

TESTIMONY

OF

ROBERT G. KNAPP

President of Knapp Chevrolet, Houston, Texas

July 22, 2009

**Hearing on the Ramification
of Auto Industry Bankruptcies, Part III**

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President of Knapp Chevrolet, Houston, Texas
Before the Judiciary Subcommittee on Commercial and Administrative Law

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Mr. Chairman and members of the Committee, my name is Bobby Knapp and I am President of Knapp Chevrolet in Houston, Texas. Thank you very much for giving me the opportunity to testify at this hearing on the ramifications of the auto industry bankruptcies.

The focus of my testimony is General Motors' unilateral and arbitrary effort to terminate Knapp's Chevrolet franchise. We at Knapp, a healthy and profitable Chevrolet franchise, are perplexed and outraged by GM's action, and believe our situation warrants your attention as you evaluate the way the GM and Chrysler bankruptcies and subsequent government bail-outs have been handled. Also, I strongly urge that Congress take remedial action to protect car dealerships like ours from GM's flawed dealership "rationalization" plan.

CURRENT SITUATION: TERMINATION PROCESS NOT RATIONAL AND IT IS UNFAIR

You all already are familiar with the broad outlines of the Chrysler and GM bankruptcies and the government's subsequent bail-out of the companies. I would add, however, that we at Knapp Chevy applaud the decision by the government to keep these two companies in operation. We think our brand—Chevrolet—is a great American brand that our country should not lose; we are proud to market Chevys.

Unfortunately, in the rush to complete the bankruptcy/bail-out process, the dealership terminations that went along with that process have been handled irrationally and unfairly, as a review of our situation will demonstrate.

On May 15, Knapp received a letter from GM proposing to terminate our franchise on October 31, 2010. We were then given just two weeks to prepare and submit an appeal, which we did. All told, we have submitted four appeal requests since receiving that May 15 notice. Three have already been summarily rejected even though doing so flies in the face of the facts and is unfair.

FACT: Knapp Chevrolet sold over 1,000 vehicles in 2008.

FACT: In Houston, the loss of Chevy dealerships results in loss of GM market share, so terminating Knapp is only going to cause GM to lose even more Houston market share than it has lost already—even though our city is as good a market for Chevrolets as any GM can hope to have.

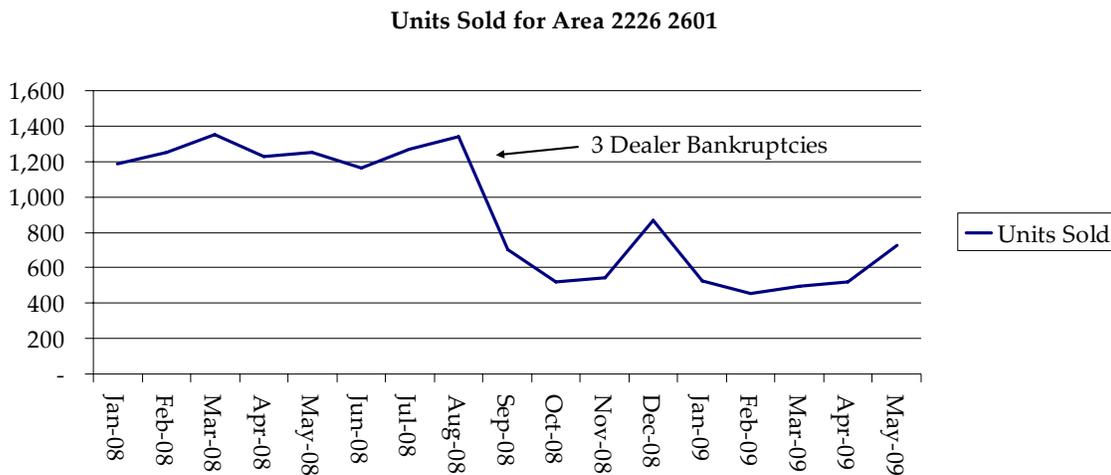
Here is a graph and other data net show our Chevrolet district average sales for Houston over the last 12 months. That period started with 12 dealers, and GM sold over 1,200 Chevys a month through the first 8 months of the year. Then, three dealerships, including two very large ones, shut down. As you can see, our district sales numbers then dropped to just over 500 vehicles a month through the end of the year. One can only conclude that GM loses market shares when a dealer closes in this market. I thought the whole point of the bankruptcy/bail-out was to strengthen GM market share. GM can't be strengthened if it continues to lose market share.

How much Market Share will GM lose by terminating Dealers?

It is our belief that there is empirical evidence and quantitative analysis that can be done to determine the impact of GM's mass dealer termination to GM's market share.

In the Houston Area, specifically categorized as Area 2226 2601 according to GM, there have been 3 dealers to file for Bankruptcy in September of 2008. As you can see from the chart below GM did not retain the sales in the market.

Will GM be able to retain their market share by terminating the dealers? NO



Digging Deeper into the Numbers we can determine the retained Market Share

If you take the total units sold from January through August 2008 (8 months) less the bankrupt dealers' sales you will get the normalized sales for the period. If the same analysis is done from October 2008 through May 2009 (also 8 months) you can determine the market share gain or loss if a dealer was to shut down.

