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GM AND CHRYSLER DEALERSHIP  
CLOSURES AND RESTRUCTURING  
THURSDAY, JUNE 12, 2009  
House of Representatives,  
Subcommittee on Oversight  
and Investigations,  
Committee on Energy and Commerce,  
Washington, D.C.

The subcommittee met, pursuant to call, at 10:00 a.m., in Room 2322, Rayburn House Office Building, Hon. Bart Stupak [chairman of the subcommittee] presiding.

Present: Representatives Stupak, Braley, DeGette, Doyle, Schakowsky, Ross, Welch, Green, Sutton, Dingell, Walden, Radanovich, Burgess, and Barton (ex officio).

Staff Present: Theodore Chuang, Chief Oversight Counsel; Scott Schloegel, Investigator, Oversight and Investigations;

Jennifer Owens, Special Assistant; Jennifer Berenholz, Deputy Clerk; Lindsay Vidal, Special Assistant; and Kenneth Marty, Detailee, HHS-OIG.

Mr. Stupak. This committee will come to order.

As you can see, there is a lot of interest in this hearing today. I expect Members who are not on the committee will be coming in and out. And we are going to try to hold a tight rein on time and statements and questions in this hearing today because, as I said, there is a lot of interest in this oversight hearing.

This hearing today is entitled, "GM and Chrysler Dealership Closures and Restructuring." The chairman, ranking member, and the chair emeritus will be recognized for 5-minute opening statements. Other members of the subcommittee will be recognized for 3-minute opening statements. I will begin.

For much of the past 100 years, General Motors has been the largest automobile company in the world. The Detroit three -- GM, Ford, and Chrysler -- have fueled the engine of Michigan's economy, as well as the economy of the United States, for generations. Through their vehicle manufacturing, countless suppliers, and a vast dealer network, the automotive industry has created and supported millions of jobs.

With the recent global financial collapse, much of the domestic auto industry has been brought to its knees. In 2008, General Motors and Chrysler lost \$30.9 billion and \$17 billion respectively, and, in order to survive, they both filed for bankruptcy. In the bankruptcy process, General Motors has

announced plans to close roughly 1,200 dealerships and Chrysler announced plans to close 789 dealerships nationwide.

The Federal Government has loaned billions of dollars to GM and Chrysler in an effort to help stabilize them. Billions of more have been committed to assist them while emerging from bankruptcy.

Today's hearing will focus on several issues associated with General Motors and Chrysler's decisions to close more than 2,000 dealerships across the country. Among the questions to be answered are: Why do the manufacturers believe they need to close so many dealerships? What criteria were used to determine which dealerships to close? How do GM and Chrysler save money by closing these dealerships, which are independently owned?

Why were Chrysler dealers given a mere 26 days' notice that their franchise would be pulled? Why were dealerships that had been meeting or exceeding their expected sales requirements still ordered to close? Why did Chrysler effectively order dealers to buy more cars in January but now refuses to buy those cars back from dealers who are being forced to close?

Who made the decisions of which dealerships to close? What are GM and Chrysler doing to assist dealerships with selling their parts, cars, and specialties tools before they are put out of business? How will the dealership closures and restructuring make GM and Chrysler more competitive and profitable?

Being from Michigan, I absolutely want General Motors and

Chrysler survive. I think we all do. But we have an old saying in Michigan that, "when the auto industry sneezes, Michigan catches a cold."

Now, due to the global financial collapse, the entire Nation is feeling the impact of a crippled domestic auto industry. Other than high gas prices or a serious food outbreak, I can't think of few subjects that have brought the ire of so many Members as these auto dealership closures.

I understand the fact that General Motors and Chrysler need to improve their bottom line. I also understand that the import brands have far fewer dealerships, with higher sales volume per dealership. What many of my colleagues and I do not fully understand is why there is a need to close so many dealerships and why dealerships that appear to be performing well are now being told to close their doors.

We will hear from Chrysler today that the average Chrysler dealer sold 405 vehicles and lost \$3,431 in 2008.

We will also hear from Dan Kiekenapp of Tacoma Dodge in Tacoma, Washington. Tacoma Dodge had net sales exceeding \$1.7 million last year and was one of the top 100 dealers for sales of parts in 2008 and was the number-one ranked Dodge dealer in western Washington during the month of April this year but still received a closure notice from Chrysler. I look forward to asking Mr. Press how he reconciles this decision to close Tacoma Dodge.

As I mentioned earlier, I want to see GM and Chrysler return

to strong and vibrant companies. I am, however, concerned that the accelerated timeframe for dealership closures and the way in which dealers have been treated may actually damage the brands more than help them.

I am also deeply concerned that the closures will hurt rural communities disproportionately. In my vast rural northern Michigan district, if a dealer closes down, it can mean a 2-hour drive for us to reach the next closest dealer. This will cause added expense and hardship for my constituents who need to have warranty work or special service done at a certified dealership.

In addition, when it comes time to purchase a new vehicle, many of my constituents will abandon GM or Chrysler and go to whichever brand is locally sold by people they trust within our communities rather than traveling a long distance to huge, impersonal, big-box dealerships, where they don't know the sales or the service staff.

In closing, I want to thank General Motors and Chrysler executives for coming here today. This committee understands how busy you are and greatly appreciates you taking time to work with our staff and attend today's hearing.

In addition, I want to thank the dealers who have come from every region of the country to testify today. I know that, in many instances, many of you are facing the loss of your livelihood, and to take the time and expense to travel to Washington to be part of this hearing is appreciated by myself,

the staff, and everyone here.

Next, I would turn to the ranking member, Mr. Walden, for an opening statement.

[The prepared statement of Mr. Stupak follows:]

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Mr. Walden. Thank you very much, Chairman. I want to thank you and Chairman Waxman for concurring with me in the need for our subcommittee to conduct an oversight hearing and investigation to get answers regarding the termination of auto dealer franchises all across our country.

I want to recognize the dealers, including a constituent of Oregon's Second District, which I represent, Bob Thomas of Thomas Chevrolet-Cadillac in Bend, Oregon. Bob and the rest of the dealers have taken time and expense to travel to Washington to provide us with their perspective on this issue.

I also welcome Mr. Press of Chrysler and Mr. Henderson from General Motors. We are honored to have you here today, as well. We have some hard questions for you, and I appreciate your willingness to come here today and explain your situation, your perspective, with clear and straight answers.

Since American taxpayers now own 60 percent of General Motors, we have a right to know just how the decisions affecting our constituents are made. We also have a duty to make this process more accountable and transparent for all concerned.

So let's start with a look at customer service. And, Mr. Henderson, you have spent a pretty large some of money on newspaper ads recently -- I am sure you are familiar with your own ads -- proclaiming your concern for greater transparency and customer service.

Yet, you have dictated the closure of GM dealerships all across Oregon and the country. And I will cite one in specific out in Burns, Oregon. Now, if you are a GM customer and the dealership in Burns, Oregon, Ruel Teague Motor Company, is closed, your nearest GM dealer is Payette, Idaho, 136 miles away. Now, that is the equivalent of driving from Philadelphia to Washington, D.C., to get service for your General Motors vehicle.

Since we don't have the 3-plus hours it would take to drive there even in one of the new Camaros, we are using the fastest plane our Air Force has, the F-15 Eagle, and Google Earth to demonstrate the route, while I talk, to that new brand of customer service. This will be in 3D for your enjoyment. It will take a while.

Just about a month ago, General Motors and Chrysler sent what were effectively termination notices to about 2,000 auto dealerships nationwide. We are told their notices serve to accelerate restructuring plans that are a must-do step for these troubled automakers. This is so Chrysler and GM can emerge successfully from bankruptcy with stable financial support.

Many dealers and the communities they serve, frankly, feel blind-sided. The mid-May notices came in the form of complex, take-it-or-leave-it wind-down contracts, with just weeks to make important and expensive life-changing decisions about their own livelihoods, few explanations, no real opportunity to negotiate corrections or even sell to another more favored dealer, and no

clear rationale for why they were chosen for closure.

Thousands more received continuation contracts, equally complex, which forced them into 18 months of limbo, giving up protections against abusive practices they would normally have been able to be protected against under State franchise law. But they had no choice; it was take it or leave it.

Oh, and the agreements, by the way, required the dealers to say they weren't signing under duress. Really?

So let's talk about transparency. We have yet to get a clear answer on how the so-called rationalization of dealer networks will save the automakers or taxpayers money. Rationalization seems like the 21st-century version of "we had to burn the village to save it." I want to hear this morning from GM about how cutting dealers really will save \$2 billion.

The National Auto Dealers Association argues the dealers cost the automakers little on the margin and provide necessary and convenient outlets for consumer sales and even the local connection the automakers so sorely need. Dealers, even small dealers, make sales and make the automakers money.

By what we can gather today, many dealers affected are not bad-apple operations. Maybe they weren't meeting your mandated sales quotas, but it is hard to see them as cost drains on automaker operations. They often are the mainstays of the local communities they serve. They contribute substantial taxes, support local sports and community events, and they have good

reputations. They are established, they are hardworking, and they are struggling in a horrible economic environment.

And soon, their employees will be out of work. By one estimate, the termination notices may cost upwards of 190,000 well-paying jobs.

The validity of the cost issue is of particular interest since the press reported yesterday that the House Majority Leader said he had spoken to the White House's Auto Task Force and it acknowledged that the automakers will see no immediate cost savings from closing the dealerships.

So, Mr. Henderson, you say GM is going to be more accountable. Let's talk about accountability. Who made the closure decisions? How were they made? When were they made? Who made the recent decisions to reverse closures of 41 dealerships?

Mr. Henderson, you say GM will be more focused on customers. Let's talk about customers. How it is pro-customer to reduce competition by eliminating dealerships which compete with each other for price, quality, and service?

It has been said that our domestic automakers own rural America. You know how it is to serve rural America. To eliminate the lone dealership in a place like Burns, Oregon -- we are still not to Idaho, by the way. We did just pass Stinking Water Pass.

In this "Alice in Wonderland" world of rationalization, where up is down and less is more, how are customers served by less competition and higher prices while, on the taxpayers' dime,

better served?

In Bend, Oregon, for example, General Motors terminated the only GM dealership with substantial service repair facilities, servicing tens of thousands of people in the 16,000-square-mile radius. Do the planners behind this restructuring understand the rural America from whence I come? Do they really understand rural customers, the rural market, the loyalty?

Let's talk plainly. If you just want to turn GM and Chrysler into a network of urban dealerships, then tell me. But don't ask me and my constituents to provide the bailout.

Or is your plan to use the crisis of bankruptcy as a cheap and quick way to get rid of dealers you don't want, only to eventually sell or put in place, since you don't sell them, a new franchise in a market you have left?

If you plan to reduce dealers, can you give me a guarantee that you won't simply get rid of a Bob Thomas only to turn around and offer a GM franchise in Bend to someone else in the coming months?

So the goal for me in today's hearing, Mr. Chairman, is to get straight talk and facts. We need to know the real reasons for the closure decisions and whether they are really justified. We need to know how this is really a good deal for the taxpayer and the consumer. We need to know whether auto dealers targeted for closure in their local communities are getting that fair shake.

We all recognize the very tough and painful times for the

auto industry, especially its workers and suppliers. The reverberations of Detroit's troubles have already reached into every one of our districts.

I look forward to the testimony, and I look forward to working with you, Chairman, on further investigating this matter, and hope future hearings will focus on the role of the President's Auto Task Force, as well.

Mr. Stupak. Thank you, Mr. Walden.

Mr. Dingell for an opening statement, please.

Mr. Dingell. Mr. Chairman, thank you.

And I commend you for holding this hearing. This is a time of unprecedented hardship for the domestic auto industry, but I feel it is prudent that we objectively examine all aspects of General Motors' and Chrysler's restructuring plans, including how they affect dealers.

Although, restructuring of these companies is inevitable and necessary, it means that we are going to have to achieve their long-term viability, but at the same time we are going to have to look to see how it is being done and how it is going to impact on other parts of our economy. Measures must be taken to mitigate excessive hardship on working Americans, especially in a time of grave national recession.

In view of this, I will be asking frank questions of our witnesses today. In particular, I seek to determine for the record how GM and Chrysler arrived at the decisions they did

related to dealer closures. Public furor over these closures demands truthful answers from these companies regarding these matters. And it is my hope that they will provide much needed insight into the decision-making process whose results will affect the livelihood of many thousands of Americans in all parts of the country.

Moreover, I understand that GM and Chrysler have approached dealer closures in a markedly dissimilar fashion. And this, again, should be subject to candid discussion.

Finally, I wish to ascertain what steps, if any at all, GM and Chrysler have taken or will take to mitigate the impact of these closures on dealership owners and their employees and also on the communities. Their fair treatment is paramount to the success of any rationalization of the companies' respective value streams.

I conclude by encouraging our witnesses to engage in open dialogue with members of the committee about the matters that I have just mentioned. The honest disclosure at today's hearings is necessary to restoring the semblance of public trust in the plans for restructure.

So, thank you, Mr. Chairman, thank you to our panel, and I yield back the balance of my time.

Mr. Stupak. Thank you, Mr. Dingell.

Mr. Barton for an opening statement, please.

Mr. Barton. Thank you, Mr. Chairman.

I want to thank you and Chairman Waxman for holding this hearing. I want to thank you personally for agreeing to let Mr. Frank Blankenbeckler, who is dealer in my district, testify.

And, also, thank you for being willing to put a segment in the record of Congressman LaTourette, who is not a member of the committee but has asked to sit on the dais, And you indicated that you would accept unanimous consent to allow his statement into the record.

[The prepared statement of Mr. LaTourette follows:]

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Mr. Barton. So I appreciate all those courtesies.

Mr. Chairman, I have a prepared statement, and I will submit it for the record, but I want to just kind of speak extemporaneously.

I see both sides of this issue. I have a GM assembly plant in my district in Arlington, Texas, that has been in business since 1954. There are 2,400 people that work there; management, about 250; and UAW workers, around 2,200. They have been making cars and trucks in Arlington, Texas, for over 50 years. And I have dealers all over my district, about a dozen of which have received closure or termination or failure-to-renew notices.

I met yesterday with the president of GM North America and also the president of Chrysler. And I see the management side of this, the manufacturing and the business side of it. It is a different era, and we have to make tough decisions to keep U.S. nameplate manufacturing cars and trucks in America. I understand that.

But there is another side. There is a human side, a dealer side. And we are going to hear from Mr. Frank Blankenbeckler of Waxahachie, Texas. He is a fourth-generation GM dealer and, I think, a second-generation Jeep dealer.

His grandfather started selling Chevrolets in Waxahachie, Texas, in 1926. He made it through the Great Depression. His family made it through World War II, when you had quotas. They

made it through the boom years of the 1950s. They made it through the gas rationing of the 1970s.

Bomb or bust, there has been a Blankenbeckler selling cars in Waxahachie, Texas, for over 80 years. And, in May, he got letters, I think, back to back, Jeep terminating his contract immediately, or within 3 weeks, and GM saying they weren't going to renew it.

Now, when the GM and the Chrysler people, the managers were in my office yesterday, they were very sincere. They had their flip charts and they had their notebooks and they could look up and show me if I wanted to see the performance or nonperformance of all the dealers in my district.

But that doesn't touch on the human story. Again, Carlisle Chevrolet in Waxahachie, Texas, has 40 employees. They are not at the bottom of these flow charts. Now, they are not at the top either, but they are not at the bottom.

Mr. Blankenbeckler told me that last year he paid \$1.3 million in taxes in Ellis County, employed 40 people, sells an average of 50 cars and trucks a month. In good years, he can double that. So he could do better; he says that.

But his business that has been in his family for four generations, if we can't get Chrysler and GM to take a second look, is gone. And his son, Austin, who is sitting right out here, his opportunity at the American way of life, as we know it, is gone.

Now, what I am asking, Mr. Chairman, is I am not asking the management of Chrysler and GM to do things that don't make sound business, economic sense. But what I am asking is the show a little mercy, if that is the right term. Every decision does not have to be the toughest decision you can make. You know, you can err on the side of leniency. And if somebody is selling 50.5 cars a month and the goal is for them to sell 51, you don't have to cut them off at the knees.

So, Mr. Chairman, I want to hear from both sides. But I really, hopefully by the end of the day, want to hear from the presidents of the manufacturing companies that they will go back and take a second look at some of these decisions and, if there is an opportunity that makes reasonable business sense, that they will give the Frank Blankenbecklers and the people that he represents today an opportunity to continue in business.

Because if they go out of business, it is gone. And, you know, ultimately, if nobody is selling cars and trucks, it doesn't matter what your manufacturing capability is, nobody is going to buy them.

So, with that, Mr. Chairman, I yield back.

As you know, there is another hearing going on downstairs. Mr. Markey's subcommittee is having a transmission hearing. I have to run and make a statement down there, too, but I will be back up here for the question period.

And thank you again for your many courtesies.

[The prepared statement of Mr. Barton follows:]

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Mr. Stupak. Thank you, Mr. Barton.

And members will be moving in and out.

And while I am at it here, I should mention that we have other Members who are not part of the Energy and Commerce Committee, who are not part of this subcommittee, but are here. Dan Maffei over here, from New York, I know he has some legislation pending on dealerships. That is why he is here. He will probably be in and out. Patrick Murphy is over here from Pennsylvania. He is not on the committee, but very interested. You mentioned Mr. LaTourette, Mr. Barton. I saw him earlier. I am sure he will be popping in and out. I know he has legislation.

And, in all honesty, I think we have 435 Members of Congress, I think 430 contacted me and all wanted their dealer to testify today. That wasn't possible. But we are going to try to get you in this hearing. We welcome Members who would like to sit and watch these proceedings.

But we are going to have to keep a tight timeframe on all Members who have an opportunity to ask questions. For the Members who are here who are not part of the committee, if you have an opening statement you would like to submit for the record, without objection, that would be accepted.

[The information follows:]

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Mr. Stupak. And let me do one more thing. As we were preparing for this hearing, there were some concerns that Members may get into the confidentiality agreement or, I should say, the dealer agreement that GM has. And since Chrysler has already emerged out of bankruptcy, GM is still there, there is a confidentiality agreement with the dealers.

And I talked with Mr. Walden here. It is our understanding that GM, Mr. Henderson, has no objection whatsoever to a dealer testifying before the subcommittee about its business, circumstances, or other matters involving the dealership. Further, it is our understanding that General Motors has no objection to the dealer testifying about the terms of the wind-down agreement itself.

And GM is proud of these agreements and the assistance and support they will provide to dealers compared to what they would have received under an ordinary bankruptcy proceeding.

GM does have concerns, though, on the confidentiality part of these wind-down agreements in two areas: the amount of the wind-down payments set forth in paragraph 3(a) and any discussions with GM representatives about the wind-down amount found in that agreement.

So I am cautioning Members that if you want to talk about the wind-down agreement, you have a right to, but we are not going to expect the witnesses, for proprietary and business reasons, to get

into financial amounts and things like this with the agreement.

Other than that, we are in agreement with that, Mr.

Henderson?

Mr. Henderson. That is correct.

Mr. Stupak. And, Mr. Press, as I stated, you have no problems as long as we don't get into money exchanges with dealerships?

Mr. Press. That is correct.

Mr. Stupak. Okay.

Okay, with that, let's continue to opening statements, 3-minute opening statements. I am going to hold you guys to it pretty firm.

Next on the list would be Mr. Braley.

Mr. Braley. Well, thank you, Mr. Chairman and Ranking Member Walden.

I think you can tell from the interest in this hearing that it is something that affects all 435 congressional districts. And that is why I am going to submit my written statement and focus instead on the human cost of what we are here to talk about, as Mr. Barton was just talking about.

I am very fortunate one of my constituents, who is the chairman of the National Auto Dealers Association, John McEleney from Clinton, Iowa, is here, because he works and sells cars in the heartland. And I think a lot of what we are talking about here today is an explanation of how the decisions that are being

made are affecting dealers all over the country.

My wife's grandfather, Burt Kalb, was the first Ford dealer in Dubuque, Iowa. And my uncle, Lyle Nusserhoe, came home from World War II and, at the request of one of his Navy buddies, moved to my hometown of Brooklyn, Iowa, and started work being as a parts manager in a Chevy dealership that he later purchased and worked in for 60 years.

And I want to talk a little bit about where we have been to get to where we are right now. Because I remember those fall rollouts of new models and the excitement that they brought to my hometown. And I remember those ads that my uncle ran in my hometown newspaper showing all of the employees of his dealership and how many years they had worked there, to show the impact that his business was having on our community. Because those same employees were the ones volunteering in the Boy Scouts and the Little League and in school activities, and they were making our community a better place to live.

And when you talk about these dealer closures, you are not just talking about the application of economic principles and mathematical formulations; you are talking about the impact on people's lives in every congressional district in this country.

And that is why the issues we are going to be discussing today matter. That is why they matter to me, they matter to my colleagues on both sides of the aisle, and they matter to the constituents we represent. Because when these dealerships close,

they don't just take away the opportunity to buy and get service for your cars and trucks, they take away the lifeblood of these communities. And it is much broader than simply the loss of sales and service. It is part of the fabric of this country.

And, Mr. Henderson and Mr. Press, your corporations were built on the backs of people like the dealers you see in this room, who went out there, invested in their communities, and made you profitable during your boon times. And now I think each of you and your companies owe them and the taxpayers of this country a detailed explanation for your business decisions, because we have to live with the aftermath.

And I welcome everyone's testimony on the committee and look forward to further opportunities to question the witnesses.

[The prepared statement of Mr. Braley follows:]

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Mr. Stupak. Thanks, Mr. Braley.

Ms. DeGette for an opening statement, please.

Ms. DeGette. Thank you very much, Mr. Chairman.

Following up on what Mr. Braley and Mr. Barton said, these bankruptcies and these closing of the local car dealerships are not just affecting the dealers themselves, but millions of people who live in all of our districts, who are going to be inconvenienced, at the very least.

And the thing I am struggling with is, if bankruptcy reorganization is designed to help GM and Chrysler become leaner and meaner, become more efficient, then how does it help to close profitable dealerships? Because, in my home State of Colorado, for example, 14 profitable Chrysler dealerships are going to be closed, and a number of other GM dealerships and some others.

So I guess the reason why we are concerned is because, on the one hand, we see these profitable dealerships in our districts; on the other hand, we see the need for consolidation and for saving money. But we don't quite understand how closing those profitable dealerships works, especially given the human implications. And that is why we are concerned, and that is why we are having this hearing. I think that our constituents deserve an explanation.

I want to mention one other thing really briefly that is not the subject of this hearing, Mr. Chairman, but might be worth some further investigation. As part of the administration's bankruptcy

plans, they are putting all of the product liability court claims into the bankruptcy court, which is going to wipe out the claims of victims who have had defective products.

And talk about leaner and meaner. This is something that is going to hurt millions of Americans who have been injured by these cars and who don't have some kind of a fund set up through the bankruptcy.

Now, in the past, when the government has helped companies like GM and Chrysler through their bankruptcy plans, like with the asbestos, we set up a fund to compensate victims. But here there is no fund whatsoever that has been set up to compensate victims. And I think this committee needs to look at this, and I also think the administration needs to revisit their policy of not setting up this kind of fund.

Thank you very much, Mr. Chairman, and I yield back.

Mr. Stupak. Thank you, Ms. DeGette.

Mr. Green from Texas, opening statement, please. Three minutes.

Mr. Green. Thank you, Mr. Chairman. Like my colleagues, I would like my full statement placed into the record.

Mr. Stupak. Without objection.

Mr. Green. And I am glad you are holding this hearing because it is probably one of the biggest issues that I have heard from in our district in a long time.

And I guess the problem I have is the lack of transparency on

how the decisions were made. And I think, hopefully, the witnesses today will make some discussion or provide that to us.

I didn't vote for the TARP bill last fall, either time. One of the reasons is that I thought it was more of a bailout of Wall Street, not Main Street. And now we are seeing what is happening on Main Street, because our dealerships are on Main Street in our area.

And I will give you a great example. The Houston market, where I am from, already lost three large-volume Chevrolet dealerships, and yet Knapp Chevrolet, one of the oldest dealerships in Houston, actually close to the central business district, which opened on December 6, 1941, the day before Pearl Harbor Day, received their letter, and their appeal was denied.

It is the only Chevy dealership in the downtown area. In fact, it is the only one inside what we call the 610 Loop, and there are only two inside Beltway 8, which is miles and miles away. So now people in my district who live in the inner city will have to definitely go to the suburbs to have their car serviced or to buy a vehicle.

