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How auto giant Denny Hecker's empire crumbled (A special report part 2)

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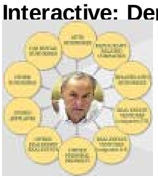
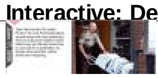
Interactive: Denny Hecker's businesses



See the web of business interests held by Denny Hecker

Interactive: Denny Hecker case timeline



Denny Hecker bet his fortune on a deal, and his life came undone.

The Twin Cities auto mogul once had it all — an empire of more than a dozen car dealerships and some 200 companies and an extravagant lifestyle many would envy.

But last year his empire collapsed like a castle of cards. He sold dealerships and handed over inventory, but it wasn't enough. In June, he filed for personal bankruptcy, owing $767 million.

Hecker, 57, claims one deal to buy a rental car company brought him down, and that he has done nothing wrong. Others, however, are raising questions about Hecker's dealings. State and federal agencies are investigating, and a grand jury has been convened to consider whether the once high-flying Hecker will face criminal charges.

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In an October interview with the Pioneer Press, Hecker portrayed himself as a dealmaker.

"I put the deal together, I guaranteed the loan, gave many people an opportunity to make a pile of money. I wasn't the day-to-day guy," he said.

But many of those who saw him work say there was no question who was in charge.

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Leslie Gjesdahl, a former human resources director at Hecker's St. Louis Park headquarters, worked for Hecker between 1993 and 2002. In a sworn deposition in a 2004 sexual harassment lawsuit involving Hecker companies and his employees, she described him as micromanager.

"Mr. Hecker wants to be involved in everything. My view of Mr. Hecker is he has a very large ego, and he wants — he wants control. ... Whether he's being advised in a correct manner or not, it matters not to him. Many times he has said, 'It is my goddamn company, and I'll do as I see fit.' "

TAKING ADVANTAGE

In early 2006, Hecker, the self-professed dealmaker, says he was presented with an offer that seemed too good to pass up. DaimlerChrysler had asked Hecker to figure out what it would take to liquidate San Antonio-based Advantage Rent A Car, which they said owed its sister company Chrysler Financial about $80 million, according to Hecker and his attorney, Bill Skolnick.

Though best known as a car salesman whose face and name were plastered on everything from billboards to buses, Hecker knew the rental-car industry well. Hecker says the real engine of his business became his huge leasing operation that provided vehicles to the car-rental business.

"That business had, at one time, basically $1 billion worth of cars out that I had financed to several different car rental companies," Hecker said. "That company was the marquee on the front door."

Then the deal got better.

Hecker says DaimlerChrysler made another offer, one that seemed to fit with Hecker's leasing operation: Chrysler Financial, his longtime lender, would lend him $500 million to buy Advantage Rent A Car in exchange for a 30 percent share. Hecker would turn Advantage around, sell it and all parties would benefit. In the meantime, Hecker's leasing operation could provide the cars.

Hecker bought the family-owned Advantage Rent A Car in early 2006 for an undisclosed sum. News reports said the private company had a fleet of 15,000 vehicles and revenue of $150 million.

At the same time, Chrysler Financial extended Hecker's Rosedale Dodge a $660 million revolving line of credit to purchase cars that Rosedale Dodge would either sell or lease, according to a document Chrysler Financial filed as part of a lawsuit against Hecker. But the agreement said nothing about Advantage Rent A Car.

It

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wasn't long before Hecker brought in outside help to fix Advantage. A year after the purchase, Hecker hired a consultant named Riz Haider to engineer a turnaround of the rental company, promising to pay him $50,000 a month, according to a lawsuit Haider filed in June 2008.

Haider put together a report that made fixing Advantage sound like a rescue mission.

The first plan of action, Haider said, was to "stop the hemorrhaging" by preserving cash. Priority No. 2 was to "get the cancer out" and "nurse Advantage to recovery."

The turnaround failed. In December 2008, Advantage filed for bankruptcy and laid off 440 employees.

In July, Brian Leonard, the trustee handling Advantage's bankruptcy case, accused Hecker and several of his companies of hastening the rental company's demise by using Advantage as a piggy bank, both personally and for other Hecker businesses.

Leonard claims $637,000 was transferred from Advantage's parent company into Hecker's personal accounts within a four-month period. Leonard questioned whether there was a business purpose for the payments. Hecker says the transfer of funds is easily explained: Advantage wasn't credit-worthy enough to pay for its online media expenses, so he put the expenses on his American Express card and the company reimbursed him later.

