

Automotive News

THE CHRYSLER BANKRUPTCY

Chrysler seeks \$753 million for dealer incentives

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NEW YORK -- Chrysler LLC is asking for court permission to pay up to \$753 million in dealer incentives during its 60-day bankruptcy period.

The company also said in U.S. Bankruptcy Court here it won't make incentive payments to all of its dealers. In filings today, Chrysler said it will "only pay incentives to those dealers that they believe have value to the acquiring company," to be controlled by Italy's Fiat S.p.A. Chrysler hasn't said how it will measure that value.

Chrysler representatives were in court today to lay out a budget for the 60-day bankruptcy period. In its filing, the company also asked that its suppliers be paid \$1.49 billion in debtor-in-possession financing for parts already received.

The filings came on the second day of motions before Judge Arthur Gonzalez. Chrysler's strategy under Chapter 11, Section 363, of the bankruptcy code is to separate good assets from bad as quickly as possible to set up a financially healthy new company. That includes shutting down eight factories and closing unprofitable dealers.

In supporting documents, Chrysler said its post-bankruptcy budget assumes that 25 percent of its dealers won't get the incentive payments "as the company looks to reorganize its dealer network." Kathy Graham, a Chrysler spokeswoman, said she could not immediately clarify what that means.

The company makes incentive payments to dealers weekly. As dealers sell cars, the incentives are electronically credited to the dealers' accounts. The company posts the incentive payments to dealer accounts every Sunday evening.

Chrysler adviser Robert Manzo said Chrysler had sought \$1 billion for dealer incentive payments but scaled that back to \$753 million after discussions with the U.S. Treasury. That amounts to a 25 percent cut.

Chrysler has not said how it will decide which dealers will continue with the new company and which ones will not. Chrysler co-President Jim Press last week asked dealers to be patient while it put together a list.

As of March 31, Chrysler had 3,215 dealers. If it cuts out payments to 25 percent of its dealers, that means more than 800 dealers won't receive the payments. In its filings, the company also said its overall incentive spend would be reduced 50 percent from June 1 to July 5, which would be the second month of a possible 60-day reorganization.

Chrysler has budgeted \$477 million for incentives for the first four weeks, peaking at \$147 million for the week of May 25. Payments tail off sharply after that. Factories, which have already closed, will not be making new cars during the period.

Chrysler also is asking for debtor-in-possession financing to pay its suppliers about \$1.49 billion in bankruptcy for parts already delivered, Manzo testified at Chrysler's bankruptcy proceeding today. He spoke on Chrysler's behalf as executive director with Capstone Advisory Group LLC., a financial advisory firm.

Manzo said the payments were necessary to preserve Chrysler's dealer and supplier networks until a new Chrysler emerges from bankruptcy in an alliance with Fiat in 30 to 60 days. Those claims typically are unsecured and would be locked in a bankruptcy for weeks and months before the creditors could be paid for them in whole or in part.

Manzo also said the supplier payments are for about 45 days of payables for parts.

During the bankruptcy, Chrysler also intends to spend about \$69 million for marketing, about half of what it would normally spend over the period, Manzo said. Again, Chrysler arrived at its number in consultation with Treasury.

Chrysler also is asking for about \$266 million for warranty claims during the bankruptcy.

All told, Chrysler wants \$4.6 billion in debtor-in-possession financing, including about \$4.1 billion from Treasury. The current secured lenders will loan about \$400 million, and another \$100 million will be generated through the sale of Mopar inventory parts, Manzo said.

Manzo said Chrysler's 11,000 salaried employees would take two weeks of unpaid leave during the bankruptcy, saving the automaker about \$21 million.



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