More than 4,000 people live in the core of downtown Houston, and 74,000 people live within a two-mile radius. And a rapidly growing population of about 4,000 live within that five-mile radius. And over 140,000 people work in downtown Houston, with 17,000 students at downtown colleges. It seems to me that market is pretty sizable.

And Knapp Chevrolet was actually one of the highest profitability, in the top 20 percent, for many years. I guess that is what is frustrating, how this decision was made. People working in downtown Houston could drop their cars off and their trucks and get serviced, and then they would shuttle them back and forth.

And, again, on Wednesday of this week, Knapp Chevrolet received the denial of their appeal, for no reasons at all, just, "Your appeal was denied." We are losing a lot of high-paying jobs. We have a lot of high-paying jobs in downtown Houston. I don't know why it is.

And that comes from someone who buys Chevrolet and GM products. I drive Chevy trucks. I am kind of Texas that way, and I will continue to buy them. I am glad they are made in Mr. Barton's district.

And I know the witnesses may not be able to answer individually why that happened, but when you lose -- in the last year, we have lost three huge Chevy dealerships in the Houston market -- why we would go in and pick one of the oldest and the only one within the inner city to close, it just kind of boggles my mind.

So, with that, Mr. Chairman, I will yield back my time, and appreciate you calling this hearing.

And, like other Members, I am getting ready to go down to the transmission hearing down in the room below us, but I will be

back.

Thank you.

[The prepared statement of Mr. Green follows:]

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Mr. Stupak. Thanks, Mr. Green.

Mr. Doyle for opening statement, please. Three minutes.

Mr. Doyle. Thanks, Mr. Chairman. Thanks for holding this hearing. And I want to thank you personally for allowing Jim Golick from Golick Jeep-Chrysler, a constituent of mine and someone in my district, for allowing him to testify today.

I didn't have a prepared statement, Mr. Chairman. I just want to make a few comments.

My friend Joe Barton says maybe we are in a new era, and I fear that maybe he is right.

You know, growing up in Pittsburgh, I have had the privilege of representing Pittsburgh, Pennsylvania, and the Turtle Creek and Mon Valley in Congress. We are blue-collar kids. Our dads and grandfathers made the steel that go into a lot of your cars. We look after one another in Pittsburgh. We buy from our own. We were taught never to buy foreign cars, where I grew up. The thought never would occur to us. We buy American, and we buy from the people we know.

I remember Mr. Gatti had the local pharmacy on the corner. He is long gone. There are no more family pharmacies left. It is all the big-box stores. Mr. Tamarello had the hardware store where I grew up. No more family hardware stores. Now it is Home Depot, Wal-Mart.

But we always had our car dealerships. Jim's family has been

in business at the same location since 1935, an institution in Mon Valley, in the Turtle Creek Valley.

I wouldn't buy a Jeep from anyone else besides the Golicks. I don't care that their showroom isn't fancy. I don't care that it is not the newest, most modern-looking place, or they don't have a giant floor. What they have is service. They know you when you come in. They don't take that little piece of paper back to the manager and say, "I will try to get you a better deal," and go through that whole dog-and-pony show they pull at these big places. They give you a good price right upfront. And they take care of you. That is why I buy Jeeps there. I wouldn't think of going anywhere else.

I raised my family on Dodge Caravans. My wife Susan and I, we have four children. That car took care of our family for years. I owned a bunch of them. Got it from another local family dealership.

We are losing that. We are losing that in this country, this idea that you can buy from people you know and trust, that you know are going to take care of you. You don't have to guess if they are going to take care of you; you know they are going to take care of you. That is why I buy the cars I buy at the places I buy.

Now, Jim tells me he has met his quota-plus every year since he has been in business. These guys started out in 1935, a Hudson dealer. Then it was Jeep, Jeep-Eagle. Then Jeep-Chrysler, when

Chrysler come through.

You can't take people like this of the -- you just can't replace people like this. I can't imagine myself -- I have never bought a foreign car, but I can't imagine myself ever buying a Jeep again if the Golicks aren't in business in Pittsburgh.

I don't understand how they are costing you money. I think they are a revenue stream for you guys. And if for some reason this has to happen, I want to know why you are not taking care of people who spent 70 years and generations selling your cars and, as you tell them that they don't have a business anymore, that you are not doing something to help these guys out in the transition.

So I have lots of questions, Mr. Chairman. I am just glad that you are holding this hearing today, so that I can ask them.

Mr. Stupak. Thank you, Mr. Doyle.

Ms. Sutton from Ohio, please.

Ms. Sutton. Thank you, Chairman Stupak, for holding the hearing and inviting one of my constituent dealers, Alan Spitzer, here to testify today. Mr. Spitzer is losing seven of his Chrysler dealerships. And, additionally, there are two other Chrysler dealerships in my district that are being eliminated.

Across Ohio, 47 Chrysler dealerships are being eliminated, and the Ohio Auto Dealers Association estimates that 130 GM dealerships may be cut. The impacts of these decisions on families and local economies will be substantial. And we heard from the distinguished gentleman from Pennsylvania, and I

associate myself with his remarks.

On average, 43 people work at a dealership in Ohio, where the average pay is \$44,000 a year. With these closings, millions of dollars of income will disappear with the jobs. And those jobs are lost on top of the 2,000 auto manufacturing jobs that will be eliminated by the closing of the Chrysler Twinsburg plant, the GM Mansfield Metal Center plant, and GM's powertrain unit in Parma.

These dealers and their employees, they are not merely statistics. They have families, they have mortgages, and, dare I say, they have car payments. And in the time that I have been in Congress, we have been fighting. We have been fight hard to try and keep those jobs in America. Because if people do not have good jobs in the United States, they are not going to have any money to buy things and they can't be consumers.

And over the last few months, along with my colleagues, many of them in this room, we have been working on the Consumer Assistance to Recycle and Save Act, known as the CARS Act, which passed earlier this week. And through the CARS Act, it is going to help manufacturers and it is going to help auto-related jobs throughout the country, while improving the environment and helping consumers.

But, again, it is called the CARS Act, but it is really not about cars, it is about people. It is about the people who produce those cars. And our job here -- the actions that we have been taking -- and it is really understand to understand -- have

not been taken just to preserve the brands of GM and Chrysler. It has been to preserve the jobs, the jobs that our families and our friends and our neighbors and our communities depend upon for their tax base, to fund their police and their fire and their schools and their other city services. It is about people. And the impact of the decisions that have been made have been extreme, and they have been decimating to many.

Now, we have been trying to get answers and trying to understand the rationale that has been undertaken to come to these decisions. And I think you heard it here today, that we don't get it. We don't understand it. And we want to know why, if you are trying to sell more cars, why having less sales people to do it, who have been committed to doing it for years and decades on end, will result in more sales.

That just doesn't seem logical to many of us here or logical to many of the people who are out there in our communities about to become jobless or who have become jobless because of the decisions that have been taken. So I am interested in hearing about that.

And I am also interested in making sure and hearing the commitment, hopefully from the companies, about how we are going to keep the market share of cars that are being sold in the United States from the companies at its present level or increase it so that we are not selling more cars from GM or Chrysler that are imported.

Because, again, we haven't been taking these actions to save the brands. We have been taking these actions to save our manufacturing base, strengthen our Nation, and to preserve the jobs of so many that are in our districts and across the country.

And I yield back.

Mr. Stupak. Thank you, Ms. Sutton.

And the CARS Act that she mentioned is really called "Cash for Clunkers," as we call it. She was the lead author, along with myself, Mr. Dingell, a bunch of us on this committee. In fact, it went through this committee, went to the floor. We had votes on the floor this week. We got that passed. It is actually now in conference. So the Cash for Clunkers, hopefully next week we can have that done. This committee has always been supportive of the auto industry, no doubt about that.

Last but not least, Mr. Welch from Vermont, opening statement, 3 minutes, please.

Mr. Welch. Thank you, Mr. Chairman and Mr. Walden. I really appreciate you calling this hearing.

I am going to be repetitive. The reason I am going to be repetitive is that this is a catastrophe for every community where we have car dealers that have been doing a good job. And you guys know it.

I mean, Mike Doyle was talking about the family dealerships. I was talking to the Handys -- 52 years, father to son, supporting Little League teams, providing good service, good jobs in their

community, and they get a letter telling them "no."

Wade Walker is here from Vermont, one of our great car dealers who has been playing a lead role. And you have heard these stories one after another, and it doesn't seem to sink in.

One of the things that is bewildering to us is that, as we understand it, the car dealers pay basically for everything. Every single thing that they get from the manufacturers they have to pay for, from brochures to signs.

And I just asked Wade to put together a few facts for me. \$22,000 he has to pay every year -- \$21,000, actually, for special tools. These are tools you could go down the street and get for next to nothing, and they have to pay \$21,000 to the manufacturers because that is part of the deal. \$2,000 for parts and service promotion; \$3,200 to put up a sign. Your sign they have to put up every year. They have to sign a contract, and I guess it is a 10-year contract. They have to pay for that. \$3,200 per employee to send to service training. \$10,000 to hook up to the computer. \$5,000 for the brochures.

So it is money out of their pocket that supports the manufacturer. So it is very hard for us to understand why it is these guys are, quote, "a drain" on the business model.

Secondly, I think what you are hearing from all of us is that there is something wrong with a business model that basically says, in order to survive, we have to crush our local dealers; we have to take out of the community some of the folks in the

community that have been doing the most to create a sense of community and to provide local jobs.

I mean, the economy has to be about making a living in our local communities. And we are going dead-wrong if we can't have a business model that rewards local success and gives people in a community that are willing to take a risk to do a job, provide a service, be related to their customers, if they don't have a place in the economy and in the auto future of this country.

You know, it is almost as though each one of the manufacturers wants to have one dealer on steroids that can sell to everybody in the country over the Internet. And it just ain't going to work.

So, Mr. Chairman and Mr. Walden, I really appreciate you having this hearing. My hope is that we can find a way where there is a place that includes our local car dealers who have been doing so much for so many for so long.

Thank you very much.

Mr. Stupak. Thank you, Mr. Welch.

Ms. Schakowsky, if you have an opening statement, a 3-minute opening statement, now would be the time. Give yourself a second, get situated there.

Ms. Schakowsky. Thank you, Mr. Chairman. I appreciate this hearing.

And the circumstances that bring us here today are really unfortunate. Despite signs that the economic

downturn has slowed and may be even turning around, many Americans are still unemployed, are fearful of losing their jobs. And, for some, this fear is -- for many, this fear is very real.

Two iconic companies here today, Chrysler and GM, are closing more than 2,000 dealerships nationwide, with potential job losses numbering in the hundreds of thousands. This move will impact every State and city in the United States. On Tuesday, 789 Chrysler dealerships closed their doors, including some in Chicago, where I am from. About 2,500 GM dealers closed by the end the year.

There are three GM dealers in my district and another four nearby that my constituents depend on. There has been no public announcement of whether any of those businesses will close, but the employees and their families go to sleep every night wondering what the news will bring in the morning.

And I am glad that this committee will have the opportunity to review how the decisions are made to close certain dealerships. Closures of local businesses of this magnitude will severely harm communities and local economies that are already strained. And nationwide these closures have an exponentially larger effect.

We have to determine whether the process used for deciding whether and which dealer to close was fair to all involved. We also have to begin to think about how to assist those who have lost or will lose their jobs.

In addition, we must look to the future of our Nation's

historic auto industry. I have no doubt that these brands will be able to make a comeback building and selling the cars and trucks of the future, ones that are energy-efficient, innovative, and uniquely American.

Also, while this may not be the primary focus of this hearing, it has been brought to my attention that there are concerns about how GM and Chrysler's restructuring will affect injury and liability claims from current customers. I think this issue is important and is something that we may want to consider in the future.

Thank you, Mr. Chairman, for your indulgence. I yield back.

Mr. Stupak. Thank you.

That concludes the opening statements of all members of the Oversight and Investigations Subcommittee.

Let me introduce our first panel of witnesses. Some of the members have asked to introduce some of them. I will yield to them at the appropriate time. And keep your comments brief.

First, we have Mr. James Press, who's President of Chrysler, LLC; Mr. Fritz Henderson, chief executive officer of General Motors Corporation.

Mr. Braley, do you want to introduce Mr. John McEleney?

Mr. Braley. Yes. I am very pleased to have John McEleney, who is the chairman of the National Auto Dealers Association and also president of McEleney Auto Center in Clinton, Iowa, in my district, and also has another franchise in Iowa City.

Welcome, John.

Mr. Stupak. Mr. Alan Spitzer of Spitzer Automotive Group of Elyria, Ohio. Betty, do you want to introduce him?

Ms. Sutton. Mr. Spitzer, as I said in my opening statement, has been in the business a long time in Elyria and the surrounding area, 100 years, I believe, in the auto dealership.

Mr. Spitzer. 105. We are 4 years older than General Motors and more than 20 years older than Chrysler.

Ms. Sutton. Well, those are pretty deep roots.

And I am honored and grateful, Mr. Chairman, that you brought Mr. Spitzer here to share his experience, not only in, obviously, providing our communities with the cars they need to drive, but helping to shore up so much within our community by sponsoring organizations and contributing to the quality of life there.

Mr. Stupak. Next we have Mr. Bob Thomas. Mr. Walden, if you'd like to say a few words.

Mr. Walden. Thank you very much, Mr. Chairman.

Mr. Thomas is a constituent of mine from Bend, Oregon. His grandfather formed the dealership for General Motors in 1918. He served as a lieutenant in the U.S. Marine Corps from 1969 to 1972. He's a graduate of Stanford University.

Serves on the boards of the United Way of Deschutes County, Greater Bend Rotary, St. Charles Hospital Foundation, Boys and Girls Club, Bend Chamber of Commerce, Oregon State University-Cascade's campus, and the Central Oregon Visitors

Association -- the kind of person you'd want to represent your company in central Oregon.

Mr. Stupak. Next is Mr. Daniel Kiekenapp of Tacoma Dodge in Tacoma, Washington. He was requested by Mr. Dicks.

Thanks for being here. And Mr. Dicks asked that you be here.

Mr. James Golick -- Mr. Doyle, do you want to say a few words there?

Mr. Doyle. Thanks, Mr. Chairman.

It's a pleasure to welcome my friend Jim Golick at today's hearing. Jim and his family at Golick Chrysler-Jeep have been at the same location in Pittsburgh since 1935, a business that is still owned and operated by his family. They started with a Hudson franchise. Then Golick sold cars from AMC-Jeep and later Eagle. Several mergers later, Golick was a successful Jeep-Eagle dealer until 1999.

In 2000, they acquired the Chrysler franchise. Now they're a Chrysler-Jeep dealer and have sold over 10,000 new and used vehicles over the last few decades. They have consistently held the highest customer satisfaction rating for sales and service in the State of Pennsylvania.

And I welcome you, Jim.

Mr. Stupak. Next is Mr. Duane Paddock of Paddock Chevrolet in Kenmore, New York. Thanks for being here.

And last but not least -- Mr. Barton is not back -- is Mr. Frank Blankenbeckler III, of Carlisle Chevrolet Company of

Waxahachie, Texas. Frank is here with his son, Austin.

And thank you for coming.

Joe, did you want to say anything about your witness?

Mr. Barton. Thank you, Mr. Chairman. I've been down in the electricity hearing.

It is my honor to introduce Frank Blankenbeckler. He is a native of Waxahachie, Texas. Graduated from Waxahachie High School. Went to the University of Texas, where he lettered in basketball. Came back home to Waxahachie and entered the business that his grandfather started in 1926.

He is one of the civic leaders in Waxahachie. He and his family have been major donors to every civic improvement in the last 50 years in that community. And, as I said in my opening statement, last year his business and the 40 employees generated revenues that resulted in over \$1.3 million in taxes being paid to various State, local, and Federal entities.

He is considered one of the leading entrepreneurs, businessman, philanthropists of his hometown. And I consider him to be a personal friend. So we are honored to have him here.

And, as I said earlier, I think he represents hundreds, if not thousands, of family-owned dealerships that have been in business for decades. And most of those dealerships hopefully want to continue in a positive business relationship that is positive for themselves and General Motors and Chrysler -- and Ford, who's not here.

Thank you, Mr. Chairman.

Mr. Stupak. Thank you.

And it's also my understand Mr. Blankenbeckler's son, Austin, is here, right? He is also in the car business?

Mr. Barton. He is.

Mr. Stupak. Okay, that is our first panel of witnesses.

It's the policy of this committee to being take all testimony under oath.

Please be advised that you have the right to be advised by counsel during your testimony. Do any of you wish to be represented by counsel?

They are shaking their head "no."

If, at any time, you wish to be advised by counsel, let me know before you answer a question, and we will accommodate that.

Therefore, since we take our testimony under oath, I am going to ask you all rise, please raise your right hand to take the oath.

[Witnesses sworn.]

Mr. Stupak. Let the record reflect that the witnesses applied in the affirmative.

You are all now under oath.

We are going to start with your opening statement, which would also be under oath. I am going to ask you to please limit it to 5 minutes. We have an unusually large panel. That's because of all the interest in this hearing.

Mr. Press, if you don't mind, we'll start with you, and then we'll do Mr. Henderson, Mr. McEleney, and then we'll go to Mr. Thomas and Mr. Blankenbeckler, Mr. Paddock, Mr. Kiekenapp, Mr. Spitzer, and Mr. Golick. That will be the order.

Mr. Press, would you like to start, please? Five minutes.

TESTIMONY OF JAMES PRESS, PRESIDENT, CHRYSLER, LLC; FRITZ HENDERSON, CHIEF EXECUTIVE OFFICER, GENERAL MOTORS CORPORATION; JOHN MCELENEY, CHAIRMAN, NATIONAL AUTOMOBILE DEALERS ASSOCIATION; ROBERT THOMAS, BOB THOMAS CHEVROLET-CADILLAC, BEND, OREGON; FRANK A. BLANKENBECKLER III, CARLISLE CHEVROLET COMPANY, INC., WAXAHACHIE, TEXAS; DUANE PADDOCK, PADDOCK CHEVROLET, KENMORE, NEW YORK; DANIEL J. KIEKENAPP, TACOMA DODGE, INC., TACOMA, WASHINGTON; ALAN SPITZER, SPITZER AUTOMOTIVE GROUP, ELYRIA, OHIO; JAMES GOLICK, GOLICK MOTOR COMPANY, PITCAIRN, PENNSYLVANIA

TESTIMONY OF JAMES PRESS

Mr. Press. Thank you.

Chairman Stupak, Ranking Member Walden, and members of the committee, I appreciate this opportunity to discuss why a realigned dealer network is important to the new Chrysler Group.

Despite completing a painful restructuring, the new Chrysler Group will retain 86 percent of its dealers by volume and 75 percent by location. I empathize with the dealers who were not brought forward into the new company, and I surely understand their disappointment. This has been the most difficult business action I have ever personally taken.

I'd like to begin first by answering the four questions that I have been asked most often while I've been here in Washington.

First, was discontinuing these dealers really necessary for Chrysler's survival? The answer is: absolutely, yes.

Today's automotive industry cannot support the number of dealers currently in the marketplace. We have gone from 17 million new vehicle sales in 2006 to less than 10 million today. As a whole, the Chrysler dealer network is not profitable and not viable. In 2008, the average U.S. auto dealer sold 525 vehicles and made a profit of \$279,000. The Chrysler dealer average was 405 vehicles and lost \$3,431.

Without profits, dealers can't invest in people or training, facilities. As a result, sales and customer satisfaction suffers. The old Chrysler's multiple dealer channel was too costly to support. I'll give some examples of that in a moment. And to complete our bankruptcy process and our alliance with Fiat, we needed a realigned, new dealer network for the new company to emerge on day one.

On June 9th, the bankruptcy court authorized the discontinuation of our dealer agreements as part of our optimization plan. In his order, Judge Gonzalez said the dealer restructuring plan was, quote, "an exercise of sound business judgment made in good faith and for legitimate commercial reasons," unquote. The judge also said in his ruling that the dealer reorganization was, quote, "appropriate and necessary." On June 10th, the Fiat-Chrysler alliance was launched, with a right-sized new dealer network.

Second question: Dealers don't cost the company anything, do they? Well, in fact, they do. The cost to Chrysler of an oversized dealer network includes both lost sales and excessive spending.

First of all, dealers have a minimum sales responsibility every year. It's realistic and conservative and based on their average sales of Chrysler sales. Underperforming dealers cost unit sales as well as revenue. In 2008, of the 789 discontinued dealers, 80 percent of them were below their minimum sales responsibility, which translated into 55,000 lost sales, \$1.5 billion in lost revenue.

Second, the old Chrysler dealer network included many dealers that sell only one or two of the three brands. This has led to tremendous redundancies and inefficiencies in product development and brand strategy.

For example, we spent \$1.4 billion in the last product cycle in engineering and development cost for sister vehicles that did not return 1 cent of incremental profit or sales. For example, Chrysler currently supplies dealers with two similar minivans, two similar full-size sport utilities, two similar mid-size SUVs, and two similar sedans.

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[11:00 a.m.]

Mr. Press. We cannot afford to produce unique products any longer, and that is one of the real reasons that the company had to declare bankruptcy.

Other cost inefficiencies include \$150 million annually in marketing and advertising, \$33 million annually in just administrative costs to work with the dealer body.

Third question. My discontinued dealer says he is profitable, so why not keep him? Profitability alone is not an adequate measure to determine a dealer's viability or value to Chrysler's future. Chrysler's discontinued dealers were, for the most part, the least profitable dealers in the network. On average, the discontinued dealers lost \$73,000 last year.

But, of course, some of them are profitable, yes. Some of them are profitable, but their new Chrysler business may not be. In fact, most of the profitability of these dealers in question is driven from used car business or the sales of other makes in this same business.

Several problems beyond profitability contributed to certain dealers being discontinued. Many dealers are in the wrong location. Five hundred and fifty-five of the 789 are standalone. They do not have all three brands. They aren't viable. We can no

longer produce products to keep those dealers alive.

Fifty percent sell a hundred or fewer vehicles per year.

Eighty-four percent sell more used than new. Forty-four percent sell competing brands in the same showroom.

Here is a typical example, a Dodge dealer in the mid-Atlantic area. This dealer is profitable, but he also sells Buick, Pontiac, Subaru, Isuzu, and of his new car sales Dodge only represents 3 percent of his sales, total sales for his dealership last year. That is a good example of the situation that we face.

So while some of the 789 dealers may be profitable, chances are they are making money selling used cars, competitive vehicles; and, by our assessment, they are a drag on the network in total.

The last page of my presentation isn't here, but I will paraphrase it very quickly. And that is that this is a very painful process. Going through bankruptcy was not our choice. The company is no longer a functioning organization. We have had to make some very difficult decisions in business that would assure, by making these tough calls for 789 dealers, we have got 2,391 dealers not represented here, in small towns, with Little Leagues, with a lot of employees whose jobs and business is saved, along with the full enterprise of our company, the suppliers, and the rest of the Nation.

This was a very difficult decision that we have made. It is one that we want to share with you in terms of transparency. We have taken every step to make this a soft landing for the dealers

involved. And you will find out soon that all of the vehicles in the discontinued dealers have been redistributed, along with most of the parts and most of the equipment.

We stand ready to answer your questions and respond to any suggestions that you may have. Thank you very much.

[The prepared statement of Mr. Press follows:]

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Mr. Stupak. Thank you. Thank you, Mr. Press.

Mr. Henderson, your opening statement, please.

#### TESTIMONY OF FRITZ HENDERSON

Mr. Henderson. Good morning and thank you, Chairman Stupak and Ranking Member Walden.

Mr. Stupak. You may want to pull that just a bit closer.

Mr. Henderson. Behind each action we are taking to reinvent GM, there is a human story. Our dealers are part of the larger GM family. They are valued business partners and, for many consumers, the face of General Motors. However, the sacrifices, all painful, that we are all making are necessary to put GM on a brighter path to long-term viability and success.

We owe this to the U.S. taxpayer. In essence, this is our last chance to deliver and reduce debt, to operate under competitive labor agreements, to have the manufacturing capacity that matches today's market realities, and, most importantly, to continue to design and build winning cars and trucks with leading technology.

We simply cannot undergo this sweeping transformation without a comparable effort to reshape our retail network, one which was largely created in the '50s and the '60s. We have been called upon to make tough commercial decisions, and we will do so

responsibly and compassionately and, in the case of our dealers, to act as carefully, responsibly, and objectively as we can to help them wind down their businesses in an orderly fashion, with a structured assistance package that benefits them relative to their alternatives.