The trustee also claims Hecker's leasing companies forced Advantage into vehicle lease agreements which were "artificially inflated, non-competitive and uneconomical," according to the complaint. In addition, Leonard's complaint said, Hecker and his affiliates required Advantage to make payments of more than $110 million that did not appear to have a business purpose to other Hecker companies.

This drained cash from Advantage, crippling the company, the complaint says.

Hecker says his companies charged Advantage less than the market rate. The bankruptcy court has not yet addressed Leonard's allegations, and while Hecker says the truth will come out, he has not filed any documents refuting the claims.

In April, some of Advantage's assets were sold for $33 million to a subsidiary of Hertz Rent-a-Car. What's left of the company is being liquidated and divided among creditors.

But the allegations about Hecker and the rental-car business weren't isolated.

Hecker had turned to one of his favorite places, Las Vegas, buying a 49 percent stake in U.S. Rent A Car around the same time he bought Advantage. Hecker would operate the business while the founder, Maria Romano, maintained a majority stake.

Romano says Hecker nearly drove the company into the ground, and she recently struck a deal with Leonard to regain control of her company. "We could have gone out of business, absolutely," Romano said this fall.

Three days after Advantage filed for bankruptcy, Romano sued Hecker, accusing Hecker of using U.S. Rent A Car to support Advantage and his other businesses. In total, Romano's suit claimed, Hecker diverted more than $1.2 million in rental car fees to his various entities.

And there were other issues, she said in an interview. For example, Advantage sold vacation packages that included a car from U.S. Rent A Car.

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But Advantage would not send the money for the rental back to U.S. Rent A Car, she said.

"He tried to pump up the revenues of Advantage," Romano told the Pioneer Press.

In the interview, Romano also said she could not get information from Hecker documenting the charges Advantage passed through to U.S. Rent A Car for services such as handling reservations. "I never got a straight count," she said.

Romano said she sent countless e-mails and made phone calls to Hecker in an attempt to meet with him. Finally, she flew to Minneapolis in August 2007 for a meeting with Hecker, she said. Romano ended up waiting in Hecker's office nearly five hours before he met with her.

"I felt almost violated at that point in time," she said.

Hecker says U.S. Rent A Car was on the verge of filing for bankruptcy before he bailed it out, and that he's the one that got the runaround from Romano and her husband, Frank. The Romanos owed Advantage about $3.5 million by December 2008, Hecker said. During several meetings prior to that, Hecker said, he offered to subtract what Advantage owed the Romanos from their debt total.

"They would never do that cause they were always looking for some reason not to pay anybody anything," he said.

SWEET DEAL GOES SOUR

Over two decades, Hecker built an unusual relationship with Chrysler Financial, the sister company of the Detroit automaker.

The big lender not only funded the Chryslers and Jeeps Hecker sold, but his purchases from other automakers too. Eventually, Chrysler Financial started fronting money for various personal- and business-related real estate deals. And finally, in 2006, the company extended Hecker a $50 million personal loan.

"Until recently Chrysler Financial and Hecker had an amicable business relationship and course of dealings that extended beyond the four corners of their various contracts," Hecker noted in a November 2008 lawsuit against the company.

But Hecker says that relationship changed when Cerberus Capital Management, a New York-based private equity firm, took control of Chrysler's auto operations and Chrysler Financial in mid-2007.

"Hedge funds and private equity investors, when they take over a company, they look at things based on dollars and cents," said Keith Tufte, president of Longview Wealth Management and a former hedge fund portfolio manager. "They are not burdened by past long-term relationships."

But there was one more deal to be made — and it's now under scrutiny by a federal grand jury.

In November 2007, Hecker asked Chrysler Financial for funding to buy more than 5,000 vehicles from Hyundai Motor America, offering two letters purporting to be from Hyundai that Hecker himself signed. Neither had signatures from Hyundai, however.

One of those letters, dated Nov. 7, 2007, appeared to be an offer from Hyundai to sell 4,855 vehicles to one of Hecker's businesses. A clause in the agreement guaranteed Hyundai would buy back any of those vehicles if returned within a year of delivery. If Hecker couldn't sell a car, it would be refunded by the manufacturer, minimizing the risk of the deal for a lender like Chrysler Financial.

