

JONES DAY  
222 East 41st Street  
New York, New York 10017  
Telephone: (212) 326-3939  
Facsimile: (212) 755-7306  
Corinne Ball  
Veerle Roovers

JONES DAY  
North Point  
901 Lakeside Avenue  
Cleveland, Ohio 44114  
Telephone: (216) 586-3939  
Facsimile: (216) 579-0212  
David G. Heiman

JONES DAY  
1420 Peachtree Street, N.E.  
Suite 800  
Atlanta, Georgia 30309  
Telephone: (404) 521-3939  
Facsimile: (404) 581-8309  
Jeffrey B. Ellman

Proposed Attorneys for Debtors  
and Debtors in Possession

**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK**

-----X	
	:
In re	: Chapter 11
	:
Chrysler LLC, <i>et al.</i> ,	: Case No. 09-____ (___)
	:
Debtors.	: (Jointly Administered)
	:
	:
-----X	

**DECLARATION OF JAMES J. ARRIGO**

I, James J. Arrigo, make this Declaration under 28 U.S.C. § 1746 and state:

1. I am the owner of two car dealerships, Arrigo Dodge-Chrysler-Jeep in West Palm Beach, Florida and Arrigo Dodge-Chrysler-Jeep Sawgrass in Tamarac, Florida. For approximately 20 years I have been a dealership owner in Chrysler's network of dealers. I am over 21 years old and am competent to make this declaration. Except as otherwise indicated, all facts set forth in this affidavit are based upon my personal knowledge, my review of relevant documents, my opinion based upon my experience and knowledge of Chrysler's businesses and being a dealership owner for 20 years. If called upon to testify, I could and would testify competently to the facts set forth in this declaration.

2. I graduated from Western Illinois University with my Bachelor of Business Administration in 1981 and an Honorary Doctorate from Northwood University in 1998.

3. After graduating from Western Illinois, I moved to Atlanta, Georgia to work for Sandy Springs Toyota, a local automobile dealership. After spending only a few months in Atlanta, I moved to Deerfield Beach, Florida to work for Southeast Toyota Distributors, Inc., a major new car distributorship, where my father previously worked. Southeast Toyota distributes new automobiles to over 150 dealers in the Southeast United States. While at Southeast Toyota, I worked as an incentive auditor, a distribution manager, a marketing merchandise manager and a district sales manager.

4. After nine years at Southeast Toyota working in various capacities, I decided to go into business for myself. In 1989, my father and I purchased a Dodge dealership in West Palm Beach, Florida. At the time, it was a 30,000 square foot facility sitting on five acres. After two years in business with my father, I decided to buy him out and run the dealership as a sole proprietor and have done so continuously since 2003. In the early 1990's, we were selling

approximately 300 to 400 new cars. By the late 1990's, we were selling approximately 3,500 new cars a year. By 2006, we were selling approximately 5,200 new cars a year.

5. I added the Chrysler and Jeep brands to my Dodge dealership in 2003 and moved to my current location one year later. When I opened my new location in 2004, I had a 110,000 square foot dealership that covered approximately 30 acres. My dealership currently has 105,000 square feet, 48 service bays and sits on 44 and one-half acres. Prior to the economic events of the last several weeks, we employed approximately 260 people. Despite the current economic crisis, I remain one of the top 10 Chrysler dealers in the country. My parts department is one the largest in Florida. I currently carry over \$25 million in new car inventory and \$1.5 million in used car inventory. I have approximately 1,300 new and over 200 used cars currently in my inventory. For the convenience of my customers, I have an Enterprise Rent-A-Car housed at my West Palm dealership to allow my customers easy access to transportation while their car is being serviced. I am one of the largest Chrysler-Jeep-Dodge dealers in the United States as measured by total sales volume, which was 3,127 new cars in 2008.

6. Just this last year, I purchased another dealership in Broward County, Florida. I acquired Fairbanks Chrysler-Jeep-Dodge in April 2008, which now operates as Arrigo Dodge Chrysler Jeep Sawgrass. The acquisition of the Sawgrass dealership doubled my available inventory to over 3,000 new and used cars at a value of over \$44 million between the two stores. This location provided an additional 368,000 square feet of facility on 10 acres. In 2008, from April to December, my Sawgrass dealership sold 1,191 new vehicles and 385 used vehicles.

7. I have served on Chrysler's National Dealer Council for over 15 years. For the past three years I have served as the Council's Co-Chairman of the National Dealer Council. I also serve on the board of the South Florida Automobile Dealers Association. Through my

participation in these councils, I have interacted with Chrysler, Dodge and Jeep dealership owners from across the country. I have spent a significant portion of my time on the road visiting other dealerships to gain an understanding of dealer needs. I have attended over 100 national dealership association meetings where dealership owners came together for 1 to 5 days of networking, meetings, training and consultation. Aside from my involvement as a dealership owner, I also serve on the Board of Trustees and the Board of Governors for Northwood University, where I have lectured on business issues.

