14th Annual CFO/CEO Forum

14th ANNUAL AUTO TEAM AMERICA CEO/CFO FORUM A SUCCESS!

One word can be used to sum up this year's Auto Team America CEO/CFO Forum (and this year's NADA convention in general)…successful!

Over 200 attendees gathered at the Westin St. Francis Hotel Friday, February 8, 2008, one of the largest forum crowds on record. Talented, knowledge-able speakers and a timely topic ("Navigating the Twists and Turns of Private Equity") combined to make the event a not-to-miss part of the NADA experience in San Francisco.

Featured speakers at this year's event included **Michael Bruynesteyn**, **Jay Ferriero**, **Ezra Mager**, **Tom Butler**, **Frank Walker** and **William Lovejoy**.

Bruynesteyn is an investor at Lehman Brothers in New York and has an active interest in the auto industry. He has presented at ATA's CEO/CFO forum before and always offers valuable insight on many timely industry issues. Bruynesteyn, an ATA Associate Member. **Ferriero** is Vice President and Director of Acquisitions at Capital Automotive, also an ATA Associate Member. **Mager** is CEO of EPM Advisory, LLC, a business he founded in 2004 that specializes in offering investment advice about hedge funds on an international basis. **Butler** is a Managing Director with Bel Air Partners, LLC, a boutique investment banking firm specializing in representing automobile dealers in the sale of their businesses. **Walker,** a partner at Beers & Cutler, has over 15 years of public accounting and private industry experience. **Lovejoy** is a Principal of Lehman Brothers Merchant Banking and a managing director of Lehman Brothers.

With such a unique group of panelists, the discussion was full of lively debates which covered many different topics and offered varying opinions that held everyone's attention.

Bruynesteyn shared his Lehman Brothers studies of the automobile industry both in the United States and abroad and offered his opinion on the state of the industry, the US economy and the global economic realities facing the US dealer today. He also offered his vision of the coming year for the auto industry and some specific manufactures in 2008. While the industry may continue to see sales lag in the first half of 2008, the latter half, Bruynesteyn says, will see improvements in the economic outlook.

One common thread among the panelists: private equity investments into the auto industry are going to continue to grow, and even smaller dealers are going to be able to participate and benefit. The caveat with the growing employment of private equity in the industry is that dealers wishing to sell to private equity firms and retire may often find that private equity wants to partner with them, not buy them out so they can retire. Dealers wishing to expand their influence in the industry, however, may find this model the perfect way to grow.

This year's ATA forum was one of the best attended forums in recent years. ATA members were pleased that so many interested dealers and industry insiders shared their ideas and questions with the group. The depth and breadth of information offered by the presenters and panelists made the event not just timely, but also very relevant to dealers and industry insiders, too. Many thanks go out to all those who took part in making the event such a success. And a very special thank-you to Comerica Bank for the cocktail reception that followed the forum.

If you have any questions about any of the topics discussed at the forum, contact your local AutoTeam America Representative today!!

QUICK CHECK

Reviewing the amount and type of journal entries being posted is an easy way to check on the efficiency of your accounting department.

If numerous journal entries are being posted each month, it may be a sign of improperly trained staff or systems that are not functioning properly.

Used Vehicle Write-Downs

Dealers must value inventory at cost for LIFO purposes. An alternative to used vehicle LIFO is the IRS-approved method of lower of cost or market. This could offer additional deductions if utilized to value your pre-owned inventory. If lower of cost or market is adopted, inventory must be identified using FIFO or specific identification.

When a dealer writes down inventory to the lower of cost or market, market is considered replacement cost. Alternatively, inventory may be valued at lower than replacement cost based on an actual offering price up to 30 days after the end of the tax year.

To determine the proper write-down, a dealer should use valuations shown in an official used car guide. To ensure consistency of method, the same value guide (for example, *Black Book*) should be used each year.

Cost, on the other hand, is considered the initial purchase price or accurate trade allowance, plus any subsequent increase in basis (reconditioning or other activities and expenses that add to the amount of capital tied-up in the unit).

Bear in mind that any vehicles purchased toward the end of the year may not need to be written-down or must have sufficient justification as to the reason for the write-down. All write-downs should be documented in any event.

For those not currently utilizing the lower of cost or market method, we recommend that you review your current inventory methods and determine if this method would be advantageous. For those dealers who are currently using this method, we urge you to make sure you are following the guidelines we mention above.

For further information, please contact your local AutoTeam America member today!!

Used Vehicle Inventory Optimization

With new car sales levels becoming dangerously low for some franchise dealers, many are looking to their pre-owned departments to bolster profitability in front-end operations. Even the dealers who already have sizable used car operations recognize the need to optimize their existing processes. Inventory optimization provides a way to determine how to have the right inventory (model, specific options and quantity) on your lot at the right price point to help maximize your profits.