From our analysis, GM lost a staggering 53.7% of their total sales volume. Even more alarming, GM lost 21.9% of their market share.

How does GM benefit from reducing its dealer body? **According to empirical evidence and quantitative analysis, GM not only will lose significant unit sales, but also will lose significant market share.**

	Jan - Aug 08	Oct 08 - May 09	Percent Loss
Total Units Sold	10,044	4,651	-53.7%
Less Bankrupt Dealers Units Sold	4,101	8	
Normalized Units Sold	5,943	4,643	-21.9%

Please note that this table is not adjusted for seasonality, but that effect would be minimal to this analysis.

FACT: Looking at the last 12 months, including June, Knapp Chevy was operating at a profit in 11 months, with the only down month being last September, when we were without power for 15 days.

FACT: By terminating Knapp, Chevrolet will be abandoning areas in and around downtown Houston, including the Sixth Ward Historic District, an area that is being revitalized and is growing unlike any other inner city in the entire country. GM itself believes in the potential of this market. Here is a map that GM put together showing that Knapp's service area is poised to grow explosively in the next four years, with incomes of its residents projected to increase dramatically. [Map to be supplied later.]

And, if Chevrolet abandons downtown Houston now, it simply won't be able to get back into the area once it completes its revitalization—it will be too expensive.

UNFAIR: GM is forcing us to take an agreement that essentially gives all the rights to GM and all the obligations to Knapp.

UNFAIR: GM will say that it offered Knapp termination assistance as part of the wind-down process. But, it is a sham; it will not come close to reimbursing Knapp for its losses associated with the forced wind-down of its business. What GM is offering will be eaten up by our losses on outstanding contract obligations we have to third parties that total over \$600,000 and the forced liquidation of special GM tools and parts at fire sale prices. And, even though the termination wouldn't be complete until October 2010, GM will strangle our business during the interim. They won't offer us new cars and won't buy back our existing inventory

UNFAIR: At the time we received notice that GM would not renew our franchise agreement, we had over 40 sold vehicles on order, including a number of ambulances for the City of Houston. We were told by GM that it will not honor those orders.

UNFAIR: GM needlessly is thumbing its nose at downtown Houston. Local businesses that we work with will be hurt; local charities will lose our support; and the 200,000 people who work in downtown Houston won't have anywhere to service their Chevys.

UNFAIR: Knapp has had a robust program to maintain and enhance the Chevrolet brand at its location. Over the past ten years, we have invested \$3.25 million in facilities, and we have invested another \$520 thousand in IT and equipment. All of this will go to waste with the termination.

UNFAIR: Knapp Chevrolet has gone the extra mile to help Chevy weather the storm of the depression in car sales. We have taken all of our inventory allotment, and then taken more. The reward for our loyalty is that GM wants to abandon us.

UNFAIR: We employ 82 hard-working people whom we consider family. We offer substantially better benefit packages than others in the industry, and our average employee tenure is seven years, with many employees having been with us for over 10 years. All will lose their jobs and livelihoods because of GM's termination.

CONGRESSIONAL ACTION NEEDED

Since receiving GM's May 15 termination notice, we have been frustrated at every turn in trying to get a fair and just resolution of the matter. Because the government is now so deeply involved in keeping GM going, we felt we had no option but to appeal to you our elected representatives, to intervene. And, we have been very thankful for the support we have received from Congresswoman Jackson-Lee and other members of the Houston delegation in the House.

We are not alone. Hundreds of other GM and Chrysler dealers have come to Washington seeking justice, and have received similar support from their congressmen. Mr. Maffei of this Committee introduced H.R. 2743, the Automobile Dealers Economic Rights Restoration Act of 2009, which I understand now has 242 co-sponsors, a solid majority of the House. Senator Grassley has introduced a companion measure in the Senate, which has 27 cosponsors.

Just last week, the House included in the fiscal year 2010 financial services appropriations bill a provision very similar to H.R. 2743. Let me take this opportunity to publicly thank the House for this significant action. We hope it is just the first step toward a quick resolution of this crisis for car dealers. I would urge the House to insist that the Senate accept this provision. I believe GM won't sit down and negotiate with the dealers unless it has the threat of remedial legislation hanging over it.

CONCLUSION

Again, I deeply appreciate the opportunity to testify today because a healthy, family-owned American business is on the verge of being needlessly destroyed.

Since the government is bailing out GM, you members of Congress have the right to intervene to avoid this destruction from taking place. There are two things Congress can do: It can force GM to negotiate fairly with its viable dealers; or, if that doesn't work, it can obtain final enactment of the Automobile Dealers Economic Rights Restoration Act of 2009, which will by statute preserve dealer's rights. I urge you to choose one of those two options. To take the third option—doing nothing—would change the current crisis into a permanent disaster.

I will be pleased to answer any questions you have, or provide any additional information or testimony you need. Thank you.