### **Chrysler's Fragile Dealer Network**

8. Chrysler's dealer network is a good example of the American entrepreneurial spirit. The Chrysler dealers located throughout the United States represent a group of small business owners. Although these small businesses have historically operated successful business operations, the dealerships are now in serious trouble and on the brink of collapse.

9. Chrysler dealerships are independently owned and operated franchises. Dealers purchase cars wholesale from Chrysler and resell the cars at a comparatively small mark-up to consumers. Our profit margins are very thin and shrinking. Chrysler records the wholesale purchase on its books once the vehicle leaves the factory; a dealer records a sale at the time a consumer purchases the car. In order to maximize available cash on hand, most dealers finance 100% of their wholesale purchases and use the profit from each sale to operate the dealership. Before the recent credit crisis, approximately 70% of dealers wholesale and retail purchases were provided by Chrysler Financial Corp., with the rest coming from local banks and credit unions. Dealerships are entirely owned and capitalized by individual owners; they typically receive no capital assistance from Chrysler.

10. With the onset of the global economic crisis, Chrysler Financial and other banks terminated their automobile leasing programs in August 2008. Overnight, this change eliminated approximately 20% of my dealerships' sales. Moreover, as the credit markets tightened during the fourth quarter of 2008, credit was sparsely available for either wholesale or retail purchases. From January 2008 through March 2008, my West Palm dealership sold on average 392 new vehicles per month. From January 2009 through March 2009, my West Palm dealership sold on average 153 new vehicles per month. This represents a 50% reduction in my dealership's sales in less than one year. New car sales have plunged even further in April 2009.

11. Many Chrysler dealerships are in financial distress and the situation has deteriorated rapidly in recent weeks. In my professional life, and over the past 30 years, this is the most dire situation I have seen in the car business. Due to decreased profit margins, unavailable credit and the threat of Chrysler's bankruptcy, many dealerships have collapsed and many others are on the verge of collapse. To avoid closing my dealerships, I have drastically cut expenses. I employ over 60 sales persons and I am responsible for over \$1.4 million in payroll and total expenses at my Palm Beach dealership alone. I have eliminated 25 employee positions at my West Palm dealership, substantially reduced my advertising expenditures, and cut other expenditures. I have reduced expenses from \$2.1 million per month to under \$1.3 million per month.

12. Other dealers are going back to their landlords to negotiate rent concessions to save money. Unfortunately, despite these attempts to stay open, many dealerships across the country and many more are poised to close. These dealers were pillars of the local community, benefactors of local sports and charities and in some instances the community's largest employer and source of tax revenue.

13. When a dealership closes, the unsold vehicles on that dealership's lot are ordinarily repurchased by Chrysler Financial if it holds the floor plan financing and then reallocated to other Chrysler dealerships or sold at a third party auction for substantially less than the car's wholesale value. Both of these actions depress the value of Chrysler's vehicles already out in the market, which both reduces the residual value of a dealer's remaining inventory and further reduces a dealer's profit margin. In today's marketplace, information about auction sales is transmitted virtually instantaneously over the internet within a day or two. Thus, this data and the resulting impact it has on new and used car values shows up in the retail price of dealers remaining new and used car inventory almost overnight. This immediately reduces the value of the new and used cars sitting on a dealer's lot just as quickly. I have seen these ripple effects firsthand over the past few months at my own dealerships and during my time with other dealer owners.

***Importance of Incentives, Warranty Payments, and Cash Flow***

14. Dealers depend on the manufacturer for much of their cash flow. The manufacturer pays dealer incentives for new vehicle sales, warranty reimbursements, and cash rebates, among other things. This cash flow is critical to the survival of dealers. At the end of March 2009, for instance, Chrysler owed my West Palm dealership \$426,000 in warranty and parts receivables, \$413,000 in new vehicle receivables, \$639,000 in consumer rebates, \$146,000 in holdbacks, \$26,000 in Road Ready payments, \$159,000 in floor plan allowance, and \$36,000 in wholesale compensation. Thus, at the end of March, Chrysler owed my West Palm dealership \$1.7 million. That cash flow is essential to the operation of my dealership, and is even more important to the sustainability of other dealerships.

