produced at a Chrysler factory in the U.S. that performs at 40 mpg; providing Chrysler with a distribution network in numerous foreign jurisdictions; and manufacturing state-of-the art, next generation engines at a U.S Chrysler facility.
- The newly reorganized Chrysler will purchase substantially all of the assets of the old Chrysler out of a chapter 11 bankruptcy case in exchange for a \$2 billion payment to its secured lenders.
- This new Chrysler will establish an independent trust (VEBA) that will provide health care benefits for Chrysler's retirees. The VEBA will be funded by a note of \$4.6 billion payable over approximately 13 years with a 9% rate of interest and will receive 55% of the equity of New Chrysler. The VEBA will have the right to select one independent director and will have no other governance rights.
- The Chrysler Pension Plans will be preserved, and their stability will be strengthened from the Daimler contribution of \$600 million.
- The U.S. Treasury will receive 8% of the equity of the new Chrysler. U.S. Treasury also has the right to select the initial group of four independent directors, but thereafter will not play a role in the governance or management of the Company.
- The Governments of Canada and Ontario will together receive 2% of the equity of the new Chrysler. Based on its substantial financial contribution, Canada will also have the right to select one independent director, on the same basis as the four independent directors initially chosen by the U.S.

Details on U.S. Government Support:

- Consistent with the President's commitment to provide adequate working capital to help Chrysler through this restructuring period and loan up to \$6 billion to the Chrysler-Fiat Alliance, the U.S. government has committed to provide assistance sufficient to help give Chrysler a chance to achieve financial viability.

Working capital: The U.S. government is prepared to provide approximately \$3.3 billion in debtor in possession financing to support Chrysler through an expedited chapter 11 proceeding. Loan to the New Chrysler: Upon closing, the U.S. government is prepared to loan approximately \$4.7 billion to New Chrysler, in the form of a term loan with \$2.1

billion due in 30 months and the balance 50% due on the 7th anniversary and 50% due on the 8th anniversary of the loan. The interest will be an appropriate combination of cash and payment-in-kind. There is also an additional note of \$288 million which is a fee for making these loans. The loans will be secured by a first priority lien on all of Chrysler's assets.

Canadian Government Participation:

- The governments of Canada and Ontario will participate alongside the U.S. Treasury in lending money to Chrysler and New Chrysler based on a 3:1 formula using Canadian currency. The amount lent by the Canadians is incremental to the funding referenced above.

Viable Financing Solution:

- Chrysler will enter into an agreement with GMAC to provide dealer and customer financing. This agreement will continue once Chrysler has emerged from bankruptcy. Chrysler Financial has agreed to uphold and cooperate in the transition of its current agreements with dealers to GMAC. The U.S. Government is supporting the automotive restructuring initiative by promoting the availability of credit financing for dealers and customers, including liquidity and capitalization that would be available to GMAC, and by providing the capitalization that GMAC requires to support the Chrysler business.

Warrantees:

- Chrysler will continue to honor consumer warranties. Yesterday, the U.S. Treasury made available the Warranty Support Program to Chrysler and \$280 million was funded to a special vehicle available to provide a backstop on the orderly payment of warranties for cars sold during this restructuring period.

Executing the Chrysler-Fiat Alliance:

While many stakeholders made sacrifices and worked constructively in this process, some did not. In particular, a group of investment firms and hedge funds failed to accept reasonable offers to settle on their debt. In order to effectuate this alliance without rewarding those who refused to sacrifice, the U.S. government will stand behind Chrysler's efforts to use our bankruptcy code to clear away remaining obligations and emerge stronger and more competitive.

During this process, Chrysler will continue operating in the ordinary course. From an operating perspective, the day after the filing will not be materially different from the day before the filing. The following parties will be treated as described below:

- Employees: Employees will get paid in the ordinary course, including salary, wages and ordinary benefits. Workers compensation claims will continue to be paid by Chrysler's insurers. Assuming the sale moves forward as expected, Pension Plan and VEBA funding will be transferred to the purchaser.
- Suppliers: Chrysler will seek authority at its "first day" hearing to continue to pay suppliers in the ordinary course. In addition, the U.S. Treasury's Supplier Support Program will continue to operate, and Chrysler suppliers benefiting from the program will continue to receive that benefit.

- Dealers: Chrysler will seek authority at its “first day” hearing to honor its customer warranties in the ordinary course. Moreover, Chrysler will seek to continue to honor its dealer incentives for those dealers who are expected to continue to be part of Chrysler’s distribution network going forward. There are some dealers that Chrysler has identified and certain other dealers identified by GMAC as being risky credits that will not continue with Chrysler. It is expected that the terminated dealers will wind down their operations over time and in an orderly manner.
 - UAW: The modified labor agreement reached between the UAW and Chrysler will be operative.
 - Creditors: A majority of the Senior Secured Lenders now support the transaction with Chrysler. - *Source: Obama Auto Task Force*
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