This approach is in stark contrast to what happens in most contracts in bankruptcy, where contracts are typically simply rejected with no assistance. And, unfortunately, we are a company today in bankruptcy.

Let me first discuss costs and then sales opportunities that are relevant to these dealer decisions. A concentrated and highly profitable dealer network will reduce costs for GM at a time when every dollar is precious. These cost savings come in two categories. A right-sized network of strong dealers will allow GM to systematically -- and this is over time -- reduce direct dealer support programs, which today involve for General Motors about \$2 billion here in the U.S., or approximately a thousand dollars per retail sale. This is a gross savings of a little less than a million dollars per discontinued dealer.

This, however, does not take place immediately, because these support programs, or in fact subsidies, have been incorporated over many years to help dealer profitability as our dealer network has, unfortunately, weakened financially. To the best of our knowledge, our best-in-class competitors today bear few, if any, of these costs.

Our consolidation will also provide an estimated \$415 million in gross fixed-cost savings potential, items like guaranteed local advertising -- excuse me -- assistance, service and training, and information technology systems, for a potential of approximately \$180,000 per dealer.

Second, our dealer consolidation is not just about saving money but about creating opportunity and revenue growth. It is about our dealers augmenting our efforts to greatly enhance consumer perception in our products, brands, and General Motors directly and on a daily basis.

That is why in every other aspect of the retail business, from Harley-Davidson to Apple stores and, yes, Toyota and Honda, you see that a premium is placed upon creating a distinct, consistent, and top-notch retail experience. That is why we are building a profitable business plan for between 3,500 and 3,800 U.S. dealers by the end of 2010, which, with a retail sales market of over 10 million units and a conservative share assumption, would allow our dealers to approximately double their throughput. For dealers, this translates into a greater return on investment, better profits, and the ability to attract and retain new customers and the best people to service our vehicles.

Finally, even with these cutbacks, GM will still have the largest dealer network in the country, more than any of our competitors. In our case, around 3,600 versus, for example, Toyota's at 1,200. This would include an extensive rural network

of 1,500 dealers nationally in markets where we hold today on average more than a 10 point advantage in market share.

While we are operating with a high sense of urgency, it is equally important we get this process right, considering the personal and financial stakes at hand. We recognize we won't get every call right. That is why we are listening and working with the dealers and with the NADA to give us all a better understanding of their concerns. As a result, we sent our dealers a letter this week clarifying various subjects in the participation agreement, most notably dualing with competitive makes and performance standards.

So what is the current status of our work on this important front? We have in place an appeals process and have considered 856 appeals requests as of yesterday and have granted 45. We will continue to evaluate all GM dealers against a common set of performance standards to ensure that our selection process is fair and robust.

As of today's deadline, we are encouraged by the progress we are making, and the overall dealer response has been strong. Approximately 99 percent of GM dealers have signed or verbally agreed to our participation agreements, while almost 96 percent have done so with the wind-down agreements.

In closing, we are deeply grateful for the support of these dealers. They are helping to create a viable GM that will preserve over 200,000 jobs at GM's remaining dealers, along with

hundreds of thousands of jobs with GM's direct manufacturing and supply network.

We are also grateful for your support during this critical time. We take our responsibility to the American taxpayers very seriously, and we promise to be open and transparent in all we do every step of the way.

Thank you, and I look forward to your questions.

[The prepared statement of Mr. Henderson follows:]

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Mr. Stupak. Thank you, Mr. Henderson.

Mr. McEleney, please, National Auto Dealers Association.

#### TESTIMONY OF JOHN MCELENEY

Mr. McEleney. Thank you, Chairman Stupak, Representative Walden.

My name is John McEleney, Chairman of NADA, the National Automobile Dealers Association. I am also President of McEleney Autocenter of Clinton, Iowa, which is in the district of Representative Bruce Braley. We operate General Motors, Toyota, and Hyundai franchises and have been in business for 95 years; and we provide jobs for 140 people. Additionally, my family held a Chrysler franchise from 1984 to 2007.

NADA welcomes engagement of this subcommittee. This panel has a long history of aggressive congressional oversight, and that is exactly what we need to enhance your understanding of the Chrysler and GM bankruptcy proceedings. The lack of transparency during this government-structured process has compounded our concerns about the treatment of dealers throughout this ordeal.

In the initial viability submissions, Chrysler mentioned nothing other than continuing their current program to facilitate dealer consolidation. Yet bankruptcy has left 789 Chrysler dealerships without franchises on 26 days notice without even

buying back their vehicles, parts, and factory specific tools. No manufacturer has ever done this.

GM's original viability submissions reflected the desire to eliminate some brands, and its call for additional dealer consolidation was over an extended period of time. Now, besides the brand eliminations, 1,350 additional GM dealers face terminations on a much more aggressive timeline.

Why this dramatic shift? In response to a question before the Senate Banking Committee on June 10th, Ron Bloom of the Auto Task Force said, and I quote, we did not give the companies a numerical target, but we certainly did say, regarding plants, regarding dealers, regarding white and blue collar head count, regarding all these matters that you need to be more aggressive, close quote.

Everyone agrees that these companies need to decrease costs and increase revenue, but dealer cuts do not achieve these goals. The other key elements of the restructurings provide direct and timely cost savings to GM and to Chrysler. In sharp contrast, terminating a dealership does not provide any material cost savings. The retail network, the land, the buildings, the employees, training, the dealers pay for all of this.

As detailed in my written testimony, we dispute the notion that the dealer network imposes any significant per vehicle cost or any significant administrative costs on the manufacturers. Indeed, company officials have been widely quoted as saying that

the manufacturers' costs do not vary, whether there are 6,000 dealers or 3,000 dealers. Moreover, the faster, deeper approach of the Auto Task Force will actually reduce manufacturer revenue at this critical juncture.

Over 90 percent of Chrysler and GM's revenues come from the dealers. Because the dealers buy the cars, the parts, even the dealership signs from the manufacturers. Automakers will tell you that it takes at least 18 months to regain the sales of a closed dealership.. and that is the best-case scenario. In short, the dealer terminations will cause revenue losses for the manufacturers without any corresponding cost savings. As such, we do not see how these cuts make economic sense, not for the companies, not for the dealers, not for local communities, and certainly not for the struggling U.S. economy.

Now I will turn to the status of the GM agreements, both the participation agreements for those dealers going forward and the wind-down agreements for those dealers who lose their franchises.

Last week, during my testimony to the Senate Commerce Committee, I voiced NADA's concerns about the extremely one-sided participation agreements delivered to 4,000 dealers of the new GM. During that hearing, Mr. Henderson committed to meet with NADA to discuss our concerns. GM followed through on that commitment. Our leadership met with senior GM officials last Friday, and we had a very frank discussion. As a result, GM has agreed to make significant improvements in the participation agreement.

Additionally, GM is committed to clarify some of the terms of the wind-down agreements, and NADA will continue to work with GM to improve these agreements. We appreciate GM's efforts to interact with NADA on these crucial matters.

In conclusion, Mr. Chairman, I want to thank you again for convening this hearing, because we still have fundamental concerns. These government-negotiated bankruptcies continue to threaten dealer rights under State motor vehicle franchise laws. These laws inject balance in the inherently unbalanced economic relationship between a dealer and the manufacturer; and they also provide consumers a reliable, convenient, and competitive auto retail network. Therefore, Congress should ensure that the franchise laws of 50 States apply with full force and effect, especially when the new Chrysler and the new GM are operating outside of bankruptcy.

We urge Members of Congress to support H.R. 2743, which would restore fundamental rights to dealers. We stand ready to work with you to achieve this goal.

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

[The prepared statement of Mr. McEleney follows:]

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Mr. Stupak. Thank you.

We are now going to go from my left to right with the dealers.

Mr. Thomas, would you like to begin? Pull that mike over, turn it on until you get a green light, and speak into it so we can hear you and they can also pick it up.

#### TESTIMONY OF ROBERT THOMAS

Mr. Thomas. Thank you Mr. Chairman, Ranking Member Walden.

May 15, 11 a.m., the FedEx truck arrives. Employees watch as the driver hands me the thin cardboard envelope that contains our destiny. I received an unsigned letter from General Motors. The tone of letter was vague and referred to criteria but not the specific methodology, neither stating the relative importance of each, nor how great a period of time was being referenced.

The letter stated, quote, we don't think we will be able to renew your contract in October 2010. This is not final. Submit what you like by the end of the month to this e-mail address.

The significance of this letter became clear on June 2, when the content of the vague letter had been construed into the offer of a wind-down agreement. The agreement offered on the 2nd had to be returned in time to arrive in Detroit by the 12th, a scant 10 days to decide one's options, to confer with professionals

regarding unprecedented legal matters and loved ones about our financial and professional future.

My grandfather immigrated to the U.S. in 1900 and by 1918 had established himself as a Chevrolet dealer in Bend, Oregon. His daughter married my father, and he was a dealer until 1982, when I succeeded him. Our company has woven itself into the social fabric of the community since the time it was a village. Our family has provided automobile sales and service, civic leadership, and community involvement every year continuously since 1916.

These are hard times for Bend but not as difficult as those we survived in the Great Depression and the world wars. General Motors has been with us the whole time, from 1918 forward.

We have been GM to our community. Now it is a dark time when GM must abandon our town, our region, and us. Just as GM is an icon, we enjoy iconic status in our region: Always there, always helpful and compassionate, always acting responsibly.

The letters we garnered in support to our appeal to GM were humbling in their appreciation of our caliber and quality of service and community support. Moreover, there was confusion as to why Bend, now 80,000 strong, will be abandoned, as will we, their dealer of choice, the largest GM dealership in central and eastern Oregon.

Their world is crumbling. Things they thought they could count on are being taken away: long-standing reliability,

integrity, a safe harbor. In a very real sense, our customers are afraid.

Who benefits from this taking, this cancellation that is so unnecessary, so wrong, so wrongly executed? Not GM. Having no dealer in Bend will not increase GM's sales. Not the 216,000 people in our region who are left solely with a small GM dealer in the tiny town at its perimeter, with limited inventory and repair capacity. Not our community, who has relied on us always to generously support its activities. Not our employees, who are highly trained to work on sophisticated GM products like Cadillac and Chevrolet and service clientele with courtesy and compassion. Not our customers, who bought our products thinking, like we did, that we would be here forever.

That is our business model, the longest term you can imagine. Always do it right. Be here for the long haul. Earn the loyalty of your clientele, and they will reward you with long-term patronage.

Over the years, that has been GM's business model, too; and we were a good fit for 91 years until we got cut from the team.

Why are these cuts necessary? I recently attended a meeting of letter recipients in Oregon. Who was there? A roomful of respectable business people with whom I have attended GM business meetings for 30 years. Obviously, they are able business people to have survived, as have we.

The marketplace should be the sole arbiter of who should fall

by the wayside, not the arbitrary acts of well-meaning administrators. If the plan is to replace us with another GM dealer, why have we been deprived of the opportunity to make such a transaction with their approval? Will our market be awarded to a GM favorite or insider? This would seem to be an unreasonable and wrongful taking of a valuable asset nurtured through the years, only to be snatched by an overreaching at a moment of opportunity inside the bankruptcy.

And what of the inventory that remains? In our case, some \$4 million, the value of which could shrink by a million or more from what we paid. Over a year's supply of GM cars await our sale. A half a million dollars of parts cannot be returned.

What I would hope for in such dire straits would be a request of reason. Allow us to provide support for those GM customers in our region and relieve us of the inventory obligations we incurred in good faith by repurchasing at what we paid. This is a small price to pay for potentially depriving a long and faithful associate of its livelihood.

[The prepared statement of Mr. Thomas follows:]

\*\*\*\*\* INSERT 2-4 \*\*\*\*\*

Mr. Stupak. Thank you, Mr. Thomas.

Mr. Blankenbeckler, your opening statement, please, sir.

**TESTIMONY OF FRANK A. BLANKENBECKLER, III**

Mr. Blankenbeckler. My name is Frank A. Blankenbeckler, III. I am the dealer-principal of Carlisle Chevrolet-Cadillac-Jeep in Waxahachie, Texas, to my knowledge the oldest Chevrolet dealership in the State of Texas. The Cadillac line was added in 1990, and the Jeep line was added around 1978.

This dealership was operated continuously in the same community, with the same family ownership since 1926. The dealership was found in 1926 by my maternal grandfather, Y.C. Carlisle. My father, Frank A. Blankenbeckler, Junior, who was awarded a bronze star for his service to his country at Bastogne during World War II and who received a masters in tax law from Harvard, married my mother in 1947 and moved to Waxahachie to be the dealer at Carlisle Chevrolet for the next 55 years.

I graduated from the University of Texas in 1974 with an MBA. Since that time I have had one job. I have been a GM and Jeep dealer for nearly 35 years.

Approximately 3 years ago, my son graduated from Ole Miss and joined me at the dealership to fulfill his childhood dream of being an automobile dealer like his father, his grandfather, and

his great grandfather before him.

During these 84 years of dealership ownership and operation, my family has been one of the most generous and civic minded in Waxahachie. My family was very instrumental in the founding of Baylor Hospital there, the YMCA, served on the school board, and made many other numerous contributions, too numerous to mention.

The point of this type of introduction is to state that my family has been an integral and generous part of Waxahachie for a long time.

On May 13th, I received a letter from Chrysler. It stated I will no longer be a Jeep dealer after June 9. On May 14th, I received a letter from GM stating that my Chevrolet and Cadillac dealer agreements would not be extended beyond 2010. In 24 hours, I was told that everything my family and I had worked for for 84 years would be taken away, with no compensation.

I have introduced a folder which conveys some facts about Carlisle Chevrolet. I would like to request this folder and the balance of my testimony be entered into the record.

Mr. Stupak. Without objection. Mr. Walden had supplied it to the committee. Without objection, it will be part of your testimony.

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

Mr. Blankenbeckler. The pages of this folder show the location of the dealership, including an article by the local paper and a page of facts about the dealership.

I would particularly encourage you to look at the total amount of taxes paid by Carlisle in 2008, about \$1.3 million. It contains sales history, CSI scores, and a couple of articles about the dealership that is located next door. I can assure you Carlisle is not the bottom of the heap in regards to its peers per this folder.

I want to make mention of my employees. Over the years, Carlisle has had numerous employees that had worked for my family for 35 to 50 years. Time doesn't permit me to do them justice. My point is Carlisle has had and currently has the best people in the industry.

I would like to mention to the committee the human element of these actions by GM and Chrysler. Nearly 90 souls depend on Carlisle for their existence. With our closing, these people will be subjected to serious economic hardship.

I have had numerous offers to sell my business. I have had that right taken away. My family will be left with a single-purpose dealership facility with no tenant. This is senseless.

My grandfather paid for Carlisle Chevrolet from his labors. My father paid my grandmother for Carlisle Chevrolet through his

efforts. It took me nearly 20 years to pay my parents for Carlisle Chevrolet. It took GM and Chrysler a mere 24 hours to take Carlisle Chevrolet from me.

This makes no sense. Why is this happening? GM and Chrysler have stated publicly they have not used the Bankruptcy Code to usurp State and local motor vehicles codes and statutes. This is patently not true. I don't care how it is spun.

GM dealers have offered either a wind-down agreement or participation agreement. The content of the agreements is horrible. Dealers are told to either sign the agreements or GM will petition the bankruptcy court to have them immediately terminated. There is no alternative to signing these new agreements. This is wrong.

Now I would like to address what I think is the most important part of my testimony. In a period of 24 hours, my business was essentially taken from me with no real explanation other than that these are difficult times. How in this country can a man's property be taken without due process and without compensation and apparently given to another dealer with better political connections who has been in my community for less than a year for nothing?

I adamantly think my constitutional rights have been violated. I think I am a victim of an illegal taking. This is the most important point of this hearing in my mind, and I think it is the feeling of all the dealers that are in the same

position. I feel like it should be the concern of all Americans. When your property rights are destroyed, how long will it be until it happens to you?

I am hurt. I feel violated, and I am extremely upset. I wear my father's Bronze Star lapel pin on my coat. He was truly a member of the greatest generation. I am glad that he is not alive to witness this terrible injustice. To have risked his life for a country that does what they are doing would have destroyed him.

I love my country, and I love my State. I feel great pain from what is happening. It is my hope and my prayer that I will be able to continue my life and not be consumed by bitterness should this situation not be reversed and this country not return to the tenets of the Founding Fathers who created it.

Thank you for hearing my testimony.

[The prepared statement of Mr. Blankenbeckler follows:]

\*\*\*\*\* INSERT 2-5 \*\*\*\*\*

Mr. Stupak. Thank you.

Mr. Paddock, your opening statement, please, sir. You may want to pull that mike a little bit closer. They don't pick up as well as we think they do. Thanks.

#### TESTIMONY OF DUANE PADDOCK

Mr. Paddock. Good morning. I am a "go forward" dealer. My name is Duane Paddock, dealer-owner of Paddock Chevrolet in Kenmore, New York, where we employ 135 of the finest, most hard-working Americans in the Buffalo area. I am proud to say that Paddock Chevrolet is currently the largest GM dealership in the Nation, and we have been proudly been serving western New York for almost 75 years.

I am really pleased to be here today. It seems especially appropriate for me at least, since my father passed away exactly 15 years ago to this day. It was on that day the livelihoods of my employees were passed on to my hands, and our company's responsibility to our community had to be preserved.

In addition to my responsibilities at the dealership, I serve as Chairman of GM's National Dealer Council, known as the NDC, for the past 2-1/2 years, a position I was elected to by my fellow GM dealers.

The state of our industry is this. The U.S. marketplace for

automobiles is the most open and competitive in the world, with that competition taking place across a wide variety of brands and competing dealers and now the Internet. But it is a recognized fact that, since 2006, a rapid decline of our retail business across all automakers, domestic and foreign, has occurred.

Our industry has gone from an annual selling pace of over 17 million units to just more than 9 million. My fellow dealers of every brand, both GM and non-GM, have suffered huge financial losses in a very short period of time. The amount of working capital necessary to fund their day-to-day operations has been severely diminished. In addition, bank loans to dealers for working capital are essentially nonexistent.

As I sit before you today, I am a franchisee of a company going through a painful restructuring, a restructuring that is not only necessary but it is critical to the future of our customers, suppliers, dealers, employees, and other stakeholders. Some of my fellow dealers, many of whom I consider friends, received notices this past few weeks that they will not be part of the new GM.

While I cannot advocate the termination of any individual dealership, I will tell you that the Dealer Council will work vigorously with senior GM management over the past 2-1/2 years to address circumstances that we dealers face today. During my tenure as chairman, all meetings between the NDC and GM management have and will continue to be led with dealer profitability as the primary goal of our dealer network. That is because dealer

profitability and the reinvestment it makes possible are the keys to improving our customer experience at our dealership and improving that experience is essential to our ability to compete against our best competitors.

I also can tell you that, regarding the restructuring of the GM dealer network to improve its competitiveness, GM has elected to wind down affected dealers over a 17-month period, allowing them to make an orderly business planning decision about their futures. In addition, GM has recognized the need --

Mr. Stupak. It is just going to buzz. Go ahead. Keep going.

Mr. Paddock. -- GM has recognized the need to offer certain compensation to dealers winding down their operations, something Chrysler clearly chose not to do.

Before I conclude, I should tell you that the vast majority of GM dealers I know are also overwhelmingly optimistic about GM's future. They believe in the uncompromising quality, reliability, and dependability of our current portfolio of vehicles. I can tell you that in my 26 years at Paddock Chevrolet, I have never had a better portfolio of vehicles to sell. The stunning designs and compelling fuel economy improvements of these vehicles gives us hope for the future.

In closing, let me say I appreciate your time and, more importantly, your understanding of the significant impact a successful General Motors will have on this great Nation. My

family has been a part of GM for decades, my father as a GM dealer, my two uncles, who were UAW members working at the Tonawanda engine plant. Since the day I was born, everything my family had come from their association with GM, from the food on my table to the 1982 Camaro I proudly drove to my high school graduation.

Paddock Chevrolet and all GM dealers are and will continue to be a vital part of the future success of the new GM. I, like my father before me, will continue to work tirelessly to ensure that a vibrant GM dealership can be proudly passed onto my children and will continue to be a fixture in the Buffalo community.

Thank you for this opportunity, and I look forward to answering your questions.

[The prepared statement of Mr. Paddock follows:]

\*\*\*\*\* INSERT 2-6 \*\*\*\*\*

Mr. Stupak. Thank you.

Mr. Kiekenapp, can we get your testimony in?

We have one vote, and I will let Members know I plan on getting through this testimony of this witness, and then we will take a 15-minute break and get right back and finish up this hearing. This is the only vote we will have today, so we will get it done.

Mr. Kiekenapp, if you can, please.

#### **TESTIMONY OF DANIEL J. KIEKENAPP**

Mr. Kiekenapp. Mr. Chairman and members of the subcommittee, my name is Daniel J. Kiekenapp; and I am the general manager and a shareholder of Tacoma Dodge, an automobile dealership in Tacoma, Washington. Thank you for giving me the opportunity to tell you the Tacoma Dodge story and how the TARP funds you authorized are being used.

Tacoma Dodge has been in business continuously since 1972. Until this week, the dealership was valued at several million dollars and employed 71 people. In the month of April, 2009, the last month for which we have a complete report, reports prepared by Chrysler showed that Tacoma Dodge was ranked number one in western Washington and number two in the entire State of Washington for the sale of new Dodge vehicles.

These reports, prepared by Chrysler, also show that out of eight western States covered by the reports Tacoma Dodge ranked 32 out of 313 dealers for the sale of Dodge vehicles. Other reports prepared by Chrysler for the area Chrysler termed Team Washington, which covers more than the State of Washington, shows that in 2006 Tacoma Dodge was ranked 7th out of 60 dealerships; in 2007, it was ranked 8th out of 41 dealerships; and, in 2008, our worst year ever because of the economy and the public's lack of enthusiasm for Dodge vehicles, we still ranked 8th out of 35 dealerships. These stellar sales rankings were accomplished in competition with other dealers selling multiple lines of Chrysler vehicles, whereas Tacoma Dodge only had the opportunity to sell Dodge brand vehicles.

The Dealer Performance Report prepared by Chrysler for year end 2008 comparing Tacoma Dodge with the Dodge dealers in Washington State shows we have net earnings of \$1,704,249, whereas the group average for the same period was \$680. Yes, only \$680 average per dealership.

We enjoyed the same success with our parts business. The dealer scorecard for December, 2008, a report prepared by Chrysler, shows that in 2008 Tacoma Dodge purchased \$3,895,166 worth of new parts from Chrysler, whereas the average dealer within the United States purchased a total of only \$746,107 worth of parts. Chrysler designates its top 100 dealers for the sales of parts as Mopar Master Dealers. We were one of these top 100.

In fact, we ranked number 76 among all the Chrysler dealers in the United States for the sale of parts.

In the area of customer satisfaction and retention, we consistently outperformed our peers. As of February, 2009, Tacoma Dodge had an over 25 percent customer retention average, as compared to approximately 17 percent average for all of the Chrysler dealers in the western United States.

Our problems began when Chrysler assigned us an unreasonably high minimum sales requirement, requiring us to sell an unrealistically high number of vehicles. We didn't understand why Chrysler would assign us such an unreasonably high number, so we looked at the demographics they used and found they had made several errors in the traffic patterns and other demographics they used for our market area. We then pointed this out to Chrysler and asked them to recompute our minimum sales requirement based upon the correct demographical information. Unfortunately, Chrysler refused to even consider our request.

In the spring of 2008, I attended the only dealer meeting I am aware of whereby representatives of Chrysler explained Project Genesis to the Chrysler dealers in western Washington. Project Genesis is the name of their program to reduce the number of dealers. During that meeting, representatives of Chrysler stated that under Project Genesis there would be two Chrysler dealerships in Pierce County, Washington, and one of those dealerships would be in the City of Tacoma so that the needs of Chrysler customers

in Tacoma would be adequately addressed.

On May 14, 2009, I received notification from Chrysler that it intended to terminate Tacoma Dodge as a dealer. In the State of Washington we have a Franchise Act to protect dealers from manufacturers unreasonably terminating a dealer. Under the Washington Franchise Act, Chrysler would never have been able to terminate Tacoma Dodge since Tacoma Dodge was one of its most outstanding dealers, using any yardstick you want to use to measure our performance. However, the notification from Chrysler told us we were being terminated under the U.S. bankruptcy laws, which provide no such protection to dealers.