15. Such incentives are also critical to generating customer interest and competition in the marketplace. The United States Department of the Treasury, in an attempt to avoid additional dealer closures, preserve the value of Chrysler's cars and boost sales, released \$1.5 billion from the TARP funds to Chrysler Financial to encourage retail car purchases. The TARP funds went directly to consumers to help stimulate new vehicle sales; as a result, 0% financing, employee pricing and rebates of nearly \$6,000 per car were offered to Chrysler's customers. The total average discount to consumers, at the beginning of March 2009, was approximately \$5,566 per car, an increase of over \$2,000 from the previous year, or approximately 20% of the average \$27,000 wholesale value of a car. These incentives, plus cost cutting measures, have helped keep my dealerships operational in these tough times and the same is true for many other dealers across the country. Without these incentives, there would be dealerships with little or no sales.

***Need For Urgent Action***

16. The uncertainty surrounding the Chrysler dealer network is "killing" dealers. Uncertainty is destroying the ability of Chrysler's dealers to conduct business in a number of ways. This uncertainty affects both customers and dealers. Customers become reluctant to purchase cars and dealers experience difficulty in securing commercial wholesale financing necessary to purchase new vehicle inventory in addition to sparsely available financing for customers.

17. In April 2008, my West Palm dealership sold approximately 300 new vehicles. In April of this year, my West Palm dealership is on pace to sell 110 new vehicles—over a 60% drop in new vehicle sales. After the White House announced that it would give Chrysler until April 30, 2009, to take action, sales plummeted. Nearly every potential buy that walks in my dealership has either raised the issue of Chrysler's viability or asked sales staff if Chrysler will

“be around.” Roughly 50% of the customers that visit our dealership have indicated they may have an interest in purchasing a Chrysler vehicle at some point, but that they want to “see what happens” to Chrysler before they do so.

18. Chrysler’s dealership network is extremely fragile and on the verge of collapse. It has, thus far, barely weathered months of media speculation regarding Chrysler’s future and that has only gotten worse in recent days. This uncertainty has severely eroded consumer confidence in Chrysler. Moreover, speculation in the media that Chrysler was on the verge of bankruptcy resulted in an even further decline in consumer confidence in recent days. These declines have manifested themselves in significant declines in dealers’ monthly sales.

19. Because dealers face substantial fixed costs, any reduction in cash flow creates significant problems. For instance, on average, on a bi-weekly basis, I “float” approximately \$590,000 to operate my Palm Beach dealership and make necessary automobile and related purchases. I also expend approximately \$450,000 on necessary warranty-related parts purchases. These two figures constitute a bi-weekly spread of approximately \$1.0 million. This means that on a monthly basis, if my parts account, the primary means by which Chrysler pays its obligations to me, is inoperative due to a bankruptcy filing for a month, I will have to come up with \$2.0 million cash for every month that Chrysler is in bankruptcy. Automobile dealerships are heavily cash flow dependent to fund their operations, make payroll and meet their other ordinary expenditures. A lengthy bankruptcy by Chrysler is simply not a sustainable business model for its dealers.

20. In my opinion, three factors enable automobile dealers to sell cars. First, you need customer traffic. Second, you need the product and related financing. Third, you need adequate marketing and promotions. With adequate manufacturer support, I can develop



appropriate marketing and design financial products to meet the needs of my customers.

However, if customer confidence continues to deteriorate due to the uncertainty surrounding the future of Chrysler, customer traffic will continue to decline and I will be unable to generate sufficient customer traffic under any circumstances to continue operating in a manner sufficient to meet my monthly operating expenses, even at reduced levels.

21. If Chrysler is caught up in a lengthy bankruptcy process, I believe dealer sales will plummet to the point where they will no longer satisfy their lender's cash flow requirements and the dealer network will collapse or will certainly suffer significant degradation. I believe dealerships will be forced to shut down as a result of an even sharper decline in consumer confidence than what we have seen thus far. Furthermore, the more uncertain Chrysler's future is, the more likely a consumer is to choose another vehicle over a Chrysler brand. Employees will leave the dealerships and new car buyers will go elsewhere. Based on my 20 years of experience with dealership operations, if Chrysler remains mired in bankruptcy proceedings for more than 30 days, Chrysler's dealership network will be unsalvageable.

22. I believe that if Chrysler remains in bankruptcy for longer than 30 days and there are numerous dealership closures, there will also be a significant spillover effect beyond what we have already seen. States and local communities will lose valuable income and property tax revenue, schools will lose a significant contributor to sports and arts, charities will be without sponsors and other businesses that rely on dealerships continued operations—restaurants and mechanics—will suffer just as much as the closed car dealerships.

I declare under penalty of perjury that the foregoing statements are true and correct.

Executed on: April 30, 2009

/s/ James J. Arrigo  
James J. Arrigo