As with all areas of a modern dealer's operations, there appears to be no shortage of software solutions and systems that claim to increase used car profitability. In order for your dealership to make an informed decision on which solution will work the best for your situation, you should begin by assessing your existing used car operation, especially:

- Goals and objectives for the future, as well as expectations of the prospective solution
- Existing personnel - skills, ability, and willingness to change and adapt
- Existing processes
- Identification of current problem areas - trade appraisals, time in inventory, lack of reporting / measuring capabilities, etc.
- Leadership commitment to process change - tone from the top will be a key determiner of success

Because these solutions are only helpful if they are used, and used properly, all dealership stakeholders should be involved in the evaluation process to achieve buy-in, including the Dealer Principal, General Manager and Used Car Manager.

As with many things, just utilizing the basic functionality in many of these systems will provide you with much of the benefit, with the additional features available to those who are inclined to use them.

In addition to what is outlined here, you should also consider potential options provided by your manufacturer (i.e. the Chrysler U-TOPS system), or solutions from your DMS provider. The following products are listed alphabetically and are not ranked in any preferential order.

- aaXchange – Recently acquired by JM&A, aaXchange is a function and reporting-rich tool that provides high levels of customized information to analyze your used vehicle operations from any angle.
- DealerWire – If you want to answer the questions "What do I need to buy at the auction?" and "Should I step-up on this trade?" and want to get straight to the point, DealerWire is a strong option.
- FirstLook's The Edge – A comprehensive system that works within your existing processes, the program provides your Used Car Manager with tools to assist in closing more appraisals, retailing more cars, and locating those vehicles you can sell quickly and profitably.
- mPower Auto – Taking an inventory management approach similar to managing a Wall Street portfolio, and less like a big retail store's inventory procedures, mPower Auto focuses predominately on equity – purchasing cars correctly.

If you are considering implementing a used car inventory optimization solution and would like additional information, please contact your local Auto Team America representative.

TAX TIP

Incentives in the Economic Stimulus Act of 2008

Congress recently passed the Economic Stimulus Act of 2008 which is intended to jump-start our economy, in part through tax incentives aimed at encouraging businesses to increase their investments in new equipment by the end of 2008. Under the Act, small businesses will be able to write off up to $250,000 of qualifying expenses in 2008. In addition, businesses will be able to deduct an additional 50% of the cost of certain investments in 2008.

Under pre-Act law, taxpayers can expense (i.e., deduct currently, as opposed to taking depreciation deductions over a period of years) up to $128,000 for 2008. This annual expensing limit is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during 2008 exceeds $510,000. The expensing rules are eased for qualifying empowerment zone property, renewal property, and GO Zone property. The amount of the expensing deduction is limited to the amount of taxable income from any of the taxpayer's active trades or businesses.

Under the Act, for tax years beginning in 2008, the $128,000 expensing limit is increased to $250,000, and the overall investment limit is increased from $510,000 to $800,000.

As a result of this incentive, most businesses will be able to obtain a full deduction for the cost of business machinery and equipment purchased in 2008, thereby reducing their effective cost for those assets. What's more, there is no alternative minimum tax (AMT) adjustment with respect to property expensed under Code Sec. 179.

Bonus depreciation makes a comeback. Bonus first year depreciation was first allowed following the terrorist attacks of 2001 but generally isn't available for property acquired after 2004. (There are some exceptions, such as for qualified GO Zone property generally placed in service before 2008.)

The Act provides for bonus (accelerated) depreciation by allowing a bonus first-year depreciation deduction of 50% of the adjusted basis of qualified property placed in service after Dec. 31, 2007, and, generally, before Jan. 1, 2009. The basis of the property and the depreciation allowances in the year the property is placed in service and later years are appropriately adjusted to reflect the additional first-year depreciation deduction. The amount of the additional first-year depreciation deduction is not affected by a short taxable year. The taxpayer may elect out of additional first-year depreciation for any class of property for any taxable year.

Bonus depreciation is allowed for AMT purposes as well as for regular tax purposes. Additionally, bonus depreciation is permitted only for: (1) property to which MACRS applies that has an applicable recovery period of 20 years or less, (2) water utility property, (3) non-custom-made computer software, and (4) qualified leasehold improvement property. Original use of the property must begin with the taxpayer after Dec. 31, 2007. Additionally, the placed-in-service cutoff date is extended for an additional year (i.e., before Jan. 1, 2010) for certain property with a recovery period of ten years or longer and certain transportation and aircraft property.

The otherwise applicable "luxury auto" cap on first-year depreciation is increased by $8,000 for vehicles that qualify.

Contact your ATA tax professional for any additional details about these aspects or any other aspect of the new law.