The termination of Tacoma Dodge leaves the City of Tacoma, which is the second largest city in western Washington, with a population of almost 200,000, without a single Chrysler dealership. Chrysler's termination of us also leaves Pierce County, which has a population of almost 800,000 persons and is the second most populous county in the State of Washington, with only one Chrysler dealership.

As a result of Chrysler's actions, Tacoma Dodge, which in April was ranked the number one Dodge dealer in western Washington, can no longer sell any new vehicles, nor can we do any warranty work on any new vehicles. We have been reduced to being a used car lot and a neighborhood automobile repair facility. In the process, 35 faithful and loyal long-term employees have lost their jobs; and Pierce County and the State of Washington have

lost a payroll of approximately \$1.3 million per year.

Again, thank you for the opportunity you have given me to tell you how the TARP funds you authorized are being used.

[The prepared statement of Mr. Kiekenapp follows:]

\*\*\*\*\* INSERT 2-7 \*\*\*\*\*

Mr. Stupak. Thank you, and thank you for your testimony.

We have a vote on the floor. It is only one vote, so I am going to ask Members to -- let's recess right now, go down and vote. We will come back. We will hear from Mr. Spitzer and Mr. Golick, and we will go right into questions.

So please come back in 15 minutes. We are going to be in recess for about 15, 20 minutes, give you all a chance to stretch your legs. And see you back here in about 15, 20 minutes.

We are in recess.

[Recess.]

Mr. Stupak. The committee will come back to order, and we will wait for the rest of our folks to reassemble. No more votes today, so we should be able to continue our hearing uninterrupted.

When we left off, Mr. Spitzer, I believe we were up to you to give an opening statement for 5 minutes, please, sir. Take your time. Pull that forward. You are on.

**TESTIMONY OF ALAN SPITZER**

Mr. Spitzer. Chairman Stupak, Ranking Member Walden, distinguished members of the subcommittee, I want to thank you for the honor of appearing here today. I would especially like to thank Congresswoman Sutton for her role in providing this opportunity to represent my fellow dealers.

We are losing seven dealerships because Chrysler, the bankruptcy court, and the executive branch of our government have acted precipitously to deny us our economic rights. This is a public policy issue worthy of your time and worthy of congressional legislation, since without your prompt intervention to restore rights to franchisees under State law, 2,000 businesses and approximately 100,000 jobs will be lost. As a Nation, can we really afford to let this take place? I urge Congress to enact H.R. 2743, the bipartisan Automobile Dealer Economic Rights Restoration Act, next week.

We have a long and proud history with Chrysler and GM. The majority of our stores sell these brands and these brands only. None of our stores are dualed with other brands. We have a combined 374 years of business relations with Chrysler alone.

We are passionate about both Chrysler and GM, and we want both companies to succeed. We are committed to helping them do so. That is why we are both disappointed and perplexed by the

recent actions to terminate us and over 2,000 other dealers.

We are not perfect. During those 374 years of operations, we have made mistakes. Like Chrysler's managers, our managers aren't perfect either. Nevertheless, we have stood shoulder to shoulder with Chrysler during good times and bad. In fact, my Uncle Del, as the President of the Dodge National Dealer Council, lobbied this very Congress for funds to bail out Chrysler the first time. We never quit on them, and they shouldn't quit on us and the hundreds of other dealers who remain committed to Chrysler.

This issue is not about the Spitzer family or our seven dealerships that are being terminated or even the 300-plus employees who work in them. It is about destroying the entire network and life's work of hundreds of entrepreneurs and the thousands of people they employ. And I fear that these actions by Chrysler and GM will lead to their demise. And all of it is unnecessary.

First, our dealerships do not cost manufacturers one dime. All products and services which Chrysler and GM provide are charged back to the dealership at a profit. Whether it is special tools, training, or even those colorful brochures, we pay for all of it. We build our own facilities, we provide our own operating capital, we hire our own people; and if we lose money, it comes out of our pocket.

Second, Chrysler has argued that the 789 dealerships terminated were for performance reasons or to put all brands under

one roof. As demonstrated by the sworn testimony of myself and dozens of other dealers in the bankruptcy court, many of the terminated dealerships were high-performing or Genesis stores or both.

Chrysler did not terminate dealers for the stated reasons but rather to rid themselves of outspoken dealers and will now redistribute to other dealers while skirting around the laws of all 50 States, laws which otherwise prohibit this type of arbitrary and capricious action. Profitable, high-performing dealerships will be given to our fellow remaining dealers with no due process and no compensation whatsoever.

It is unconscionable for a failed private business to bankrupt another private business which was succeeding. But when our government uses its power, its influence, and our money to aid and abet such action, it is downright unAmerican.

At a time when our government is spending billions of dollars to stimulate the economy and create new jobs, this action will destroy 37,000 jobs with Chrysler dealers and quite likely another 60,000 or more at GM dealerships and millions and millions of local tax dollars will be lost and all for no good reason.

In fact, this plan may ultimately destroy the new Chrysler and severely damage GM's hopes of survival. Dealers are their only customers. We are the face of these once-proud car companies in our communities. The fact that we have survived and prospered over the last hundred years, even as they often produced vehicles

American consumers did not want, proves that independent entrepreneurs find ways to survive and create employment opportunities even in tough times.

If Congress does not step in, dealers will be unwilling to invest in new facilities, purchase millions of dollars in inventory, and otherwise risk their capital if State law protections are meaningless and if it could all be taken away in the next downturn. Fewer dealers today means fewer sales of Chrysler and GM products tomorrow, leading to a further erosion of market share for both companies.

Allow the marketplace to select who lives and who dies, not some committee in Detroit. As of today, approximately 350 of the 789 rejected dealers have accepted their fate by not objecting to their terminations. Thus, the accelerated reduction of dealerships has already occurred for those who believe such a reduction was necessary. There is no need to eliminate those of us who remain committed to Chrysler and GM's success.

I thank you, Mr. Chairman, and I can assure you that I will work tirelessly and will not rest until H.R. 2743 becomes law, which already has over 100 cosponsors, Congressman Maffei, Congresswoman Sutton, Congressmen Hoyer and Van Hollen and others who have supported our bill, and we have only been out 3 days.

So thank you for your time, and I will answer any questions. Thank you.

[The prepared statement of Mr. Spitzer follows:]

\*\*\*\*\* INSERT 2-8 \*\*\*\*\*

RPTS JOHNSON

DCMN HOFSTAD

Mr. Stupak. Thank you, Mr. Spitzer. You want to hand that mike to Mr. Golick.

And we will hear from Mr. Golick.

**TESTIMONY OF JAMES GOLICK**

Mr. Golick. Distinguished members of the subcommittee, thank you for this opportunity to testify today. I am one of the 789 dealers that Chrysler is terminating, and I am here to give you my views on the situation and to advise you on what you can do to help us.

My dealership is located in a suburb of Pittsburgh. We have been there since 1935 and been in our present building since 1948, and we are a family-run dealership. I am the third generation to sell new vehicles at our facility.

One of the distinguished members of your subcommittee, Congressman Doyle, has bought three new vehicles from us and sent some of his friends and family to our store, so he knows firsthand what we are all about and how we run our business. My family and employees have worked very hard to maintain our excellent reputation. The Golick name has been synonymous with trust and integrity.

I want to tell you next about the pressure that Chrysler placed on me several years ago to purchase the Chrysler franchise from a neighboring dealer. They pushed me into paying hundreds of thousands of dollars to buy that franchise and told me that my facility was fine and that I could stay in my present location indefinitely.

Now that my franchise has been stripped from me, I have been deprived of recovering that money, as I could have sold my franchises locally for hundreds of thousands of dollars.

Last week there was a Senate hearing on June 3rd, and the president of Chrysler, Jim Press, said these words, and I quote, that "Chrysler wants to bring the performers along that will allow us the best return on our investment. In the case of the dealers not being taken forward last year, we lost 55,000 units of sales," unquote.

I would like to let everyone know that I am one of their performers. I have always been at 150 percent of my required minimum sales responsibility and 150 percent of my required working capital. My customer satisfaction rating has been among the highest in the State of Pennsylvania for many years, and I have always been profitable.

Now I would like to talk about why us dealers do not cost the factory any money or very little money. In the case of my dealership, the total cost to the factory, I really believe, would be about \$2,000 per year. To arrive at that number, I am guessing

my district manager's annual salary is, say, \$52,000. I divide that by the 26 dealers in my district, and thus I come up with the \$2,000 per dealer cost. Last week at the Senate hearing, Jim Press said that each dealer cost the factory about \$41,000 per year, which is a far cry from the \$2,000 that I am coming up with.

He gave his side of the story as to why Chrysler needed to eliminate 789 dealers. Mr. Press said that the dealers should have sold 55,000 more units than they did last year, and that cost the factory \$1.5 billion in lost revenue. What he didn't say is that, when we are gone, they will lose 140,000 units in annual sales, and the factory is going to lose \$4 billion annually.

So, let's see, you are worried about the 55,000 units, but you are going to lose 140,000 units. No wonder you are in trouble, I mean, with that kind of thinking. I just don't see the logic.

Second, he said us dealers cost the factory \$1.4 billion a year in development costs. That is a very large sum of money. I would really like to see the breakdown of those numbers and how the 789 dealers cost you that much.

I mean, you went into this theory about how you have to have two separate minivans, the Chrysler and the Dodge, and that costs you money to build an extra minivan. You put on different hubcaps, different wheels on the car, different grill, and different seat fabrics. I don't see the real cost, heavy cost involved with that. I really don't.

Next I would like to talk about the process of selecting the 789 dealers. In Chrysler's viability report that they submitted to the government in February, Chrysler indicated that 25 percent of their dealers were in financial trouble. I am not in financial trouble. I would like to know how many of those dealers that were in financial trouble are still with the company.

If Chrysler was bent on eliminating 25 percent of their dealer body, the prudent thing to do would be to get rid of the 25 percent that were in financial trouble and represented a liability to them. My guess is that many of the financially troubled dealers were picked to continue with the new Chrysler.

I would now like to talk about the rationale of cutting any dealers at all in this tough economy. Ford Motor Company is not cutting any of its dealers, and they are doing pretty good right now. In the 1970s, when Chrysler was in financial trouble and the government stepped in, how many dealers did Lee Iacocca cut? He didn't cut any.

One would never think that we would see the day when someone could just take your business from you in the United States of America. But this very day is now upon us. Why can't we let the free market decide which dealers survive or fail? Why dictate it under the cloak of bankruptcy? That was un-American.

No matter what the outcome here, I really think that the bankruptcy laws should be changed to protect executory contracts, such as new car franchise agreements, as I believe they represent

a pure revenue stream to the factory. And we must protect the dealers' rights and protect the manufacturers from their own imprudence.

I would also like to say that at least the GM dealers that were being eliminated were given some money. You know, they were given 10 months to wind down, and GM offered each dealer anywhere from \$100,000 to \$1 million to help with the transition. The Chrysler dealers' "soft landing," quote, was 3 weeks long, and we received absolutely no compensation -- nothing, not one penny. That was an unconscionable act.

In closing, I would like to give some facts and figures that should point the way forward from here. I took a look back at the past 8 years of Chrysler's financial statements, and I have discovered that they did not have a year where they made more than \$2 billion profit in any 1 year. In fact, they lost money in 5 of the last 8 years.

The point I am trying to make here is that I really want the new Chrysler to succeed. They will need every order and every sale from us dealers that they can get in the next couple of years to survive. They have exited bankruptcy owing over \$13 billion to the Treasury. The past shows that it is very difficult to even make \$2 billion profit in any 1 year as an auto manufacturer.

The pragmatic approach to getting that money paid back to the Treasury is to reinstate us dealers and let us order our 140,000 vehicles annually. This will give Chrysler \$4 billion in annual

revenue to help them survive and pay back that money.

I am extending an offer to Sergio Marchionne from Fiat to welcome us with open arms. And I am urging Congress to sign on to bill H.R. 2743, which will restore our rights and our protection under the State franchise laws to where they were before Chrysler entered bankruptcy. If Chrysler wants to pare back their dealer body, why not let them do it within the framework of the State franchise laws, which were enacted to prevent this very thing from happening?

Again, I would like to thank everyone for taking the time to hear me out, and may God bless America.

[The prepared statement of Mr. Golick follows:]

\*\*\*\*\* INSERT 2-9 \*\*\*\*\*

Mr. Stupak. Thank you, Mr. Golick.

And thank you to everyone for your testimony.

We are going to go to questions, 5 minutes each. I am going to hold the line on the 5 minutes, and we will probably go more than one round.

Let me ask Mr. Press and Mr. Henderson this. The committee staff has received reports that some dealerships that have been chosen to go forward, in other words not being closed, are being told that they should resign from positions of the National Auto Dealers Association, NADA, and from positions on State auto dealer associations because of NADA's support of legislation to reinstate State franchise agreements. That is the Maffei bill, H.R. 2743.

So are either of you, Mr. Henderson or Mr. Press, aware of any such calls being made on behalf of GM or Chrysler to tell people not to be on these boards and State boards?

Mr. Henderson. Mr. Chairman, I am not aware of any of those calls.

Mr. Press. I am not only not aware of them, if I had anybody in my company doing that I would like to reprimand them or perhaps let them go.

Mr. Stupak. Will you commit, Mr. Press and Mr. Henderson, will you commit to sending out a letter, a correspondence, a message to the employees of your companies instructing them that such intimidation would not be tolerated?

Mr. Press. We had an all-field conference call with all of our field organizations prior to starting this, and that was exactly the instructions that was given to them, to make sure that this was done in a very positive manner.

Mr. Stupak. Right. My question, though, would you put that in writing and send it to everybody?

Mr. Press. Absolutely. There is no -- I would like to know if anybody in our company did that. If you have that information, I would like to have that.

Mr. Spitzer. Right here. Right here is an e-mail from one of them right here.

Mr. Stupak. Okay, okay. You can't do that. If you have such an e-mail, why don't you give it to one of the Members here? They can ask the question then more specifically on that.

Mr. Henderson?

Mr. Henderson. Mr. Chairman, I will put that in writing.

Mr. Stupak. Okay.

So I take it, Mr. Press and Mr. Henderson, you will put it in writing then for us. Okay, thanks.

Let me ask this. Mr. Henderson, it is my understanding, when you testified last week at the Senate, there was no appeal process for the closed dealers. And then at the Senate you announced an appeal process. And you said you were under review, and 45 dealers had those decisions then reversed.

So you didn't have an appeal process until you testified

before the Senate, right?

Mr. Henderson. No, sir, we had planned to have an appeal process.

Mr. Stupak. You planned, but you didn't have one. I mean, those dealers who were closed, when they were given their notice they were closing, they did not receive a way to appeal. You announced it that Wednesday, and then Thursday the process was made, e-mailed to everybody, and they had until Monday to submit their documents on appealing, right?

Mr. Henderson. Yes, they needed to submit their documents, sir.

Mr. Stupak. Okay.

Does Chrysler have any appeal process for any of dealers that were closed?

Mr. Press. No, sir.

Mr. Stupak. So, if I may, Mr. Press, then the dealers you closed, there could have been some mistakes made then.

Mr. Press. Our situation, I think, is different from General Motors, and therefore the conditions are not really -- would be favorable for having an appeal process.

Mr. Stupak. Because of the short time frame?

Mr. Press. No, not the short time frame. The reason is that in General Motors, I believe, and I am not totally aware, I think they have a term agreement which is not being renewed, and there is a process to go through for nonrenewal.

Our situation is quite different from a standpoint that our company went bankrupt, a new company was formed --

Mr. Stupak. Correct.

Mr. Press. -- to take a different dealer body forward. And, strategically, that dealer body that was taken forward was based on criteria not performance-oriented, but strategic performance criteria with regard to single lines versus tri-branding and many other aspects that really -- for example, locations or even the population and demographic projections.

Mr. Stupak. But the single line and tri-vehicle, that is not the dealer's fault. That is Chrysler's fault. I mean, if you got two minivans that are the same thing other than the seats, the grill, and the design, that is not their fault. That is really Chrysler's fault. So why are they being punished?

Mr. Press. Great question, sir. I understand why you would ask that, and I understand the passion --

Mr. Stupak. You know, I drive an Oldsmobile. They did away with it. I drove an Oldsmobile all my life. My last one here I am nursing along, I have pretty close to 200,000 on it, and I don't want to leave it. But at least I got other options. But I am mad that they closed Oldsmobile.

Mr. Press. Yes, sir.

Mr. Stupak. But I understand the double branding. So why couldn't --

Mr. Press. I have been with the company a short time. I

came from Toyota for 37 years.

Mr. Stupak. Okay.

Mr. Press. And I think that everybody understands the difficulties that our company has had with regard to integrity of product, quality, and appeal. In asking why that is, it isn't because people don't want to build good cars and trucks. There are insufficient resources available to do the engineering and development necessary to build winning formula vehicles.

In our case, it isn't just wheel covers and grills. It is about \$250 million to \$300 million per sister vehicle.

Mr. Stupak. Sure.

Mr. Press. And that investment doesn't return any incremental sales, and it requires that we advertise the two cars against each other. And it is one of the most important reasons why the company went bankrupt, is that we kept kicking this problem down the road instead of addressing it, which is what we did.

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DCMN HERZFELD

[12:17 p.m.]

Mr. Stupak. My time is up. But that's your decision; the dealers. Even the dealers who survive, it's not their problem that we have a sister vehicle, as you call it. That's really Chrysler's problem. And the new Chrysler has got to address it.

So drop one, like you did on my Oldsmobile. Drop one.

Mr. Press. We did, sir. We did. And 555 of the dealers that are discontinued were selling not 3 brands, but 1. That was a necessary part of this. It wasn't our desire. It wasn't a plan. But 555 of these dealers that had only 1 brand won't have viable products coming. And unless all three brands are under one roof, the dealer body isn't going to be viable.

Mr. Stupak. My time is up, but a retort would be: Why not allow those one-brand dealers to sell all three of your vehicles and keep them open?

Mr. Press. Well, because our volume has gone from over 2 million a year to 700,000, and the only way our dealers will ever survive -- and I think these dealers all really understand that -- is to have all three brands under one roof, where they can put together the synergy, the total customer base, and the fixed costs will be covered. That's something that everybody wants. We've known that for 10 years.

Mr. Stupak. Then let them do it.

Mr. Walden, for questions.

Mr. Walden. Mr. Henderson, a question for you. Who is the purchaser of GM?

Mr. Henderson. The purchasers of General Motors, sir, will be 60.8 percent the United States Government, 11.7 percent the Canadian Government, 17-1/2 percent of the shares will be held by a VIVA Trust, and the remaining approximately 10 percent will be held by the unsecured claimants of General Motors.

Mr. Walden. And so the vehicle acquisition holdings is really dominated by the U.S. Treasury.

Mr. Henderson. They will be the primary shareholder.

Mr. Walden. So, in your filing in the bankruptcy court, when you say on page 40 here, "Because there are now far more dealerships than the company's market share can support, including, in some cases, multiple dealers in a single contracting community and dealerships that have become poorly situated as a result of changing demographics, the purchaser is not willing to continue all dealerships."

That purchaser, you've told me now, is the U.S. Treasury.

Mr. Henderson. Yes, the purchaser, the largest shareholder, is the U.S. Treasury.

Mr. Walden. And it goes on to say here in your comments to the court, "Among the dealerships the purchaser is not willing to continue, for example, are those approximately 400 dealers who

sell fewer than 50 cars per year and those approximately 250 dealers who sell fewer than 100 cars per year. Approximately 630 other dealerships are not being continued because they are dealers who, in whole or substantial part, sell brands that are being discontinued."

Mr. Henderson. That's correct.

Mr. Walden. So the question we've been trying to get to the bottom of, who is dictating how many dealerships are allowed to go forward for General Motors? You've told me here, under oath, that it's the purchaser -- I mean, that's what you testified in the bankruptcy court, that it was the purchaser who made that decision. And that purchaser is the U.S. Treasury.

So doesn't that lead us back to the Auto Task Force making the decision that you're now having to implement?

Mr. Henderson. The Automotive Task Force, as we've gone through this process, has asked us to go through the process of right-sizing our dealer body. They said if they're going to buy the company, they want to have a right-sized dealer body. So they asked the management to develop a strategy to accomplish a world-class, correctly-sized dealer body. They were not willing to take on our dealer body as it stood, sir.

Mr. Walden. Okay. But I thought I've read that some of you have said they didn't have anything to do with setting the dealer levels.

Mr. Henderson. They did not tell us a number.

Mr. Walden. Yet, in your testimony in the bankruptcy court, you say, for example, are those approximately 400 dealers who sell fewer than 50 cars and those approximately 250 dealers who sell fewer than 100 cars per year.

Mr. Henderson. That's true, yes.

Mr. Walden. These are ones the purchaser is not willing to continue.

Mr. Henderson. Amongst others.

Mr. Walden. So the purchaser did tell you they're not willing to continue those dealerships.

Mr. Henderson. The purchaser asked us to develop a strategy to have a competitive world-class dealer body. One of the issues that we had were the approximately 400 dealers who sold less than 50 cars per year, in terms of not --

Mr. Walden. So you're telling me the task force didn't tell you that these dealerships that sell fewer than 50 cars per year had to go.

Mr. Henderson. What I'm saying, sir, is that the task force advised us to develop a strategy to have a world-class dealer body, properly sized, and address what they considered to be serious concerns, which they articulated, for example, in the March 30th findings on our viability plan.

Mr. Walden. On page 5 of your testimony, you have, "We have not terminated any dealers." Do you believe that?

Mr. Henderson. Yes. Can I explain?

Mr. Walden. Yes, please.

Mr. Henderson. What we've done is we've offered dealers who will not continue with us wind-down agreements. The intent of those wind-down agreements is to provide a period of time with which to wind down their facility, provide compensation to them, allow them to purchase parts, perform warranty service, and, over time, we wouldn't renew their contract, and they would no longer be with us.

Mr. Walden. Okay. And beginning this fall they can't buy the 2010 model year cars from you, can they?

Mr. Henderson. They will not be able to purchase new vehicles, that's correct, sir.

Mr. Walden. So it sounds to me more like you've diagnosed them with terminal cancer, just not going to take them out -- Mr. Thomas, do you feel terminated?

Mr. Thomas. Very much so. I feel terminated.

Mr. Walden. Why do you feel terminated?

Mr. Thompson. Well, because I don't have an opportunity to be a full-fledged General Motors dealer anymore. I can't order new cars, I can't return parts. I'm partially in the game, but I'm not really in the game.

Mr. Walden. How about the gentleman next to you? Mr. Blankenbeckler, do you feel terminated?

Mr. Blankenbeckler. Absolutely.

Mr. Walden. Why?

Mr. Blankenbeckler. The same reasons that Mr. Thomas said. The marketplace where I do business has viewed us as going out of business. The press has been to our dealership. TV stations have been to our dealership. My employees are extremely worried and extremely nervous. It's just like --

Mr. Walden. I think you mentioned that you've had sort of standing offers from people to buy your dealership over the years.

Mr. Blankenbeckler. There have been people approach me. I'm sure Mr. Thomas has had people. Anybody who has a good, viable business.

Mr. Walden. Could there have been a different strategy here, where if you weren't meeting the goals that General Motors set for you, you could have been given time to sell your dealership? Did they give you an opportunity to change up what it was?

Mr. Blankenbeckler. No, sir.

Mr. Walden. And when they've evaluated you in the past, did they ever say, look, if you don't do these seven things, the next reauthorization we are not going to be there for you?

Mr. Blankenbeckler. No, sir, they didn't. Outside of bankruptcy, they couldn't say that. That's why they wouldn't.

Mr. Walden. My time has expired, Mr. Chairman. Thank you.

Mr. Stupak. Thank you, Mr. Walden.

Mr. Dingell for questions, please.

Mr. Dingell. Mr. Chairman, thank you.

Mr. Chairman, we are engaged in a very difficult business

here. We have to decide how we are going to protect the rights of the dealers and at the same time see to it that we restructure our American automobile industry so that we save the rest of the dealers, as many of the workers as we can, the jobs in the communities that are affect. That will be one of my questions today.

First of all, to Mr. Press and Mr. Henderson, do you have written rules for the closure of dealers and for the termination of the dealers? Yes or no?

Mr. Press. Yes.

Mr. Dingell. Mr. Henderson.

Mr. Henderson. Yes, sir.

Mr. Dingell. Would you please submit each of them to the committee with such accompanying remarks you would like to make?

