

****Immediate Action Required****

Know Where You Stand!

Under the assumption that Chrysler and GM will both be entering restructuring through the court system, now is the time to consider your bankruptcy proof of claim and obtain adequate representation to deal with the intricacies of the bankruptcy process to protect your rights through the process. In addition to these legal matters, there are other items you need to consider as part of “winding down” the operations of discontinued franchises.

There are two key areas that require immediate action:

- 1. Secure proper legal counsel (bankruptcy and dealer franchise counsel)**
- 2. Secure a CPA/Advisor that has dealer specific experience and knowledge**

As always, Dixon Hughes advocates proper understanding and control of your business operations. Here are some accounting issues to consider:

Manufacturer Related

- Inventory (new vehicles & parts)
- Factory receivables (holdback, etc.)
- Warranty claims
- Incentive money
- Special tools / signage
- Facility improvements

Normal Business Operations

- All business leases (DMS, facility, etc.)
- Payroll & sales taxes
- Pay plan & benefits
- Tax issues (LIFO recapture, gain/loss, etc.)
- Personal guarantees
- Franchise value

Knowing where you stand is important regardless of if you are a rejected dealer or not. Your remedies, recovery and planning could be limited by the depth of dealership knowledge from your existing professional team. Leading dealer firms are booking up quickly, so you should consider retaining your legal counsel and accounting advisor now. Dixon Hughes will be happy to work with you and your existing CPA firms and attorneys.

Rejected Dealers

Now that the letters have been sent for GM and Chrysler dealers, you may be asking what your next step is. Once dealers have secured the proper counsel and CPA, your next step may be to consider filing a proof of claim with your manufacturer. These efforts will require substantial research to be fully supported in your claim.

Additionally for the dealers that were not selected to continue, it is important to realize that any settlement out of the bankruptcy may take a long time to settle. For example, some Daewoo dealers are still awaiting settlement of their claims. With that in mind, consider your



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cash position as your dealership entity liquidates and various tax consequences begin to occur such as LIFO recapture and other tax burdens. Losses from inventory in stock and abandoned property should also be considered. There may be some planning that can be done if you own other stores to mitigate some of the cash outflow. Again, a conference with your accountant is in order to deal with these issues.

Continuing Dealers

For the vast majority of dealers that are to continue as franchisees of GM and Chrysler, congratulations. Now is not the time to spend too long celebrating as the credit markets and the general economy still have significant issues. All of the advice that we have been giving in previous communications still apply regarding expense control, cash management, and asset protection. It is more important than ever that as a continuing dealer, you know exactly where you stand.

Dealers that continue with the new GM and Chrysler, you may be presented with new franchise and flooring agreements. We are assuming that these agreements will be significantly revised from the ones you may be using now. We urge you to use your legal/accounting team to review these new agreements so that you will be aware of changes that may be embodied in these documents compared to your current contracts.

We are also making the assumption that many of you may be asked to sign personal guarantees for the first time. It is a good idea to get with your team to structure your personal assets so that they are as protected as possible from the adverse effects that might result from a financial institution executing on these personal guarantees. This will take the thought leadership of both your estate planner and your accountant to achieve.

Although you have not found yourself on the rejected list there are additional items of which you need to be aware to help ensure your ability to stay open and competitive:

- New franchise and flooring agreements
- Personal guarantees required
- Inventory (market saturation)
- Dealership valuation
- Voluntary termination of franchise
- Floor plan & retail financing relationships
- Dealer trade practices
- Buy / sell opportunities & challenges
- Facility improvements
- Working capital guide compliancy



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All Other Dealers

For you dealers out there that have been sitting back and feeling unaffected because it is a “domestic” issue, think again. There are some key areas to which you should be paying attention as well to ensure that your dealership is not severely impacted as a result of GM and Chrysler actions:

- Current pre-owned inventory values
- Trade valuations (domestics)
- Parts & Service activity with other dealers
- Dealership Valuation
- Buy / Sell Opportunities & Challenges

Know Where You Stand!

Whether you are a rejected dealer or not these events affect your dealership operations.

Consult with your dealership legal counsel and accountants now.

The Dixon Hughes Dealer Services Group has a team of over 135 accounting and advisory professionals that devote their time to this industry and are staying abreast of the developments in these events that can only be described as unique in the modern history of this industry. Take advantage of our knowledge by contacting us if you need assistance in these unique times.

For additional information disclosed in this advisory, please remember to consult with a dealer CPA Advisor and your legal counsel or contact, the Dealer Services Group at dsg@dixon-hughes.com or via phone at (877) DLR-CPAS.

For additional information regarding the Dixon Hughes Dealer Services Group, please contact us at dsg@dixon-hughes.com, (877) DLR-CPAS or visit us on the web at www.dixon-hughes.com/dsg.

About the Dixon Hughes Dealer Services Group

The Dealer Services Group of Dixon Hughes, one of the nation’s top 20 accounting firms, has over 135 dedicated professionals working exclusively with some of the largest automotive and heavy truck dealerships across the country. Providing our clients with industry thought leaders in our Assurance, Tax and Risk Service Groups, we consult on best practices to help maximize efficiencies, decrease costs and understand risk management. Dealerships need an independent CPA firm to provide an objective view to take their business to the next level. At Dixon Hughes, we deliver on both sides of the service equation. A fact you might find a plus.



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