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

Mr. Dingell. Now, there's no appeal right for a dealer, in the case of Chrysler; is that correct?

Mr. Press. That's correct.

Mr. Dingell. Are there appeal rights for General Motors?

Mr. Henderson. Yes, there are, sir.

Mr. Dingell. Would you submit to the committee the precise character of those appeal rights?

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

Mr. Dingell. Now, would you tell us, please, Mr. Henderson and Mr. Press -- just give us the number -- how many of the dealer terminations have been changed by the companies under your appellate procedures or under your categories and standards?

Mr. Henderson. At this point we've changed 45 decisions. We are not completed with reviews, but that's the status as of this morning, sir.

Mr. Dingell. Mr. Press.

Mr. Press. We have had no change.

Mr. Dingell. I've heard of a dealer who was terminated -- I won't tell you which company it was -- where a big storm had caused the collapse of a bridge, and that dealer was essentially shut off from access to his customers. And he was terminated, but the company involved has seen fit to reinstate the dealer because they understand the facts.

Do you have provisions in your termination agreement, Mr. Henderson and Mr. Press, that would permit you to address that kind of a problem?

Mr. Henderson. Yes, sir. That was a General Motors dealer. And when we relooked at the facts after the submission, we concluded that we were in error in our decision, and we reversed that decision.

Mr. Dingell. Now, Mr. McEleney, if the legislation that we are working on passes, and if it screws up the bankruptcy process

and causes the collapse of either or both of the companies down the road, we're going to have a rather nasty situation on our hands. Part of it is going to be that we're going to see all the dealers out of business, all the plants close, all the communities hurt, all the workers and all the suppliers hurt. What do we do about that situation?

Mr. McEleney. Sir, I think that with that situation -- you know, this is not a normal bankruptcy. This is, as you well know, a government-negotiated bankruptcy.

Mr. Dingell. I understand those things, but what are we going to do if that result is occasioned by the situation we confront?

Mr. McEleney. I don't think that will happen. I think that the fact that the government is involved in this, they are going to prevent that from happening.

Mr. Dingell. Is that a statement or a hope that it is not going to happen?

Mr. McEleney. I guess that is a hope, a fervent hope.

Mr. Dingell. I join you in that hope.

Mr. McEleney. Thank you.

Mr. Dingell. Mr. Press, Mr. McEleney asserts this: 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.

Is that statement true, yes or no?

Mr. Press. I'm sorry?

Mr. Dingell. Mr. McEleney states as follows: 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. Yes or no? Is that true?

Mr. Press. We've had a Genesis program, dealer consolidation program, in place for more than 10 years. I think the majority of those dealers had a good, long time to prepare for that.

Mr. Dingell. Would you submit for the record your comments that prove that this is not the case?

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

Mr. Dingell. Now, Mr. McEleney, did General Motors give adequate warning prior to its May 15 announcement that it would be winding down approximately 1,200 dealers? Yes or no?

Mr. McEleney. Yes.

Mr. Dingell. Mr. Press, please describe briefly what Chrysler is doing to reclaim and redistribute the inventory of the 789 dealerships it announced would be closed.

Mr. Press. Mr. Dingell, just 1 second. I now think I understand your question about notification to the dealers versus knowing that there was a reason they may not stay in business. The notification to dealers, there was not any additional time given. The primary reason for that was until April 30 at 6 o'clock at night, before we had to file for bankruptcy, we did not plan to. This was not a plan to go forward. We had no knowledge of this. After that, May 1 is when we began to develop this program. So there was no notification.

Mr. Dingell. Now, Mr. Press, if you please, what is Chrysler doing to reclaim and redistribute the inventory from the 789 dealerships it has announced will be closed?

Mr. Press. Well, we have committed that we will redistribute every single vehicle and every part.

Mr. Dingell. How about specialized equipment?

Mr. Press. And specialized equipment. And I'm happy to say that 100 percent of the vehicles have already been committed to.

They have started moving. We're at 80 percent on the parts and about the same on specialized equipment. We will continue to work until that commitment is fulfilled and all of those burdens are relieved.

Mr. Dingell. Now, I want you to listen to this question carefully. How much is it going to cost each dealer that is being terminated on each car from the termination? Are there any fees associated with that? Do they get the full value of the car? Is it a distressed price? How will that be addressed?

Mr. Press. The price is the invoice price they paid, less \$350 for inspection, cleaning, and transportation to the dealer that will be selling the vehicle.

Mr. Dingell. Can General Motors give me the same answer, Mr. Henderson?

Mr. Henderson. Sir, in the case of General Motors, to the extent the dealer signs a wind-down agreement, we would expect them over the course of the next 17 months to sell down their inventory. And they would be afforded the same treatment as any other General Motors deal with respect to retail incentives and support for selling to customers.

Mr. Dingell. How much cash money are they going to be out in the case of General Motors?

Mr. Henderson. They shouldn't be out any.

Mr. Dingell. So you're going to take back inventory, parts, vehicles, and specialized equipment.

Mr. Henderson. In the case of General Motors, if a dealer chooses to wind down, we anticipate that through that period they would not only sell their cars, they would sell their parts by virtue of the fact they would be able to provide warranty and service to customers. And then finally the tools would be amortized.

With respect to a dealer who terminates, if they just choose to voluntarily terminate, by virtue of our agreement with GMAC, a dealer can return the cars to GMAC, and we redistribute the cars with no cost to the dealer.

Mr. Dingell. Thank you. My time has expired.

Mr. Stupak. Mr. Press, on Mr. Dingell's question, \$350 for a 2009 model. But if they're turning back a 2008 model, it's \$1,500.

Mr. Press. There's a curtailment for the model year, is \$1,500, yes, sir.

Mr. Stupak. Why do they have to pay you to take back the vehicles when you shut them down?

Mr. Press. I'm sorry?

Mr. Stupak. Why do they have to pay you \$350 or \$1,500 when you shut them down?

Mr. Press. First of all, obviously the company filed bankruptcy. It's a defunct organization. The fact of the matter is in a bankruptcy all precedent would be that the inventory would be the responsibility of the dealer if the company that they are

franchised with is no longer in business.

There was not a provision in possession financing. It couldn't be provided to buy the cars back. And so our challenge was -- and it was a good one -- without using taxpayer money, to find a way to relieve the dealers of the inventory, and do it in a manner where it didn't cost the taxpayers, which we did through the redistribution program.

And so that redistribution program was implemented, and we did redistribute 100 percent of the vehicles. We're happy to say that that's complete.

Mr. Stupak. That had to happen very late last night, because as of 7 o'clock last night, we still had phone calls from dealers saying, we have cars and they won't take them back.

Mr. Press. We will take every car; we will redistribute any car. We've made that comment. We've had written notices. It's been in the Senate. It's been in the newspaper. We will continue to provide the dealers information and evidence of that. We have redistributed the cars to other dealers. They physically may not all have left the lots, because we weren't able to begin moving them until yesterday when the new company formed, but we are at it.

Anybody who has that, please give them my name. I'd be happy to talk to them.

Mr. Stupak. We will. I know you mentioned taxpayers. Every one of these dealers are taxpayers, too.

Mr. Barton for questions, please.

Mr. Barton. Thank you, Mr. Chairman.

As you know, there's another hearing going on, and so I have been kind of shuttling back and forth. I also need to alert Mr. Blankenbeckler that there's a plane to Texas calling my name. I may leave after these questions.

I want to ask Mr. Press and Mr. Henderson -- and you may have already answered this -- but is there an established set of criteria for evaluation of which dealerships were to be closed and which were to be left open? Do you all have actual criteria in writing on how you evaluated dealerships for closure or remaining open?

Mr. Henderson. Yes, sir, we do. And we submitted those last night, actually.

Mr. Barton. The same for you, Mr. Press.

Mr. Press. Yes, sir, we do.

Mr. Barton. Did the dealers know of these criteria?

Mr. Press. In our case they were not notified of the criteria prior to the notification.

Mr. Barton. What about you, Mr. Henderson?

Mr. Henderson. In our case we have identified what the criteria are, but, in fairness, haven't weighted that. So the dealers don't necessarily know what the weighting of all the individual criteria are, the two most important of which are sales effectiveness and customer satisfaction.

Mr. Stupak. Mr. Barton, if I may.

You say you submitted them last night. To who?

Mr. Henderson. To the staff, I think, of this committee.

Mr. Stupak. This committee.

Mr. Henderson. We can resubmit them.

Mr. Stupak. We don't have them.

Mr. Henderson. We'll get them to you if you don't have them.

Mr. Stupak. The point is you're under oath. And I don't want people to think that we're holding something back here. We don't have any criteria agreements.

Mr. Barton. I think we have just established one of the puzzlements. It's somewhat unfair to Mr. Blankenbeckler and Mr. Thomas and the other dealers to be told that their dealerships are going to be revoked, and yet they didn't have any prior knowledge of the analysis and the criteria that were being used, and apparently to this day don't have the knowledge.

Mr. Blankenbeckler, do you think that's a fair way to run a railroad?

Mr. Blankenbeckler. No.

Mr. Barton. Mr. Thomas.

Mr. Thomas. I think it's been an opaque process.

Mr. Barton. That's been one of the problems, I hope Mr. Henderson and Mr. Press realizes.

Mr. Stupak. Is this the document?

Mr. Henderson. I apologize, sir. Yes, this is the document.

On page 3 of the document, we outline the dealer performance score. And the weightings are actually in there: 50 percent sales, 30 percent customer satisfaction. It's on page 3 of the document.

Mr. Stupak. The staff took this as just a PowerPoint presentation. They didn't realize this was the criteria you used. After looking at it, they didn't think it helped much. So this would be the criteria you said you used then.

Mr. Henderson. This was the dealer performance --

Mr. Stupak. We'll have copies made and give it to everybody here.

I'm sorry. Mr. Barton.

Mr. Barton. Mr. Blankenbeckler, since you've received your two letters, has anybody from either company, Chrysler or GM, come to you and said, we want to explain why we've done what we've done, and we want to give you a chance to show us the error of our ways, and if you wish to continue a business relationship, here's what you need to do?

Mr. Blankenbeckler. No, they have not.

Mr. Barton. Mr. Henderson and Mr. Press, do you think it would be a reasonable business practice to give dealers that have, in some cases, had decades of relationships with the companies that you had some opportunity to know why they were evaluated the way they were, and give them some opportunity to show why they may have been evaluated unfairly?

Mr. Press. Yes, sir, I do. I would like to add that because of the fact that our notification was coincidental with the bankruptcy action and a lawsuit that was brought, and the fact that we couldn't have a lawyer in an active lawsuit involved in every discussion, we were not in a position to do that until yesterday. And we are more than happy to have those discussions going forward, now that that lawsuit has been finalized.

Mr. Barton. Mr. Henderson, would you like to comment on that?

Mr. Henderson. Yes, sir. As of yesterday, we had received 856 requests to reconsider our decision. As I said in my testimony, we had reversed 45 of them. We had expected to complete that review by today, but given the number of requests, we are planning to work through the weekend and into Monday to finish this, and certainly are willing and open to consider any and all requests for consideration.

Mr. Barton. Mr. Blankenbeckler, you don't have to answer this question if you don't wish to, but you have told me privately the amount of investment you have in your dealership. If you wish to acknowledge that, I would appreciate if you would. But, in any event, if you don't, do you feel that before that investment, which has been built up over 84 years, is just wiped out, that you should have some opportunity to get some remuneration or at least have a reasonable discussion about remuneration with GM and Chrysler?

Mr. Blankenbeckler. I can't imagine why that wouldn't be the case in the country. I don't see -- as I said in my statement, I don't see how that can happen.

Mr. Barton. Could you give a general parameter of the amount of the investment your family has made in these two dealerships over the years? You don't have to if you don't want that.

Mr. Blankenbeckler. I really don't care to state that.

Mr. Barton. I'll just state for the record, Mr. Chairman, it's substantial.

Mr. Blankenbeckler. It's a large sum of money.

Mr. Barton. It is orders of magnitude more than my net worth, Mr. Chairman. I will put it that way.

With that, my time has expired, and I yield back.

I do want to thank our witnesses. I want to thank, again, our Chairman. I do hope, when talking directly to Mr. Henderson and Mr. Press, you'll will come up with some protocol that dealers like Mr. Blankenbeckler that wish to continue a relationship are given a fair opportunity to present their case. I hope you will do that. Thank you, Chairman Stupak.

Mr. Stupak. Thank you, Mr. Barton.

Mr. Braley for questions.

Mr. Braley. Mr. Press, do you know a Jennifer Fox?

Mr. Press. I don't know. I may.

Mr. Braley. Do you know a Jennifer Fox who works in Chrysler's Washington, D.C., office?

Mr. Press. Yes. I don't know her last name.

Mr. Braley. I assume if she uses an e-mail address that ends in Chrysler.com, that's an employee of Chrysler.

Mr. Press. I assume, yes.

Mr. Braley. Are you aware that Chrysler is attempting to convince Chrysler dealers who have not been terminated to engage in a lobbying effort to point out the positive aspects of the consolidation through bankruptcy that has been going on?

Mr. Press. I'm aware of the fact that because of the publicity that has been provided, that there are 2,391 dealers who have benefited, and are dealers, and give to Little League, and long-time, 100-year-long dealers who want an opportunity to also make their position known, sir.

Mr. Braley. Are you aware Chrysler has been sending out talking points under a heading "Key Messages Memo" that says things like Chrysler LLC made the appropriate business decision to move forward with the dealer network that overall can be thriving and profitable; and the automobile industry cannot support the number of dealers that currently exist; and dealers have known that Chrysler wanted to consolidate dealerships and locate all three brands under one roof. They started the process more than 100 years ago. And we understand that the process to evaluate the dealers was a thorough process based on data-driven metric. And as a dealer moving forward with the new company, I plan to purchase some of the eligible inventory of some of the rejected

dealers.

Were you aware that was going on?

Mr. Press. That's all in our testimony submitted to you. It's part of the consistent communication of those points. A number of dealers asked that they would like to be able to make their voice known as well through this.

Mr. Braley. Let me just ask you about the one point, that dealers have known -- this has come up during the testimony today -- that Chrysler wanted to consolidate dealerships for more than 10 years.

If that is truly the case, sir, then can you tell us why that didn't happen in the numbers we have seen until this bankruptcy arose?

Mr. Press. It has been happening, yes, sir. A great question. I can understand why you would ask that.

The fact of consolidation has been an ongoing process for a number of years. In fact, a year and a half ago when I came, we actually had meetings, and dealers were identified. They know which dealers were going forward, which locations would be going forward. We gave them a toolbox of things in terms of real estate, of tax planning to facilitate those discussions and transactions. And some of them did.

Mr. Braley. You have to agree with me that the volume of closed dealerships over that 10-year period paled in comparison to the announcement that grew out of the bankruptcy; isn't that true?

Mr. Press. That's because the bankruptcy was caused by the fact that we were made to support specific vehicles for standalone dealers. And the fact that we are a failed enterprise, that didn't get carried forward. A new company was formed that is going to go forward.

Mr. Braley. I understand that. And I only have 5 minutes, so I'm going to move on to something else. You talked in that statement about these data-driven metrics. Is that the plan, the criteria that Mr. Dingell and Mr. Barton requested? Will those contain the data-driven metrics that you have justified in this memo?

Mr. Press. Yes. And we have submitted in our testimony what the criteria is, and will provide additional data as requested.

Mr. Braley. In your testimony before the Senate Commerce Committee, you said that Chrysler loses over a billion dollars annually and lost sales opportunities because of underperforming dealers. And, Mr. Henderson, you claimed in similar testimony that dealers add \$1,000 of cost to every vehicle.

So my question for both of you is: Do you have financial analysis that was conducted before the decision was made to terminate these dealer franchises that supports those allegations you made in your testimony?

Mr. Press?

Mr. Press. Yes, we have the analysis of the sales situation. That does exist. We knew what the number was.

Mr. Braley. Was that submitted as part of your testimony for today's hearing? Do we have that information?

Mr. Press. You do not have it by dealer.

Mr. Braley. Can you provide it to the committee?

Mr. Press. There is confidentiality in data that we receive from dealers.

Mr. Braley. Well, I know that there are means to redact information to protect confidentiality and still provide the information that I'm seeking. If there's a way to arrange that, would you agree to provide it to the committee?

Mr. Press. Yes, as long as it can be done within protecting the dealers' rights.

Mr. Braley. The committee, I'm sure, will be happy to work with you.

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

Mr. Braley. Mr. Henderson, the same question for you. Does GM have the data to support this statement that you made that these dealers are costing your company \$1,000 per vehicle?

Mr. Henderson. Sir, as I mentioned in my testimony, we have an overall cost of \$1,000 per vehicle. That cost is articulated in the same package that we submitted last night. It's approximately \$2 billion, 2 million units.

Mr. Braley. Do you have the underlying data that was used to make that calculation, and is it in the materials that we have received?

Mr. Henderson. Yes, sir.

Mr. Braley. You can identify that for the committee.

Mr. Henderson. On page 9, sir.

Mr. Braley. All right. And so on that page where you made the calculation, do you have supporting documentation for the conclusions that show the portion for dealer margin, incentives paid directly to dealers, standards for excellence, and on and on? Those numbers aren't just published somewhere as a standard cost factor associated with the sales of each vehicle, are they?

Mr. Henderson. What I outlined in my testimony, sir, is that these are costs which over time have come into our structure to provide direct support to dealers. Over time. Those are not identified per individual dealer because, in fact, they're provided to all of our dealers. But to the best of our knowledge,

our best-in-class competitors do not supply that same sort of support.

Mr. Braley. Mr. Chairman, my time has expired, but it seems to me there are still plenty of unanswered questions that the committee needs to explore on this subject.

Mr. Stupak. Thank you, Mr. Braley.

I ask unanimous consent to put this document that's from General Motors that looks like they may have e-mailed last night, 10 pages, the one we have been discussing, without objection.

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

Mr. Walden. Mr. Chairman, without objection. But I would just make the point it might be helpful for the dealers to be able to see a copy of this to review.

Mr. Stupak. Since it's in the record, we will go ahead and put it on the table. If they want to look while we're going here, that would be fine. It's part of the record.

Next, I will move Mr. Burgess for questions, please. Five minutes.

Mr. Burgess. Thank you, Mr. Chairman.

I've got a map here of the United States. This actually pertains just to Chrysler for the moment. It looks like what a Republican might want the electoral map to look like.

This reflects closed Chrysler dealers. You see my State of Texas. Although we've been relatively spared in the economic downturn, our State has been hit pretty hard with these closings.

Now, there's a Member in a State way up in the Northeast -- I think he's the Chairman of the House Financial Services Committee -- that was able to make a phone call and get one of his dealerships or distributors to stay open. My question is: What is the number that I need to call? Is it 1-800-CAR-CZAR? Tell me who to call so that I can help the dealers that are in my area that have been so badly hurt by this.

Mr. Press. You're asking that for Chrysler?

Mr. Burgess. Yes.

Mr. Press. I don't understand your question. With all great respect for the office, I have to say that I'm not aware of any dealer that was ever removed from the list that was submitted to the judge on the 14th. I have no knowledge of that. I would very much like to see, if I could get that.

Mr. Burgess. Well, it was in all the papers yesterday, and I'm sure we can get a copy. Barney Frank made a call to someone and got his dealer to stay open. Again, it's unconscionable, with what's going on in this country. I also sit on the Joint Economic Committee.

I beg your pardon. I was just told it was a GM dealer. Perhaps Mr. Henderson can answer that.

Mr. Henderson. Actually, it's not a dealer at all.

Mr. Burgess. Just tell me the telephone number that I call. That's really what I'm after here.

Mr. Henderson. Sir, what we were asked to do was look at the timing of three after-sales warehouses which belonged to General Motors and were part of our restructuring plan, including facilities to be closed.

Mr. Burgess. I'm going to direct you, in the interest of time. The fact is that a Member of Congress made a call, and a distributorship was not closed that was slated for closure. It is fundamentally unfair. You see the people that are sitting at this table. You've heard their stories. They represent families back in everyone's district across the country.

This process has to be open and transparent and fair. We have a President who was elected on the promise of transparency and fairness. I don't think that is being delivered right now.

Now, who wrote the language of the wind-down agreement? Can either of you answer that?

Mr. Henderson. In our case, it would have been General Motors, the staff of both the sales organization as well as our counsel.

Mr. Burgess. And for Chrysler?

Mr. Press. There is no similar agreement. We have a very different situation. We have no wind-down agreement.

Mr. Burgess. With whom in the White House have either of you communicated regarding the restructuring of both of your organizations?

Mr. Press. Our restructuring plans have been part of our bankruptcy and part of our application for funds. As the TARP funds were available through U.S. Treasury, they have been made aware of our process in discussions. But absolutely operationally they have not had any input or direction in what we're doing.

Mr. Burgess. Would this committee be able to get access to the e-mails between your company and the White House regarding the restructuring and, in the case of General Motors, the wind-down?

Mr. Press. Yes, absolutely.

Mr. Burgess. Will it be necessary -- we, of course, can subpoena, if I can convince the Chairman to do so, but it would be

easier if that could just be made available to us.

Mr. Henderson. Sir, in our case I have no idea how many that is. But we have been keeping -- we would keep some of them that would be subject to litigation hold and some that wouldn't be. I will come back to you.

Mr. Burgess. Let me ask you this: Have either of you ever spoken to Brian Deese?

Mr. Henderson. I have.

Mr. Press. Yes.

Mr. Burgess. Have you exchanged e-mails with this individual?

Mr. Henderson. I think so, yes.

Mr. Press. I don't think I've ever addressed one to him. I may have seen some e-mail.

Mr. Burgess. Mr. Chairman, I would just submit that I would be particularly interested in those e-mails to be made available to the committee and made part of the record.

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

Mr. Burgess. And I do want to spend some time with Mr. Golick before I finish up.

Here's the deal. TARP funds, taxpayer funds, taxpayer funds paid by the employees of these dealerships have gone to fund the closing of these dealerships. I sit on the Joint Economic Committee. We saw unemployment numbers for last month in excess of 9 percent, heading for 10. And what's that number going to look like after you decimate these dealers across the country? Now, that's a rhetorical question. I don't expect an answer.

Mr. Golick, I do need to ask you -- and I didn't intend to ask this -- but your story is so similar to a story I heard down in my district; a gentleman being required, badgered, brow-beat into buying a dealership, and now he's faced with having to close his original dealership and the one he purchased.

Are you aware of other areas in the country where that occurred?

Mr. Golick. Now, it's general -- for some reason there's always some kind of animosity between the factory and the dealer. It doesn't need to be. Ford right now has -- there's no animosity between the factory and the dealerships. I think they're going to come out of this okay.

Mr. Burgess. Let me ask you this before my time is up: Are you getting remuneration from the manufacturer to dispose of your inventory and your light bulbs?

Mr. Golick. I'd love to tell you about that. Mr. Press makes it sound like sunshine and lollipops. Your exact words were: Invoice minus \$350. We're selling the cars for invoice, minus the holdback, minus the floor plan, minus the PPA, then minus the \$350. We're selling the cars for \$1,500 below invoice, on average.

We normally sell to the public at invoice. That's generally -- right around there. So we're selling the cars for \$1,500 less than we normally do to the other dealers.

Mr. Burgess. What about your parts inventory?

Mr. Golick. Mine hasn't been addressed yet. I don't know. I'm still in a state of shock over everything.

Mr. Burgess. I was told when Chrysler came in to see me yesterday evening in anticipation of this hearing, I was told they took care of all their dealers that they were closing; inventories would be purchased, cars would be purchased, parts inventories would be purchased. Is that your experience?

Mr. Golick. What needs to be understood, there's no written procedure as to how we're going to get paid for these cars. Thank God I only have two new cars left, but some people have a half a million dollars worth of cars. From what we hear, cars are going to be trucked away, and then we're going to wait for the money somehow. I haven't seen anything on paper that says how we're going to get paid. Now, that's a very important aspect of everything here. Is there a written procedure?

Mr. Press. First of all --

Mr. Stupak. Last question, Mr. Burgess.

Go ahead, Mr. Press.

Mr. Press. I'd really like to respond to the issue about the reimbursement. The dealers are being reimbursed what they paid for the vehicle -- what the vehicle cost them, less \$350. The word invoice -- when we invoice the dealer, their invoice includes these holdbacks that we collect and give back to them. But they're being paid what they paid us, less \$350.

Mr. Stupak. That's just for 2009; \$1,500 for 2008.

Mr. Press. Yes. In terms of the process, we have published to the dealers the process for the redistribution. We have asked the dealers to sign an agreement that would allow us to take that responsibility. Some of the dealers have done that, some of them haven't. About 78 still haven't. But all the other dealers have been notified what the process is. It's available for them to understand that that can be used.

Mr. Stupak. Mr. Spitzer, I know you're jumping here to jump in on this one.

Mr. Spitzer. You'd asked the question if Mr. Golick knew of other dealers in similar situations. Of our seven stores that were terminated, three of them were Project Genesis stores. One of them was underway. We purchased a piece of land at Chrysler's insistence for \$1.6 million in the reorganization of the Akron market, and that store was in an area that they wanted to get away

from.

And we were operating interim while we were undergoing construction, and they agreed to hold off construction because of the market conditions for 1 more year, and then they canceled the franchise. We still own the dirt, and they are penalizing us for results in an area that they want us to get out of.

Mr. Burgess. Mr. Chairman, I know my time is up. This just cries out for further investigation. I hope this committee will do a much -- very thorough job as to what's been going on here. Again, in Texas it looks like we've cleared the decks. I don't know how we're clearing them from. Someone is likely to make a great deal of money off the reemergence of Chrysler. I'd like to know who that is and what's in the plan and what's in the works.

I have a nagging suspicion that there is a political calculation here. And it is extremely distasteful when you look at these gentlemen who have had what I think unconstitutional takings of their private property.

And I'll yield back.

Mr. Stupak. Ms. DeGette for questions, please.

Ms. DeGette. Mr. Press, I wanted to ask you if Chrysler has a similar set of written criteria as GM does for its closures.

Mr. Press. I'm not familiar with this document.

Ms. DeGette. Let me ask you this: Does GM have a written set of -- I'm sorry, does Chrysler have a written set of procedures for its closures? Yes or no?

Mr. Press. Yes. We've published that.

Ms. DeGette. Does this committee have that?

Mr. Press. It's been published.

Ms. DeGette. Do you know if this committee has it, yes or no?

Mr. Press. I can't answer that.

Ms. DeGette. Mr. Dingell suggests that we have you submit that for the record. And we would appreciate that.

Mr. Press. If you don't have it, I will.

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

Ms. DeGette. Thank you very much.

Secondly, I heard both of you, Mr. Henderson's and Mr. Press's testimony, about what could make a dealer profitable; that it could be coming from selling used cars or parts or service or other things. I guess my question, and I will start with you, Mr. Henderson, is: If a dealer is profitable, and it's buying cars from the manufacturer, which it's then selling, what does it matter if that profit center is derived from the service center, used sales, or new cars?

Mr. Henderson?

Mr. Henderson. Good question.

Ms. DeGette. Thank you.

Mr. Henderson. First, in the case of the dealers who are impacted in our wind-down situation, 69 percent of them were not profitable.

Ms. DeGette. My question is: If a dealership is profitable, then what should you care about what center that profit is deriving from? Very quickly, please.

Mr. Henderson. In general, we look at overall profitability, not individual centers.

Ms. DeGette. Right. But if a dealer is profitable from whatever source, and buying cars from GM, why would you care if -- I mean, if it's profitable, why not let it stay in business?

Mr. Henderson. If a dealer is profitable we don't care if

it's from parts --

Ms. DeGette. Right. But why would you close a dealership like that?

Mr. Henderson. Not in all cases our profitable dealers, for example, have high levels of customer satisfaction.

Ms. DeGette. So now it's customer satisfaction.

Mr. Henderson. There were multiple criteria, yes.

Ms. DeGette. What about you, Mr. Press. What's your answer to that question?

Mr. Press. My answer is, first of all, we have too many dealers.

Ms. DeGette. Why would you care if they're profitable and buying cars from Chrysler?

Mr. Press. Because the only way we're going to survive is to have all three franchises up under one roof. The only way any dealers will survive will be to have tribranding, first of all.

Ms. DeGette. So one criteria is they have to have all three brands under one roof, right?

Mr. Press. Directionally. That's the position that we are going to achieve. That's one, but not the only one.

Ms. DeGette. Then you can talk about the other one. In Colorado, Chrysler has terminated five of the seven top-performing dealers, including John Medved's Chrysler store in Castle Rock, which is not in my district, but it's south of my district. They sell all three brands under one roof, and they are profitable.

So what would you say to them? You probably don't know each specific.

Mr. Press. I think it's difficult to get into going through each individual dealership.

Ms. DeGette. But what would your criteria be for a store like that?

Mr. Press. First of all, I'm not sure if I understand. You say the top-performing store. I don't know what that means.

Ms. DeGette. Five of the -- the Chrysler dealerships are five of the seven top-performing dealerships in Colorado. And so this Medved dealership in Castle Rock is profitable, and it has all three brands under one roof. So for people like them, not them in particular, what would another criteria be?

Mr. Press. One criteria would be if it's not top performing, its costing us sales.

Ms. DeGette. So needs to be top performing, needs to have all three. And what else?

Mr. Press. They have to have a minimum sales responsibility covered so that we're not losing money, revenue in that store.

Ms. DeGette. Is that minimum sales responsibility covered in your written policies that have been distributed and what you're going to provide to us?

Mr. Press. A minimum sales responsibility is a basic part of our agreement. Dealers all know what that is.

Ms. DeGette. So it's in their agreement.

Mr. Press. It could also be that the market that they are in is no longer viable. The fact of the matter is we have gone from 2 million units to 700,000. We don't have enough available product to support all the dealers in every market.

Ms. DeGette. I don't mean to interrupt you. I understand what you're saying. But like Castle Rock, I'm going to tell you, is one of the fastest-growing areas. Douglas County, Colorado, is one of the fastest-growing counties in the country.

So I guess, without getting into the particulars -- I know you don't know the particulars of each single one, but I heard you say that, unlike GM, Chrysler does not have an appeal process. So my basic question to you is: Do these dealers know -- people like Medved -- do they know exactly why their dealership was terminated? Have they been given that information?

Mr. Press. Because of proceeding in bankruptcy and the fact this coincided with a lawsuit, we were not in a position to communicate. I want to clarify that, because that was asked before, that now that we've come out of bankruptcy, we are in a position we will communicate to the dealers and let them know what the factors are.

And we had a very robust process that was fair and equitable. It was tested and approved by the bankruptcy judge, by the appeals court in New York, and the Supreme Court of the United States. I would be more than happy to allow the committee members to see the same information. It's difficult, but we can go through

individual dealers as you wish. We'd be happy to do that.

Ms. DeGette. What you would say is that you did not tell these dealers before exactly why they were terminated. So you can understand why they are upset.

Mr. Press. I understand their anger and upset. I can understand in my soul the whole situation. Being bankrupt is not a spectator sport.

Ms. DeGette. Well, obviously. You know, I used to be a lawyer in a different life. I don't know of any provision in the bankruptcy rules that says you can't tell people. Maybe that was the bankruptcy judge that told you not to tell people. But it seems to me you to give people the information.

Mr. Press. There was a lawsuit filed as part of that bankruptcy on behalf of the dealers, and it became very difficult for information, other than discovery, to go forward. Now that we're out of bankruptcy, we're fully prepared --

Ms. DeGette. What's your time frame for that, sir?

Mr. Press. We're fully prepared at any point to become transparent with the dealers that would like to.

Ms. DeGette. So you can get that out, what, in the next week you think?

Mr. Press. Perhaps sooner.

Ms. DeGette. Great. Thank you.

Thank you very much, Mr. Chairman.

Mr. Stupak. Mr. Doyle for questions.

Mr. Doyle. Thank you, Mr. Chairman.

I am a cosponsor of H.R. 2743. It took me about 2 seconds to sign that one.

Mr. Press, I'm trying to understand this. So you're saying that you have a very objective methodology to determine what dealers survived and what dealers didn't. I mean, you could feed the dealer data into a computer, and then you had this very objective criteria, and then a computer would spit out, without -- was it that kind of a deal, or was there any subjective part to this?

Mr. Press. We have over 200 people in the field from local markets that were part of the process of collecting the appropriate information. We have a data service that provides demographic and location information and identification of future trends. We have the process of understanding what franchises that we have, the criteria from the dealers' own scorecards.

It's a number of pieces of information. It wasn't just a computer. It was vetted through a number of levels.

Mr. Doyle. Okay. Thanks.

So one of the criteria is -- why would a dealer who had maybe two of your three brands and was a performing dealer and a profitable dealer, why wouldn't they be given the opportunity to just pick up -- that you start selling the third brand to them? What stops you from doing that?

Mr. Press. Well, there's a couple of reasons. One of them,

of course, is that you don't want to have two dealers that may be next door to each other selling the same products. I don't think the dealers really want that either. In fact, there are some laws that provide 10-mile separation, which should be respected. And so we have got to be careful to craft the right dealer network going forward that has the distance and the appropriate market so the dealers can survive.

Normally, many of these locations where we have the single-brand dealerships, they're in so close proximity that they have to be brought up into one. That means that one dealer may be chosen, and one may not. We have here that process, where the dealers that weren't chosen are in front of you.

Mr. Doyle. Thank you.

Mr. Golick, you sold two of the three brands, right?

Mr. Golick. Yes.

Mr. Doyle. Now, this minimum sales deal, have you met that?

Mr. Golick. Yes. I have always been -- by the way, there are two criteria -- two main criteria that a manufacturer can use to terminate a dealership under the State franchise Laws. And the two main things are your minimum sales responsibility and your minimum working capital requirements. We have always been at 150 percent of both of those.

There's one other criteria, and it's taking care of the customer -- your customer satisfaction. We've always been just about the highest in the State.

Mr. Doyle. Mr. Chairman, I want to submit for the record, there's a site called DealerRater.com, where you can go on and look up dealerships. And they do ratings.

I have Golick Jeep here, who consistently has a 5 out of a possible 5 customer satisfaction. Their 24-point rating, by the way, is 5.0, the highest you can get.

I have another dealer -- I won't name them out of respect for them -- also in the same market area, that was kept -- that their dealer rating is 1 on a scale of 1 to 5. This is a surviving dealer. Mr. Golick is a dealer -- I'd like to submit these ratings for record.

Mr. Stupak. Without objection.

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

Mr. Doyle. Mr. Golick, I want you to grab that book on the table and turn to tab 14 on that book. Now, if you're looking at tab 14, this is an article that appeared in Automotive News on February 5, 2009, and it describes a conference call at which Mr. Press, the president of Chrysler, urged dealers to buy 15,000 cars from the company in order to save it.

Now, let me read you to what Mr. Press reportedly said to the dealers: "You have two choices. You can either help us, or you can burn us down."

Mr. Golick, are you familiar with this call?

Mr. Golick. Yes. Very familiar.

Mr. Doyle. The article also quotes Mr. Press as saying this: "If you decide not to do that, we have got a good memory of who helped us and who didn't." Do you recall that, Mr. Golick?

Mr. Golick. I very much do.

Mr. Doyle. How did you feel about that? Did you take that as a threat?

Mr. Golick. I have never heard that from an auto executive in my life. I've been in the business all my life. I never heard anything like that.

Mr. Doyle. Mr. Golick, as a result, did you buy additional cars?

Mr. Golick. You know what, I honestly can't remember. I think if I had to look it up, I probably did not on that

particular month, but I did on the other months. I think Chrysler could provide you with that. But I have a feeling I did not that particular month he said that comment, as I fluffed it off and told my family I couldn't believe this guy said this.

Mr. Doyle. Mr. Kiekenapp, did you get a similar call? Were you on that call?

Mr. Kiekenapp. Yes, I was.

Mr. Doyle. These quotes that were attributed to Mr. Press in the article, do you recall hearing that?

Mr. Kiekenapp. Yes, I did.

Mr. Doyle. Did you buy cars as a result of that call?

Mr. Kiekenapp. No, I did not.

Mr. Doyle. How about you, Mr. Spitzer?

Mr. Spitzer. I was on the call. In some cases we bought them; in some of our stores we just couldn't take them.

Mr. Doyle. After you and other dealers put up your own money to buy these cars in order to help out the company, you were shut down a few months later.

Mr. Spitzer. That's right.

Mr. Doyle. Let me ask you, Mr. Press, is that an accurate quote in the paper, or you deny saying this?

Mr. Press. It's accurate.

Mr. Doyle. It's accurate.

So let me ask you something, Mr. Press. You get on the phone and you ask your dealers to help you survive. You ask them to buy

some more cars. You basically say you've got a good memory, and you'll remember the guys that helped you out and the guys that didn't.

Can you tell this committee that you didn't use that as one of your criteria -- if dealers said we take that as a threat, and we resent it, and we're not going to buy any additional cars, would that be used to maybe retaliate against the dealers?

Mr. Press. Absolutely not, at all, in any way, shape or form.

Mr. Doyle. How do you take a statement like: We have a good memory of who helps us and who doesn't? If I made that call to you and asked you that, how would you take that call?

Mr. Press. May I put that in context?

Mr. Doyle. Sure.

Mr. Press. I understand your question, and I also fully realize the way that that could be used in a manner that may not be accurate. But the situation was that we had a shutdown in December before Christmas. We made no production. We had asked for and received a very small part of our TARP funds. We had asked for TARP funds for the first quarter. We got 1 month. And we had to extend through February 14 our timing to submit to get additional TARP funds.

In the month of February, we had insufficient production to meet cash flow targets that would have caused the company to liquidate. We had continued and were committed for everyone's

sake to avoid bankruptcy and not liquidate the company.

We did make an appeal to the dealers to please understand that we need to buy the February production. I realize that you're not out of cars, but if the company is going to make it through February, and we have a chance at getting the TARP funding -- which we finally did, and we're still here today -- we would need that help.

Seventy percent of the dealers had purchased cars, 30 percent hadn't. And my quote was something like, if you don't buy the cars today, we liquidate. We're gone. If we buy the cars and we can stay in business, at least we have a shot at getting to the end of this tunnel and getting some money.

It's like a bucket brigade, and everybody's got a bucket.

Mr. Press. Seventy of you have --

Mr. Doyle. That statement's fine. I don't have a problem with that.

Mr. Press. And 30 of you don't. And then I said, those of us in the bucket brigade will know which ones are in and which ones aren't, using the peer pressure of all of us, recognizing who's there.

I am a dealer guy. I would never threaten a dealer. You can ask anybody in the United States, that I would never use that pressure. And I promise you under any oath that there was never an aspect. And if you ask the people that did not get approved to go forward, they both equally either bought cars or didn't. And

that's why we were so insistent on our redistribution program to make sure any dealer that took cars would be reimbursed. We added incentives.

We had the best sales -- in February, after that, we had a retail month, for the first time in history we outsold Ford. We sold those cars. We didn't want the dealers to store them. We wanted to save the company and get to this point where we could emerge from bankruptcy.

Mr. Doyle. Three months after those guys did that for you, you cut those guys loose.

I see my time is up.

Mr. Stupak. Ms. Sutton of Ohio for questions, please.

Ms. Sutton. Thank you, Mr. Chairman.

There are just so many things I'd like to pursue, but I just want to start; Mr. Henderson, you said that GM has an appeal process. We've heard about that. I just want to ask you: Why? Why do you have an appeal process?

Mr. Henderson. Our process was initially certainly intended to be data driven, but the data isn't always right, which is why I think we felt certainly compelled to have a review process which would reconsider facts that may not have been so clear in the data. And that review process has certainly borne out that it was the right thing to do, because there were cases where we were wrong.

Ms. Sutton. So would you say it was a matter of fairness?

Mr. Henderson. Yes. We thought it was the fair thing to do.

Ms. Sutton. And in those decisions where your decisions were overturned on the appeals, can you tell us examples? We heard the one about the devastation of the bridge that stopped the business from going forward. Can you tell us some other examples of what was overturned?

Mr. Henderson. Recently -- I don't have the full knowledge of the 45 -- but another recent example was we had a small town that had a Buick and GM store and a Chevrolet store, and our initial plan would be to consolidate those two. The conclusion, after reconsideration, was no, let's leave the two, for example. That would be another one.

Ms. Sutton. Mr. Press, in light of what we have heard Mr. Henderson say about the need to have an appeal process because fairness requires it, equity requires it, how do you feel about that in light of the fact that Chrysler has no such thing for those who have been shut out?

Mr. Press. Great question. I understand the contrast. The fact is, though, that our situations are completely different.

Ms. Sutton. But the employees are affected the same way, and the dealerships are affected the same way.

Mr. Press. They are both dealerships, and they are both auto companies, but the factors that led to the appeal process don't exist for Chrysler. That is a completely different situation, because we don't have a term agreement that comes up --

Ms. Sutton. With all due respect, the factor that was a determining factor of whether or not they were going to have an appeals process was fairness. And that applies to Chrysler as well; does it not?

Mr. Press. In our case what we had is a situation where the company went bankrupt.

Ms. Sutton. I understand. I understand.

Mr. Press. A new company was formed to go forward and selected specific dealers based on criteria of beyond dealer performance from a standpoint of a strategic dealer network, the number of dealers, the location --

Ms. Sutton. I understand the criteria, but, again, I think we're leaving out the point. And the point is both companies have an obligation, I would suggest, to make sure that those who have given a lot in working with your company for many years, decades upon decades in some cases, an appeals process as a matter of fairness -- I understand all the underlying issues, I understand the business perspectives here. But what Mr. Henderson just referred to is something that applies to both companies, and that is a matter of fairness.

I will move on, but I am a little bit perplexed because I would suggest, Mr. Press, that regardless of your criteria, if it were okay at the inception, and it was all perfectly subscribed to in terms of being appropriate, you might still make mistakes.

So, with that, we will move on.

I want to clarify a little bit more this whole idea, because we hear from the dealers about how the dealerships don't feel that they cost the companies a lot of money. So if I could just get from Mr. Press and Mr. Henderson a yes or no answer to these questions.

Is it true that the dealers pay for the cars before they receive them?

Mr. Press. Yes.

Mr. Henderson. Yes.

Ms. Sutton. Is it true that the dealers pay to have the cars shipped to them?

Mr. Henderson. Yes.

Ms. Sutton. Do the dealers pay for the parts as they receive them?

Mr. Henderson. Yes, ma'am.

Ms. Sutton. And do the dealers pay for their signs?

Mr. Henderson. Yes.

Mr. Press. Yes.

Ms. Sutton. Do they pay for their buildings, including the taxes?

Mr. Henderson. Yes, ma'am.

Ms. Sutton. Do they pay, obviously, their employees and all of those related taxes?

Mr. Henderson. Yes, ma'am.

Ms. Sutton. Do they pay for the brochures that they hand out

in their showrooms?

Mr. Henderson. Yes.

Ms. Sutton. So, Mr. Press, last week you testified that the dealers cost you somewhere in the neighborhood of \$3 billion. Have you provided substantiation of that number somewhere?

Mr. Press. Yes; in our testimony.

Ms. Sutton. That's what you are submitting as the substantiation?

Mr. Press. We have submitted written testimony.

Ms. Sutton. I have your testimony. There's nothing supplemental to provide for any additional substantiation; just your testimony?

Mr. Press. Yes.

Ms. Sutton. Mr. Press, don't all the States allow you to terminate dealer agreements provided that there is just cause?

Mr. Press. It depends on the State. There are different franchise laws that exist.

Ms. Sutton. I understand. But do they all provide you with the opportunity to terminate for just cause?

Mr. Press. I can't answer your question.

Ms. Sutton. Fair enough.

How many dealer shipments did Chrysler terminate last year because of substandard performance?

Mr. Press. I can't answer your question. There were some, but I don't know how many.

Ms. Sutton. Would you please provide that to me, because now we have 789 being terminated, and it's a huge number.

Mr. Press. It's not the same reason.

Ms. Sutton. It would be interesting to see how many were terminated under the just cause standard in the last year.

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

Ms. Sutton. Mr. Press, did I read correctly that you said that it cost \$41,000 -- or in your testimony -- per dealer to have staff call on dealers, or, was it some other number?

Mr. Press. Not just staff; for providing training, to have the computer systems, to have our Internet program up, to have all of the record inside the dealerships inside our country; all the audit information that we have; the computer data; the field organization -- not just a traveler, but we have a full field office, transportation, logistics, parts, service. It's a fairly large enterprise of administrative costs, and it's \$41,000 per dealer.

Mr. Dingell. [Presiding.] The Chair recognizes the distinguished gentleman from Vermont Mr. Welch.

Mr. Welch. Thank you very much, Mr. Chairman.

You have been hearing very clearly from Republicans and Democrats who represent dealers that there is enormous concern about how they have been treated and the impact on communities. One area where there seems to be a dispute on the dais is whether this is a decision -- each of these decisions on closing a dealer was made by Chrysler and GM, or was it orchestrated by the White House.

I know you were asked about that in the Senate hearings, and I just -- and it's very important that it be clear who bears the responsibility here and accepts the responsibility.

So, Mr. Henderson, let me ask you, is it, in fact, the case that the Treasury was not involved in any way in the selection or the development or guidance on the number of dealers that would be closed?

Mr. Henderson. Could you repeat the question, sir? I'm sorry.

Mr. Welch. Basically, the question is: Who made the decision on how many dealers to close and which dealers should close?

Mr. Henderson. Management.

Mr. Welch. And that is you, making that decision according to your best judgment about what was in the interest of General Motors, correct?

Mr. Henderson. Yes, sir.

Mr. Welch. The Treasury was not involved?

Mr. Henderson. Treasury was involved as a purchaser in making sure we had a properly sized dealer body, but they were not involved in individual decisions, nor what the exact numbers should be.

Mr. Welch. So you will acknowledge that that decision, whether it was right or wrong, is a decision that you made, not the White House.

Mr. Henderson. Yes, sir.

Mr. Welch. How about you, Mr. Press? Same question.

Mr. Press. It was not made by the White House. It was made

by our company, Chrysler.

Mr. Welch. Okay. The basic question here is not just a matter of fairness, although I agree with my colleagues on that, it's a matter of business judgment. Somebody's right, and somebody's wrong. You two gentlemen on behalf of your companies have come to the conclusion that closing down dealers, including dealers in longstanding who've done a good job for a long time, in some cases generations, that it's in the interest of the company to close them down; is that right?

Mr. Press. In our case it's the only way we will survive going forward.

Mr. Welch. And there's obviously a lot of evidence that's been presented to you at this hearing that those dealers are not costing you money, but actually can be a lifeline to reenergize sales in their local community. So you're going to bear the responsibility if, in fact, it turns out that you're wrong and they're right, correct?

Mr. Henderson. Yes, we will bear the responsibility.

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DCMN BURRELL

[1:17 p.m.]

Mr. Welch. On this appeal question, here is the dilemma that we have. The Bankruptcy Code is brutal. This man over here, his grandfather was in the business, his father was in the business, and had there not been the resort to bankruptcy which was obviously made as a result of business situations that developed over decades, had there not been a resort to bankruptcy, you would have had to have a sit-down, face-to-face interaction with people that had been loyal, effective, and solid business partners for decades, correct?

Mr. Press. The bankruptcy was caused by a market that ended and no credit.

Mr. Welch. I am not asking about the cause. Once you go into bankruptcy, all of the rules that used to apply, contracts, agreements, relationships, are thrown out the window. The law allows that to happen, but it is the nuclear option, correct?

Mr. Press. It was not our desire or plan, it was a failed enterprise that stopped operating and it doesn't exist any longer.

Mr. Welch. Right. What it did was allow the court to throw out contract law that had applied or State statutes that provided some equity between the dealers and the company. You are not responsible for what bankruptcy law is.

This is the question to you and Mr. Henderson. Given the fact that bankruptcy is a brutal tool, in some cases it may be necessary, do you believe that that entity, General Motors and Chrysler, which resorts to bankruptcy with the best of intentions, I will stipulate to that at the moment, should bend over backwards on the side of giving the benefit of the doubt to dealers that have been loyal, effective, and largely profitable partners to the manufacturers?

Mr. Henderson. I can't really speak on what the bankruptcy court should or shouldn't do.

Mr. Welch. I am asking what the company should or shouldn't do.

Mr. Henderson. The reason we developed our approach to wind-down agreements was to try to handle this as responsibly as we could.

Mr. Welch. The bottom line here is that the law probably allows you to do what you are doing. I have no doubt that you have probably made a decision which you think is consistent with the exercise of your responsibilities. You have tough jobs. But we have a unique situation here where the brutal unfairness of the law is imposing enormous, frankly, unspeakable hardship on some pretty good people. And you will acknowledge, I am sure, that you are fallible and you made your best judgment, but that doesn't guarantee you are right, and the request I have of you is whether, in the exercise of your judgment, you will give the benefit of

every doubt that can possibly be given to people who have been doing a good job for a long time?

Mr. Press. This was not using the law. With great respect, I understand how that could be construed. But the fact of the matter is, a new company was formed in our particular case, and a certain number of dealers with certain locations and certain brand representation were selected to go forward. The cause of this was it became a failed enterprise.

Mr. Welch. I yield back the balance of my time.

Mr. Stupak. Thank you. There is interest here, and we are going to go another round.

Mr. Henderson, let me ask you this. Canada has part interest in the new General Motors?

Mr. Henderson. Yes.

Mr. Stupak. Are we closing dealerships in Canada?

Mr. Henderson. Yes. We actually went through a very similar process.

Mr. Stupak. Did you have hearings and things like that up in Canada?

Mr. Henderson. No.

Mr. Stupak. Mr. Press, we have the new Chrysler and old Chrysler. Will the new Chrysler dealers be required to sell Fiats?

Mr. Press. We have not yet established a brand position and a product plan going forward of exactly what products from our

alliance will be branded Fiat or branded some other brand.

Mr. Stupak. Was that one of Fiat's considerations for helping our here with the new Chrysler, is to get their product line in the United States?

Mr. Press. Well, part of the new company is definitely going to benefit from the \$10 billion worth of resources and product development and hardware from Fiat that gives us tremendous car entries and technologies that we will bring into our product line.

Mr. Stupak. Sure, but are you going to be required to sell Fiats? That is what I am asking.

Mr. Press. We are going to have cars that have Fiat technology or engines.

Mr. Stupak. But a car that says "Fiat"?

Mr. Press. There may be. We have not yet determined which brands or what names will be on the vehicles. A vehicle could have a Fiat name on it, and it may not. It may have a Chrysler name on it.

Mr. Stupak. Mr. Barton said I hope Chrysler and General Motors review some of these dealerships and maybe some of these things can be reversed. In all honesty, because you went through the bankruptcy, there is no way for any of these Chrysler dealerships that are being closed to get their car dealerships back; is there?

Mr. Press. That is correct. And my answer to him was that we will be transparent and share with them the information.

Mr. Stupak. We have to be honest, none of these gentlemen here are going to get their dealerships back?

Mr. Press. That is correct.

Mr. Stupak. And there was no appeal process for them to get their dealerships back?

Mr. Press. That is correct.

Mr. Stupak. And in bankruptcy, those contracts were broke and therefore you don't have to offer them anything else, correct? Those franchise dealership agreements, they are broke, the bankruptcy discharged them?

Mr. Press. But we took responsibility for the redistribution of the inventories.

Mr. Stupak. That is what bothers me. Those are old Chrysler parts, so how can the new Chrysler, if it doesn't give these gentlemen an appeal process, or even consider taking them back, how can the new Chrysler take stuff that was old Chrysler? It seems like you are being selective in what you are going to take.

Mr. Press. Sir, that is a great question. The restriction is to dealers, not to our company. So what we did was we provided for a distribution of the vehicles that were in old Chrysler dealers' inventories, and they are being moved into new Chrysler dealers' inventory.

Mr. Stupak. So there is \$350 that I have to pay to get my 2009 Chrysler moved off my lot since I am being closed. Who gets that money? Where does that money go?

Mr. Press. That goes for the inspection, the cleaning of the vehicle, and for the transportation, the logistics. It is an outside third party company.

Mr. Stupak. So new Chrysler doesn't receive that money or distribute that money in any way?

Mr. Press. No, sir.

Mr. Stupak. Go ahead, Mr. Kiekenapp, if you have a statement. No, you can't ask questions. Sorry.

Mr. Henderson, let me ask you this. Did you have a conference call on June 10 with GM executive retirees?

Mr. Henderson. Yes.

Mr. Stupak. Two days ago?

Mr. Henderson. Yes.

Mr. Stupak. Was a statement made along the lines of no executive level GM retiree will receive a retirement benefit package of more than \$100,000 at the direction of the Treasury Department or the Auto Task Force?

Mr. Henderson. The discussion had to do with pensions that applied to executives' nonqualified plans. As part of a total number of liabilities, one of which was that, there were six liabilities that were unfunded and unsecured. And as part of our bankruptcy filing, the purchase and sale agreement suggested that we would have to reduce the total amount of those liabilities by two-thirds. Then management had the responsibility to allocate the two-thirds reduction.

So as part of doing that, we identified a plan with respect to the executive retirees, that any executive retiree whose combined qualified and nonqualified benefit was less than \$100,000, they would be unaffected. And to the extent that their benefits in total were more than \$100,000, the extent of the unqualified plan would be reduced by two-thirds.

Mr. Stupak. Was that a decision made by the new General Motors or was that a decision made by the Treasury Department?

Mr. Henderson. The overall framework was part of the purchase and sale agreement. So the purchaser identified what amount of liabilities they were prepared to accept. The actual recommendation as to how to allocate that, including this particular recommendation, was management's.

Mr. Stupak. General Motors' management?

Mr. Henderson. Yes, sir.

Mr. Stupak. So to place the blame for that on the White House Task Force or the Treasury Department wouldn't be accurate?

Mr. Henderson. In the case of unqualified pensions such as this, sir, we had indicated to our retirees that in most bankruptcies that is zero. So in this particular case, this was considered to be a fair approach to it.

Mr. Stupak. Today is June 12. That is the day that the wind-down agreements have to be returned to General Motors in Detroit, correct?

Mr. Henderson. Correct.

Mr. Stupak. So of those dealers that are going forward or are going to be lost, closed, what happens if they don't sign it?

Mr. Henderson. Well, first of all, 96 percent as of today, this morning, had either signed it or had verbally said it was coming in. We anticipate a high percentage of those dealers will sign the wind-down agreements. A very high percentage.

In the event that they don't, those contracts would not be assumed by the new company. They would be left in the old company and they would be rejected.

Mr. Stupak. So they would basically be out of business anyways?

Mr. Henderson. They could terminate their contract, yes.

Mr. Stupak. But any financial incentives that would be in the wind-down agreement would be lost?

Mr. Henderson. Correct.

Mr. Stupak. Go ahead, Mr. Walden.

Mr. Walden. So they are not signing that under duress?

Mr. Stupak. But if there are a thousand more dealers that are going to be closed, right, a thousand more GM dealers, so if I don't get my contract in right away or protest too loudly, I could be one of those 1,000 other dealers?

Mr. Henderson. In terms of the participation agreement, 99 percent of those are in, and we expect to have all of them in.

Mr. Stupak. Mr. Spitzer, did you have something to say on this?

Mr. Spitzer. I had a couple of comments. One on the 41,000, Mr. Press. I would submit that the cost per dealer will go up after these dealers are terminated because first of all, I think it is 40 percent or so get no representation at all. It is all done electronically. The smaller dealers, there is no personnel. I would also submit that they will cut very few field people, if any. With fewer dealers, those costs are almost fixed, or semi-fixed. That will go up.

The other comment that I was going to make, the minimum sales responsibility, just to quickly educate just in a couple of sentences the committee, they take the State average penetration for their brands and they expect every dealer to hit State average penetration. The problem with that is, and just to take an example of how that can be skewed and how it is an unfair measurement, in fact we have found at least in Ohio there are rooms full of testimony, expert testimony, and they have been thrown out in many cases, minimum sales responsibility as a criteria. In Sheffield, one of the terminated, rejected stores in Congresswoman Sutton's district, there is a Dodge dealership in the middle of Ford country. There are two Ford plants, one of them was just shuttered. But still, there are still a lot of residual buyers and owners still living there, retirees and so forth, and then a plant still going in Avon Lake. This dealership is right between them.

A hundred miles to the west there is another dealership near

a Jeep plant in Toledo, Ohio. The dealer in Toledo and my dealership in Sheffield is held to exactly the same standard. That is absurd.

Mr. Stupak. One more question, and then I will go to Mr. Walden.

Mr. Henderson, does GMAC have part of the new GM, or does GM still own part of GMAC Financing?

Mr. Henderson. GM will own shares in GMAC. We will own approximately 9.9 percent. The other remaining shares of General Motors are currently held in a trust to be sold because as part of our passivity agreement with the Fed, we agreed that we would sell down our interest to 9.9 percent.

Mr. Stupak. Mr. Walden for questions.

Mr. Walden. Thank you, Mr. Chairman.

I would like to pick up on the GMAC part. I have talked to a lot of folks in my district, and one of their complaints is the flooring issue with GMAC. I had a dealer tell me that after GMAC got their government dollars due to flooring, they immediately raised the interest rate by 6 percent. They made this dealer pay \$10,000 just to be able to stay on. It is nonrefundable. He had been with them 27 years and had no problems. In the last 7 months, they have changed his contract 14 times, always with the threat of curtailment, and then micromanage and manipulate floor stock. He told me that they told him he had too many cars and so he cleaned out his inventory, sent them to auction. Then they

called to say that they had an inspection and his cars numbers were inaccurate.

He said, I did what you asked.

They said, You should call us to tell us you are doing what we asked.

He said it would be illuminating to have a congressional member in the room listening to the dealer conversation with the GMAC employee.

This is not unique, unfortunately, in terms of that side of this issue.

Well, let me go to Mr. Thomas and maybe Mr. Blankenbeckler as well. Is this the first time you have seen the criteria upon which the decision was made in your wind-down agreement?

Mr. Thomas. It is the first time. I have seen the DPS one other time in the last few weeks. I have asked for things that are in this paper prior to making the wind-down agreement commitment, and it would appear that I made the wrong decision.

Mr. Walden. How so?

Mr. Thomas. Well, it says in the case of a rejected dealer

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Mr. Walden. What page are you on?

Mr. Thomas. This is page 5. At the very bottom, for GM dealers, that floor plan with GMAC, which unfortunately we are floored with Wells Fargo, and I don't know if this would pertain or not, but it says for GM dealers that floor plan with GMAC, if

the dealer agreement is rejected, we expect that the dealer would turn in new vehicle inventory which GM would then redistribute.

Now this idea of playing out for 17 months, it sounds good and compassionate in a sense, perhaps for the employees, but it is a hard sell to convince someone why they should buy a past model car from you when you are not even going to be there. I mean, that is tough.

Mr. Walden. Is it hard to sell a model car from a manufacturer who people aren't convinced was going to be there?

Mr. Thomas. That as well.

Mr. Walden. Has that affected your sales?

Mr. Thomas. It has affected them.

Mr. Walden. Do you think that was taken into account?

Mr. Thomas. I think there is something which has been taken into account, but I don't really see it as being sufficient. We took four cars to auction about a year ago, two Cadillacs and two Corvettes, and we stood to lose \$65,000 on four automobiles. If I project that forward, it is not a pretty picture.

Mr. Walden. So do you feel like this information provided to the committee would give you an adequate understanding of how they evaluated the wind-down agreements versus the go-forward agreements?

Mr. Thomas. The whole document, I asked specifically for a definition of what would be my fate in this state of rejection, and it was really -- there are really two choices. If you were

wind-down, you could either fall into -- sign the wind-down agreement, very tough language, or fall into rejection, and no definition of what that really meant.

Mr. Walden. So you didn't know what the option really was?

Mr. Thomas. Well, I asked for it.

Mr. Walden. Did you get it?

Mr. Thomas. I didn't get something as thorough as this. I got rather short answers.

I had asked, on the e-mail question line, I asked about Mr. Henderson's comments about redistributing inventory that I think were made in the Senate hearings. The e-mail response comes back, you are going to have to call the call center. I call the call center. They don't have information about that comment or its implication.

Mr. Walden. So, Mr. Henderson, do you want to answer Mr. Thomas's question?

Mr. Henderson. Yes, sir.

In the case of vehicles, the first thing I would say is that the total compensation in the wind-down agreement is intended, in all cases, to be superior to termination. That is the reason why there is such a high percentage.

Second, if someone chooses to voluntarily terminate, and we have 50 dealers doing that today. We had 50 dealers last month voluntarily terminate.

Mr. Walden. You say 80 a month on average will terminate.

Mr. Henderson. We had 50 last month with people knowing this agreement was there. What happens in that case, to the extent they floor plan their cars with GMAC, GM has an obligation and an agreement with GMAC that the dealer could turn the cars back to GMAC and then we will redistribute the cars. That is how it works.

Mr. Thomas. And if you are with a bank for flooring?

Mr. Henderson. We don't have such agreement. It would have to be bank by bank. The highest percentage of our dealers floor plan with GMAC.

Mr. Walden. What does that mean for you, Mr. Thomas?

Mr. Thomas. I would have to talk to my bank.

Mr. Walden. Do you have that agreement with Bank of America or Wells Fargo?

Mr. Henderson. I don't know. I would have to follow up. This would apply only in the case of a termination as opposed to a wind-down. In a wind-down, we would continue to work with the dealer through October of 2010.

Mr. Walden. I guess the question, and I realize my time is over here, but to both the GM dealers in wind-down, what effect does it have on your ability going forward not to be able to have the new product line going into this next year? You are still going to be with a lot there, right?

Mr. Thomas. We will, and we won't have the current offerings.

Mr. Walden. How does that help GM then? I don't understand that part. What am I missing here? How does them not being able to buy your new model vehicles help the 2010 vehicles?

Mr. Henderson. First of all, the one element of our wind-down agreement that we needed to apply was that they could no longer purchase new vehicles. They could purchase used vehicles, they could purchase parts to provide service.

Mr. Walden. My question was why? Help me understand why that makes sense? You make money by selling vehicles you make, right?

Mr. Henderson. Yes.

Mr. Walden. And they make money by turning around and selling those same vehicles, so why wouldn't you want them buying their 2010 vehicles? Then it is their problem, right? They go out of business at the end of October 2010?

Mr. Henderson. The purpose of the wind-down agreement we did provide as part of compensation, for example, incremental resources for the vehicles they had in inventory, and this was for providing a 17-month period to wind down their facilities in an orderly basis as opposed to replenishing new stock and we would have a problem at the end of the contract.

Mr. Thomas. My sense is that when the model change occurs, everything we have will be yesterday's news; and it will be very hard to get from October 2009 to October 2010.

Mr. Walden. That gets to my point. I have been kidded a bit

up here because apparently I asked you if you felt terminated, Mr. Thomas. I meant to say if you felt your dealership had been terminated. Isn't that exactly what has happened here, in effect? It is a much shorter term termination. I realize you are buying some things out, but in effect, it is taking effect this fall, right?

Mr. Thomas. That is my sense, yes.

Mr. Walden. Mr. Blankenbeckler, do you track it the same way?

Mr. Blankenbeckler. In regards to the handout that was just given out, I could get no information to speak of in regards to what your fate was should you not sign the wind-down agreement. I was repeatedly, repeatedly, repeatedly called by GM, Where's your agreement? Where's your agreement? Do you understand? I said I can read. I know what it says.

You ask about what are the provisions of not signing?

You will be rejected.

What does that mean? Let's talk about it.

I do have some floor. I have a lot of paid vehicles, I can go floor every vehicle I have got, and if I can just pick the phone up and call GMAC and tell them to come get approximately \$4 million worth of inventory, which 90 days, and right now they are starting to produce 2010. And you have got a business that appears to be going out. It is a long leash to 2010, October.

I would like to make one other comment while I do have the

floor. One of the provisions of the wind-down agreement, I am paraphrasing this, states that in my case I will produce potentially 84 years of sales records. My customers' names, telephone numbers, my service customers' telephone numbers, and I am given 25 percent of my wind-down money.

I get one person, one attorney come to me and say -- and the purpose, I am paraphrasing, the purpose of these electronic lists of all of my customers are to be used, given to another third party, another dealer, that is how I read it, my replacement dealer. What I have earned for 84 years, these are -- the bulk of these people are my personal friends, that I have to give their names. And you helped me with the Federal statute name. I am not an attorney, but I see this as a huge liability to a dealer, to turn over their customer lists. They are confidential. You wouldn't go to a doctor's office and ask for somebody's medical records and get it. One customer would more than negate the amount of money that was given.

Mr. Walden. You mean one customer that brought an action?

Mr. Blankenbeckler. Yes, brought an action against me. And in this world, I can't see how that wouldn't happen.

My question to GM was, Why do I have to supply my customers' names? Everything I do is sent to you electronically. Every sale I make, I give. All of my warranty records, I get VIN number, labor operation number. It is given to them. Again, all of these data processing deals are thrown back on us. We pay for those

things. I would really like to hear what Mr. Henderson would say in response to my fear of turning over my customers' identity.

Additionally --

Mr. Walden. Can he respond to that? Does GM assume the liability?

Mr. Henderson. GM has a privacy policy. We have had excellent experience with being able to properly control customer and consumer information in our corporation's history.

Mr. Blankenbeckler. It says in the agreement that it is going to be given to a third party. If it is given to a third party, I don't know how you have control.

Mr. Henderson. As I said, we have been able to manage customers' identity.

Mr. Blankenbeckler. Now let me ask you this. Would GM be in a position to indemnify me for that from a lawsuit?

Mr. Stupak. We have to do the questions from here. Sorry.

Mr. Dingell.

Mr. Dingell. Thank you, Mr. Chairman.

Mr. McEleney, what is your opinion of GM and Chrysler's respective dealer closure plans with regard to both substance and procedure? Would you please submit your response for the record?

Mr. McEleney. In the case of Chrysler, I think they were too quick and too deep in terms of numbers.

Mr. Dingell. I would like specific criticism, and I would ask you to submit it for the record because I only have 5 minutes.

And submit as part of that how could those be improved to result in fairness, in your view, to the dealers.

Mr. McEleney. In the case of both GM and Chrysler, it was not a transparent process. In the case of GM, there was an appeal, which was favorable. And none with Chrysler, which I think is problematic. I think with the information we received today that the Chrysler dealers will be provided that criteria, it would seem to make sense that there be an appeal process so those Chrysler dealers who have been canceled can evaluate that.

In the case of GM, the wind-down is much more favorable, allowing dealers potentially through next October to sell off their parts and inventory and tools and reasonably close their businesses in a rational format.

In the case of Chrysler, the wind-down was very abrupt, 26 days. I think it created all kinds of problems for dealers and their employees. So I would not think very highly of that.

Mr. Dingell. What is it going to cost per car for a GM dealer to wind down? How much is he going to lose per car, and how much is a Chrysler dealer going to lose per car?

Mr. McEleney. Sir, it would be very hard to project. I have been a dealer for 36 years. I would guess in the case of GM, there would be some cars. When you get to the tail-end of the process, you have some of the less popular models left. Dealers could lose several thousand dollars in those cases, but it just depends on their own situation.

In the case of Chrysler, those dealers that have vehicles left don't have a franchise, they don't have a license, they can't sell them or get Chrysler incentives. The costs could be many thousands, five, six, \$10,000 per vehicle.

Mr. Dingell. What charges are in the two closure plans that are detrimental to the dealers and how could that aspect of it be improved?

Mr. McEleney. I am sorry, sir, I don't understand the question.

Mr. Dingell. I am not sure I do either.

What is there in the two plans which is particularly hurtful in terms of costs to the dealers, and how could those matters be improved?

Mr. McEleney. Sir, in the case of both GM and Chrysler when a dealer is losing their franchises, like these gentlemen at the table are and so many around the table, the value of the franchise is going to zero.

Mr. Dingell. I want to know about the specific charges per car. In other words, Chrysler has a \$350 item that they have to pay. Are there other charges like that in either one of these plans that would impact upon the dealer?

Mr. McEleney. Not that I am aware of. In the case of General Motors, they are not buying the cars back but they are providing the wind-down dealers an opportunity to sell them down over the next 15 months.

Mr. Dingell. I am going to submit to you a letter, and there will be other letters submitted to others, and I ask unanimous consent, Mr. Chairman, that those letters and responses be inserted into the record.

Mr. Stupak. Without objection.

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

Mr. Dingell. Mr. McEleney, given your assertion that dealerships do not in fact cost money to maintain, why do foreign transplants have significantly fewer dealerships in the United States than their domestic competitors?

Mr. McEleney. I happen to be an import dealer as well, a Honda and Toyota dealer, so I have some perspective on that. The business model for the import, the transplant manufacturers, is quite a bit different than the domestics.

GM, Ford, and Chrysler have a very strong market share in the rural markets, much like where I live in Iowa. Mr. Henderson mentioned earlier that they have a 10-point market share advantage in those areas. So it is a competitive advantage for Ford, Chrysler, and GM to have representation in communities less than say 75,000 or 100,000 people on average; where Toyota, Honda and Nissan have no interest. They will not go in and backfill some of these locations that are being closed with franchises.

Mr. Dingell. Why would they choose not to back those kinds of franchises? That is really at the root of the question.

Mr. McEleney. I can't speak for them. Based on my experience, I would say they don't see the market opportunity for their brands as they do in more metropolitan areas.

Mr. Dingell. Now, Mr. Press and Mr. Henderson, Mr. McEleney has indicated in his testimony that dealer franchises in fact do not cost manufacturers money to maintain. Do you agree with his

position or not?

Mr. Press. I do not.

Mr. Dingell. Mr. Henderson?

Mr. Henderson. I do not.

Mr. Dingell. Mr. Press, why? Mr. Henderson, why, please?

Mr. Press. In our situation, one of the main reasons that caused our bankruptcy and weak product engineering is the requirement that we provide individual models for each stand-alone franchise as sister models that cost a substantial amount of money and took resources that had negative returns, no incremental sales, only costs, as one example. That is a huge cost.

The second one is the fact of lost sales, lost volume. In a market that is underperforming, those sales don't provide revenue for us. We lose that revenue. In our case it was about \$1.5 billion.

The development of individual models is about \$1.4 billion. And so we have -- and that is a very real situation.

Third, because we have so many dealers and our average dealer loses money, we are not having a competitive dealer network that can compete with the other manufacturers in terms of customer satisfaction, location, facilities, trained people, advertising, et cetera. So it is a substantial cost to the company.

Mr. Dingell. Mr. Henderson, if you please, give me your comments.

Mr. Henderson. Mr. Dingell, in my testimony I talked about

the costs that the company over time has incurred to provide support for a dealer body in total that has been substantially weakened. So there are the costs articulated in my testimony.

Second, our principal issue, General Motors' market share in rural and small towns in the U.S. is 10 full market share points higher than it is on average. It is a source of strength for us. And even when we are done with our restructuring, we will still have the most extensive dealer body in rural America.

What costs us today is that we have insufficient distribution in metropolitan markets where we have many, many locations and we have few strong ones. That is a significant problem today.

Mr. Dingell. Mr. Press and Mr. Henderson again, it has been estimated that the average throughput for a foreign transplant dealer is twice that of a comparable domestic dealer. Is this true, yes or no?

Mr. Press. I don't know exactly double, but it is substantially higher. Perhaps in that range, yes.

Mr. Henderson. It would be our estimate that a Toyota, for example, versus Chevrolet, would be approximately double.

Mr. Dingell. If this is true, and apparently it is, why is that the case? Mr. Press.

Mr. Press. Well, the reason in Toyota's case is they sell about 2 million cars and trucks a year out of 1,200 dealers. And if we didn't have this restructuring, we would sell about 700,000 cars and trucks a year at retail out of 3,100 dealers. So the

average sales per dealer is substantially different.

In Toyota's case, as Mr. McEleney said, the product line they have is less truck oriented. They sell mainly cars in more metro markets or sunshine States, less presence in smaller rural areas or secondary markets. And they also don't have an 80-year legacy of having had a substantially higher dealer body and seeing the volume disappear.

Mr. Dingell. Mr. Henderson?

Mr. Henderson. Sir, I wouldn't have anything to add to Mr. Press' comments.

Mr. Dingell. Gentlemen, do you believe that your respective numbers of dealerships has been reduced per your rerestructuring plans? And if so, has parity been achieved through these plans in a way which will be adequate with regard to your foreign transplant competitors?

Mr. Press. We tried to achieve a dealer network going forward that had the minimal impact on removing dealers. There have been critics that say that we didn't go far enough, but we didn't want to go all of the way to have parity. We think we are in a very good position to continue to go forward with business and have that dealer network emerge over time.

But through the bankruptcy and through the emergence of a new company, we have the optimum number of dealers going forward, 3291.

Mr. Dingell. Thank you. Mr. Henderson.

Mr. Henderson. As I mentioned in my testimony, we would expect that at 3,600 dealers approximately, even with only a modest improvement in the market next year and conservative market share assumptions, that throughput would almost double.

Mr. Dingell. Very quickly, gentlemen, it has been said that the dealers should be permitted to remain open where you are terminating them to provide service and maintenance. What is wrong with that arrangement?

Mr. Press. In our situation, of course, because there are existing dealers that are surrounding them that are taking, in many cases, 555 cases, the franchise. For example, the Dodge-Jeep dealer, may be taking the Chrysler franchise. They are spending money and adding facility and overhead. That is part a part of the business in terms of loyal customers and part of the business that would travel with it.

Mr. Dingell. Are you telling me this would have an adverse impact on adjacent and nearby dealers?

Mr. Press. It would have an adverse impact on adjacent dealers. There are some cases where there may be a single point that may have a real customer situation where they can't achieve the location. Then we have always had an opportunity to take a look at a very minimal number of companion points. But in this particular case, it would substantially reduce the ability of the dealers that go forward to derive the full benefit of their business.

Mr. Dingell. Thank you. Mr. Henderson.

Mr. Henderson. I would have the same response, sir.

Mr. Dingell. Mr. Chairman, I thank you for your courtesy. My time has expired.

Mr. Stupak. Thank you, Mr. Dingell.

Mr. Braley for questions, please.

Mr. Braley. Gentlemen, I don't think it is any coincidence that with the exception of Mr. Walden, the remaining members all come from States that are represented in the Big 10 Conference. Our constituents built your cars and trucks, or in my case they built tractors and combines and heavy equipment, and the workers who build those products are so brand loyal to your company that they have created a dominant market share for you in U.S. auto sales that has lasted right up to this moment in history.

Mr. McEleney and my uncle and my brother-in-law, who are Chevy dealers, advertise your products on Big 10 sports networks so that your products are sold in this area where you have this dominant brand loyalty. And yet I look at page 4, Mr. Henderson, of your proposal, and what do I see: Wind-down dealers by State: Pennsylvania, 90; Ohio, 79; Illinois, 66; Wisconsin, 50; Michigan, 58; Indiana, 48; Iowa, 46.

And after your description of why these foreign automakers are not playing in this part of the country, I find it very difficult to believe that you will perpetuate your brand loyalty in light of these massive dealer closures in my State, in

Representative Stupak and Congressman Dingell's State and Congresswoman Sutton's State. I see the evaporation of your market share because of this practice.

I just wonder whether as part of your restructuring you have given consideration to that? Mr. Henderson?

Mr. Henderson. Sir, first of all, I am a Wolverine, born in the State of Michigan. Second of all, when we are done, General Motors will still have what we believe is the largest distribution system for rural and small towns in the U.S. Approximately 1,500 of our 3,600 dealers will be located in those small towns, and we do believe we will be able to maintain a strong position, sir.

Mr. Press. Actually, through the new dealer network we have increased the share of dealers that are in rural markets and reduced the share of dealers in metro markets. We do realize the importance.

The difficulty is from our volume going from a peak of 2 million to 700,000, we don't produce enough vehicles to have every dealer stay in business. It is unfortunate, but it is a fact. We are trying to make sure that the dealers have a high enough volume that they can stay in business and have a good operation going forward to compete with the transplants.

Mr. Braley. Well, with all due respect to the two of you who have accomplished much in your careers, I would submit that the people sitting on this side of the table have a much deeper sense for the attitude of our constituents, and I would be shocked to

see your brand loyalty maintained in light of these shutdowns.

One of the things that we know, and Mr. Walden referenced this in his opening statement, both companies have been doing advertising to talk about their business strategy going forward. And, Mr. Henderson, we have seen the GM ads that talk about how your company is going to stand behind the products it sells going forward. But in reality, you are not standing behind your products because one of the things that we know as part of these bankruptcy proceedings, every existing and future product liability claim that your company could be responsible for for selling a defective product is going to be extinguished; isn't that true?

Mr. Henderson. In our case, warranty recall will all be assumed by the new company. But in the case of product liability, purchasers in the normal 363 process do not assume that sort of obligation.

Mr. Braley. So they will be extinguished in the bankruptcy?

Mr. Henderson. They would be unsecured claimants of the old General Motors.

Mr. Braley. And they will be extinguished because we all know what happens to those unsecured claimants?

Mr. Henderson. Likely.

Mr. Braley. Yes. Now, have you informed your dealer network that you are going to be passing on a massive cost shifting to them because of that?

Mr. Henderson. No, we are not going to be passing on.

Mr. Braley. Yes, you are, sir, because I can tell you in the State of Iowa Mr. McEleney is currently immune from liability as a distributor of your product if the manufacturer is in existence and is not in bankruptcy. That is a fact in almost every State under State product liability law. So if you disappear as a potential claimant in that process, every one of these dealers is going to be on the hook, not just your remaining dealer network, but existing dealers that no longer have a franchise?

Mr. Henderson. In our case, both wind-down agreements as well as the continuation agreements will be assumed by the new General Motors and the indemnification provisions that GM has today will continue.

Mr. Braley. The indemnification provisions. So you are going to assume responsibility and pass that liability on?

Mr. Henderson. As part of our obligation, we will continue to indemnify the dealers who sign a new agreement with new General Motors.

Mr. Braley. So they are going to have to rely upon you to step up after they have been sued and they pass that on to you, and then they are going to have to have counsel involved because of that status?

Mr. Henderson. Sir, I think that by virtue of the indemnification continuing to the new company, we did that purposely to try to avoid the situation where a dealer could be

badly hurt.

Mr. Braley. Mr. McEleney, I want to give you the last opportunity to talk about the impact on every one of the dealers that you represent as Chairman of NADA who haven't had a seat at the table and haven't had an opportunity to tell their story because I am guessing you have been getting a lot of phone calls. What has it been like for you and what types of concerns are you hearing?

Mr. McEleney. Well, we are hearing many of the concerns that have been expressed earlier today by some of the dealers on the panel. There are dealers who are sometimes third, fourth generation. My family has been in business for 95 years. Fortunately, we are going forward, but there are a lot of dealers like me who are not. Most dealers, the net worth of their enterprise, their life savings is represented in the value of their real estate, if they own it, and the value of their franchise.

In the case of dealers being terminated by either GM or Chrysler, the franchise value is zero immediately. And the real estate value with single purpose real estate, particularly in this commercial real estate market which is pretty stressed anyway, would be severely devalued even to the point where in many cases dealers will owe more money on the property than it is worth. Or they may have a lease that they are obligated to for a number of years and have no way to generate revenue to pay for that lease.

Those are some of the issues. There are dealers who have made significant investments in facilities with the expectation that they would have a franchise going forward as long as they met the requirements of the franchise agreement that are being left with those obligations.

So there are a myriad of stories that are very tough, personal bankruptcies in many cases, dealers and their employees having to take personal bankruptcy. And the dealership employees, we haven't talked a lot about. They earn, on average, about twice what is paid in retail. So these are good jobs. Most of these people will not be able to go to other dealerships and find employment, particularly in this market, in a 10 million market, I don't know of any dealers that are hiring people. I suspect there may be some as this rationalization takes place and dealers have bigger market areas. But for the most part, those 120,000, 130,000 employees of terminated dealerships will have to find work probably outside of the auto sector, and it is a tough market to find employment in right now.

So there are some pretty devastating stories out there.

Mr. Stupak. Thank you, Mr. Braley.

Ms. Sutton for questions.

Ms. Sutton. Thank you, Mr. Chairman.

I was talking to Mr. Press about the appeal process and I talked about the State law, and under State laws across this country it is my understanding that you can terminate for just

cause. You can terminate dealerships. Is that your understanding; Mr. Henderson? Mr. Press wasn't certain.

Mr. Henderson. I have the same recollection. I think there are provisions, but they do depend by State. But yes, in general for cause.

Ms. Sutton. When you say they depend, there may be differences, but they all have some sort of just cause standard; is that correct?

Mr. Henderson. I can't answer the question, ma'am.

Ms. Sutton. Well, I can tell you in Ohio there is a law that allows for termination based on just cause, so we can just go with that understanding.

Let me ask you, how many dealerships did GM close last year based on just cause under State law?

Mr. Henderson. I would have to get back to you with an answer.

Ms. Sutton. Do you have any idea?

Mr. Henderson. No.

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

Ms. Sutton. How many are you slated to close through this bankruptcy?

Mr. Henderson. As we talked about, we will move from approximately 6,000 dealerships to approximately 3,600 over time.

Ms. Sutton. So 2,600; is that about right? 3,600?

Mr. Henderson. No, no. About 2,400.

Ms. Sutton. 2,400. Thank you.

Mr. Henderson. The reason, by the way, is that number isn't perfect. So it can go anywhere from 3,400 to 3,800.

Ms. Sutton. I want to follow up on some of the discussion that was going on a while back about information being transferred from the dealerships that are being closed and the discussion, you said that GM has a record of securing that data in a way that is appropriate. It was mentioned that it is going to go obviously to third parties. So who are those third parties exactly? Are they all identifiable at this point?

Mr. Henderson. We can identify them for you. These would be parties that we would typically use to sell vehicles to customers, to make sure that their service is taken care of, to provide surveys. There are many reasons why we would want to contact customers.

Ms. Sutton. Right. I would appreciate you submitting all of the third parties that might receive that information to the committee.

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

Ms. Sutton. Mr. Spitzer, I want to thank you again for coming to testify today.

You spoke earlier about some of the investment that you have put into this life's work of yours representing Chrysler and their products. How much have you invested in Project Genesis so far?

Mr. Spitzer. Working closely with the people from the management of the business center, which is the Great Lakes Business Center, it includes Michigan and Illinois, and so forth, and has the responsibility for most of our dealerships except one, working very much in concert with them and sometimes almost at their direction, I won't say insistence but let's say strongly urging, we have consolidated two Genesis stores. One of them is in Florida with a different business center, was the first one in the State, or very close. It actually was called Project Alpha at that time.

We have spent in concert with Chrysler Corporation, I think, about \$6 million in acquisitions at their urging and insistence. In fact, in two or three cases I was called by Chrysler and they said, This is the guy you have to buy and here is what you have to do, call them and buy them out and that way we will consolidate. That is in just goodwill, blue sky. That has gone away.

Over and above that, we have invested in Project Alpha -- excuse me, Project Genesis now, they changed the name somewhere along the line. They didn't change anything but the name, but in

bricks and mortar about \$10 million. That doesn't count the land. That is just in buildings done in concert with Chrysler to consolidate and accomplish Project Genesis.

With all due respect to Mr. Press, who I have had a healthy respect for over the years, going back to his days with Toyota, we have known Mr. Press for probably 30 years, the arbitrary way in which these dealers were selected has no connection to Project Genesis or all three brands or stand-alone.

From my own experience I can assure you of that, and also anecdotal observations from other dealers that I know that where stand-alones went forward where Genesis got canceled, and all of the permutations and combinations that are out there.

Ms. Sutton. Have you received the written criteria explaining why your dealerships have been canceled?

Mr. Spitzer. We received nothing. We didn't even receive termination. It was on the Web. I was told about it by other people that saw it on the Web. We didn't even get notification of who was going forward directly.

Ms. Sutton. I see. I want to just like to give Mr. Kiekenapp a chance to speak. If you could ask a question here today, what would that question be?

Mr. Kiekenapp. I think what is frustrating is that we are a very good dealership and we have done a good job and there are other dealerships that surround us that have lost financing, that don't have the ability to buy cars. We own all of our cars

outright. We didn't have a financing problem. And now there are dealerships within GM and Chrysler that don't have the ability to finance their vehicles. They are now having to get bailed out by the Small Business Administration, and it is frustrating. I think there are probably some things that I might have said that created frustration with the factory and I think it cost employees' jobs. But I think we have done a great job.

I know that within Tacoma they want a point, and we are applying for that point. I just hope, you know, that they take a look at us because I think we are the dealer, and if we were to have conversations with them in regards to maybe moving the point to someone else, we will do whatever it takes. I believe in the product. I believe in what they are doing is right. I don't believe eliminating the dealer body did any good. I believe the bankruptcy was something that was inevitable. But the products that they make are far superior. The Dodge Charger, the Challenger, the new 1500 are phenomenal and I believe in the product. It is just unfortunate that when we have such a well-run business and there are other dealers that are out there that are substandard. You can really look at any metrics from any dealership and shoot holes in every one of them, and I don't believe it was --

Ms. Sutton. Fair. I appreciate your testimony. Thank you.

Mr. Stupak. Well, thank you. I am just going to follow up and clean this hearing up a little bit and then we will adjourn.

Mr. Henderson, if the government is going to own 68 percent of the new General Motors, and even Mr. Press, I guess I am concerned in my opening statement about the rural areas, especially where I live. Some of you have talked about 100,000, 80,000. I don't have a county in my district that has 70,000. I am vast, rural area, and I think we have like six Chrysler dealerships being closed, maybe four or five, maybe more than that in my district of General Motors.

How are people going to get service? I mean, if I brought a car this year, a General Motors or a Chrysler and my dealer is closed, how am I going to get service on that car? Am I going to have to drive 2 hours when my service light comes on? How do you do it?

Especially when you talk about the loyalty is in the rural areas, you have 10 percent greater loyalty base in the rural areas, but we are getting hard hit here.

Mr. Press. Mr. Chairman, I appreciate your concern, especially for the customers. That is a very fair question. Customer satisfaction is very important. In our particular case, after the reorganization, we have actually increased the share of our dealer body that is in rural markets. A higher portion of metro market dealers were actually removed.

RPTS STRICKLAND

DCMN BURRELL

[2:17 p.m.]

Mr. Stupak. [Presiding.] I guess I am saying if you improved the rural market why did you close in my district? You cant get much more rural than me. We lost six of them.

Mr. Press. The largest impact was on metro markets where the dealers were too close to each other.

Mr. Stupak. I don't have any metro markets.

Mr. Press. I know that.

Mr. Stupak. Miles from my one in my district to the next. Very few people in between.

Mr. Press. I realize that. I am very familiar with your area. I go there on weekends often, so I appreciate that. Actually, in terms of customer convenience, from the old dealer group to the new dealer group, the distance from a customer to a dealership increased 9.4 miles. So we were very careful to make sure that we were able to retain the convenience to customers. There may be --

Mr. Stupak. That has got to be nationwide.

Mr. Press. That is for all rural markets.

Mr. Stupak. How can it be -- like 1 mile more for rural markets?

Mr. Press. There will be a few rural markets that we will no

longer be represented in.

Mr. Stupak. The only way to do that is then you will have to take these dealerships that you shut down and move other dealers in their places.

Mr. Press. Well, there are other dealers that have access to these markets or are adjacent. Especially in a case where there is a Dodge dealership that goes out, the Dodge franchise will go to the Jeep dealership that is in the same place. So the distance from repairs may not increase or be very minimal in terms of the number of locations.

And then second, I think from the standpoint of those markets if there is a market -- there may be some markets where we are abandoning the market if there is no longer a potential for long-term growth and with 700,000 units of production we don't have enough vehicles to put to them.

Mr. Stupak. I trusted you guys. I bought a car this year when the push was on. And when you abandon those markets you abandon me. And if I remember, the Federal Government said we are going to guarantee the warranties for 5 years. And I, the Federal Government, am going to guarantee the warranties for 5 years when you abandoned my part of the area? I might need that F-15.

Mr. Press. I am not aware of any F-15 trips that are necessary for service. We did look at the average distance. But we will sure take a look at your area and see what the distance difference would be. The Jeep dealership that closed, the repairs

of that Jeep dealership can now be made in the Dodge-Chrysler dealership that exists in the same market area. So the customers will have another service outlet available.

Mr. Stupak. Mr. Henderson? Do you want to --

Mr. Henderson. Certainly. We tried as much as possible to manage the drive times for service. We looked at State by State. We looked at averages. We looked at averages across the United States. If I look in the Upper Peninsula average of Michigan, 19 to 23 minutes. In Oregon for Chevrolet -- this is in miles -- from 10 to 14-1/2 miles. The issue we have is on the extremes, because there will be situations where we clearly will have a problem.

Mr. Walden. Mr. Chairman, if I might.

Mr. Stupak. Go ahead.

Mr. Walden. You are closing the Klamath Falls dealership. It is probably at least 100 miles to Medford. That is the nearest Chevy, any kind of Chevrolet. So the people in southern Oregon will go from Klamath Falls, I suppose they could go to Lakeview. Burns, you are closing Burns. There is 136 to Payette, Idaho, is the nearest dealership; right?

Mr. Henderson. That is what I said. We will have situations where we have problems and we will have to solve those problems.

Mr. Walden. How will you solve the problems? By putting the dealership back in?

Mr. Henderson. That actually is not our intent.

Mr. Walden. How do you solve it?

Mr. Henderson. First of all, other General Motors franchises can provide service work.

Mr. Walden. There is not another one in Klamath Falls, Burns --

Mr. Henderson. The second thing we said is in the event we need to put a location back, one of the things we committed to the Senate and I will commit to you today is if we need to provide a spot there we will provide the existing operator an opportunity to look at that first.

Mr. Walden. Okay. Let's go to Bend, Oregon. You have closed Bend, you closed Redmond and you leave Madras. What is the process that is going to be put in place that allows Mr. Thomas maybe to go get his dealership back? You are telling me you are going to look at it and you are going to decide.

I would not be asking these questions if it weren't taxpayer dollars funding this whole thing. I would let you all figure it out under the laws of the land. It is not that. These are the questions that are coming at us. I actually voted for TARP. I didn't vote for the auto bailout. I admit it. I voted for TARP.

Mr. Henderson. What we will do, as I said, we have location by location. If we have made mistakes in the future and we concluded that we cannot take care of customers in the location and a point needs to be put back, we would go to whoever the individual who was affected and give them the first chance to do

that.

Mr. Stupak. All right. We may follow that up further. Because I am just looking at Chrysler and here is Michigan, even though we have the Upper Peninsula, very small. Marquette and Escanaba are my two biggest cities. The dealers are gone. That is my two biggest cities in the Upper Peninsula. They are gone. And now next one closest across the bridge is Sheboygan. That is gone. Next one is Petoskey. That is gone. Next one is Rogers City. That is gone. With the Cadillac dealer there is no one in northern Michigan. Well, Traverse City -- I will take that back, no longer part of my district -- there isn't a Cadillac dealer around there with some of these ideas. Not that I drive Cadillacs; I told you I am an Oldsmobile guy. You took that away from me, too. So I am hurting now.

The point is the distances we have to travel I will have to follow that up. Just looking at the map and the things that have been closed just doesn't make sense. I know this district and those miles in between very, very well. That is where members say it could probably hurt you, especially in the rural areas where you have the most loyal customer base. I agree. Plus the Federal Government says we are going to guarantee these warranties. I don't know how we will service them.

Any other members? Mr. Braley? Ms. Sutton?

Mr. Braley. I wanted to add one thing, Mr. Chairman. I think that because of the concerns we have raised today about one

of the other critical aspects of these bankruptcies; that is, the responsibility going forward for any products that may be defective and the implications for U.S. taxpayers and the dealers in this room, I would strongly urge the committee to take up that issue as well and flesh it out in more detail. I think it has enormous economic consequences even for people who have lost their franchise, and I would like to explore that in further detail.

Mr. Stupak. Mr. Walden?

Mr. Walden. I think that this flooring issue with GMAC -- I continue to hear from dealers about flooring in and of itself. Just to reiterate, I know that Dr. Burgess had to leave. I know he entered into the discussion with both you, Mr. Press, and Mr. Henderson, about e-mail traffic to Mr. -- I think Dees and the White House and all of that, and I understood you both to indicate you would supply that e-mail. We will follow up. I think Dr. Burgess, the appropriate process would be for him to follow up with a letter of request, but I sense that subject a problem for you all to provide those e-mails.

Mr. Stupak. Ms. Sutton?

Ms. Sutton. Thank you, Mr. Chairman. I just want to add, of course, as you can see who has stayed here at end of this hearing. As it was pointed out, the CARS Act that we passed this week, Representative Braley, he was an original cosponsor, and Chairman Stupak and Chairman Dingell were involved in the process of getting that bill done, and it is intended to have a concrete

impact because we really do believe, as Mr. Kiekenapp said, we want Chrysler and GM to be a success because we know how linked it is to our communities and we know how linked it is to jobs and the food that it puts on the tables of the people that we are so honored to represent. And so it is painful for us to be here and in this position.

But the pain that we feel listening to this is nothing compared to what we have heard displayed here of the folks who are losing their dealerships, and I want to thank all of you who came here today to put a human face and perspective about costs of what is going on on this major problem.

So thank you all for coming. And Mr. Chairman, thank you for holding this hearing. We do want you to be successful.

Mr. Stupak. Well, thanks. And that concludes all of the questions from members. I think the hearings have been helpful. Since the Senate hearing we now have a field process with General Motors to help out some of these dealers. There is GM and the Auto Dealers Association working together trying to do some things. I think that is positive. I think we have further explanations.

But we will continue to monitor this. There is H.R. 2743 sitting out there, GMAC, and others. And it has been a long hearing and we appreciate everybody for coming. And if there is something anyone wants to add I will give you a minute to add something or so. We really do appreciate especially the dealers

and Mr. Henderson and Mr. Press and others coming some distance. And I know that during this hearing once you have raised your hand and that, but because of the rules of the hearing I couldn't recognize you at times. So if there is something you wanted to add -- Mr. Golick, I know you did -- go ahead. Mr. Spitzer, if anyone wants to add something. Then we will wrap this up. We will keep this brief.

Mr. Golick. I am just perplexed when Mr. Press last week said that in the case of the dealers not being taken forward last year they lost 55,000 units of sales. That number is real important to them, apparently. But then like I say, they are going to lose 140,000 units of sales when these dealers are removed. I know that he says they can only produce 700,000 cars, but there has to be a plan in place for growth if the market improves. I am sure he could build another 140,000 cars.

That is why --I am perplexed over that. I thought I would throw that in.

Mr. Stupak. Thank you and thank you for coming.  
Mr. Spitzer. Do you have anything?

Mr. Spitzer. Just that the marketplace was moving the industry to a number of dealer outlets rapidly close to where they are taking us immediately through consolidations, buy-sells. And we, in the case of Chrysler, had all of our generous points and projects on the table working with, buying out, or selling out what it is, to accomplish the goal painlessly. I don't know why

it couldn't have just kept going a year or two and we would be where we are going to be anyway.

Mr. Stupak. Mr. Kiekenapp? Mr. Press?

Mr. Press. I really appreciate the opportunity to communicate with the committee and provide this information. It has been a very good learning experience for us. This will be good communications going forward. I don't know that I am looking forward to our performance review when I come back, but I guess this will be the forum to do that.

Thank you.

Mr. Stupak. Mr. Henderson?

Mr. Henderson. Like Mr. Press, I want to thank you, Mr. Chairman, and the committee for your time. Thank the dealers for joining us here very, very much. I appreciate it. Because this is a very difficult time for all of us, I very much appreciate the professionalism. So thank you very much.

Mr. Stupak. Mr. McEleney?

Mr. McEleney. Thank you, Mr. Chairman. Again, we appreciate the opportunity to be here on behalf of 19,000 new car dealers in the country. I guess I would say in this difficult environment, and we know how tough the economy is, particularly the auto sector, if a dealer is able to keep his doors open, make the payroll and keep his customers coming in, floor plans, inventories, they are probably a pretty good operator. I know there are other elements that play into this, but that is

important to remember as we look at this.

So thank you.

Mr. Stupak. Thank you. Mr. Paddock?

Mr. Paddock. No, other than just saying thank you for giving me the opportunity today. Thank you.

Mr. Stupak. Mr. Blankenbeckler?

Mr. Blankenbeckler. Thanks for letting me come. I think I have a story and I think everybody who is here today has a story. It is not a happy time. Thank you very much for listening to me.

Mr. Thomas. I would close with a rhetorical question, and that would be with all these closings, will other makers go to these institutions that have facilities available and bring their new products and convey them to the public, instead of the established makers? Thank you very much.

Mr. Stupak. Well, thank you all and thank you very much. That concludes our questions and concludes our hearing. I thank all of our witnesses for coming today and for your testimony.

The committee rules provide that members have 10 days to submit additional questions for the record. I ask unanimous consent that the contents of our document binder, with the exception of tabs 1 and 3, be entered into the record, provided that committee staff may redact any information that is business proprietary and relates to privacy concerns or is law enforcement sensitive.

Without objection. Without objection, the documents will be

entered into the record.

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

Mr. Stupak. That concludes our hearing. The meeting of this subcommittee is adjourned.

[Whereupon, at 2:30 p.m., the subcommittee was adjourned.]