Chrysler OK'd financing 4,257 of those vehicles.

Chrysler Financial now says the Nov. 7 letter was a "forged and doctored document" that vastly inflated the number of vehicles Hyundai guaranteed. Chrysler Financial says Hyundai offered Hecker only 605 guaranteed units — not eight times that many.

The deal is at the heart of a federal grand jury investigation against Hecker, according to Hecker's own court filings.

Hecker denies altering any documents. He told the court that he showed Chrysler Financial proposed contracts for purchasing cars for Hyundai and that he specifically told the lender's representatives that no deal had been finalized with Hyundai.

THE WELL RUNS DRY

Referring to Cerberus as the three-headed dog that guards the gates of hell, Hecker has accused Chrysler Financial of strangling his business by unilaterally cutting off fleet financing, according to a lawsuit Hecker filed in November.

Chrysler Financial claims that by the summer of 2008 Hecker had fallen behind in payments on loans dating back to 2003. That included any outstanding balance on the $660 million revolving line of credit, numerous real estate loans and the Hyundai vehicle purchases. The lender demanded immediate payment.

The lawsuit railing at Cerberus was a bold gesture that got Hecker on the front pages, but the battle was already lost. Eight days later, Hecker announced that he had closed five dealerships and a used-car lot and sold three others, throwing 400 employees — a third of his staff — out of work.

In January 2009, Chrysler Financial sued Hecker for breach of contract, saying he owed the lender a whopping $550 million. Hecker himself was liable, Chrysler Financial said, because he personally guaranteed the loans.

But there was more to the suit.

According to Chrysler Financial, each time Hecker sold a Chrysler Financial-financed car, he was supposed to immediately repay the company. By October 2008, Chrysler Financial had learned that Hecker sold "or otherwise disposed of" about 410 vehicles it financed but didn't use the proceeds to repay the $8 million he owed, the lender claimed its lawsuit.

"The minute the customer writes a check or arranges financing ... the dealer is required by law to immediately (within 30 minutes) pay off the floor plan loan on that car," said Jim Wangers, an auto industry consultant. "If the dealer doesn't immediately pay off that car, he is 'out of trust.' "

Once that happens, another industry expert, George Hoffer, said, the financing arm will "turn on you in a dime."

A spokesperson for Chrysler Financial did not comment, citing pending litigation.

In April, a Minneapolis federal judge sided with Chrysler. Subtracting the additional cars and dealerships Hecker had turned over since the end of the year, he still owed $477 million.

Hecker claims the crux of his downfall was the deal to buy Advantage.

"When I signed up to buy Advantage, Chrysler was owned by (Daimler). They were the ones who made the sweetheart deal," Hecker said. "They had 30 percent ownership of Advantage. I didn't go through the drive-through window one day and they gave me $500 million. They had a real vested interest in this business."

As if anticipating that Chrysler would soon cut him off, Hecker racked up millions more in debt in 2007.

That summer, he approached Hyundai Motor Finance about working together. Though Hecker had a long relationship with Hyundai Motors and had run several profitable Hyundai dealerships, he had never done business with the finance arm. According to a September lawsuit filed by Hyundai in bankruptcy court, Hecker submitted a personal financial statement stating a net worth of $241 million, including assets of $348 million and liabilities of $107 million. The $660 million in promissory notes and the personal guarantees Hecker had made on loans with Chrysler were not mentioned, the complaint says.

According to Hyundai's complaint, Hecker told Hyundai executives he "urgently needed to replace his funding source," because Chrysler Financial was withdrawing from fleet financing. Hecker said he wanted to move quickly, the suit says, prompting Hyundai to ask Hecker to personally guarantee the loans. That November, they set in motion a deal for $117.5 million, most of it fleet financing of Hyundai vehicles that would be leased to Advantage.

Between mid-2007 and the end of 2008, Hecker obtained at least $46 million in loans from six other lenders, including smaller banks such as Carlton Financial, Cornerstone Bank and Vision Bank.

"It appears Mr. Hecker had a pattern in the last year and a half of seeking funds from smaller institutions and giving false financial information to those institutions," Brad Sinclair, a lawyer for North Dakota-based Cornerstone Bank, said during a bankruptcy hearing last week. Cornerstone claims Hecker owes the bank $12.7 million.

All of those lenders — including Hyundai — now say Hecker failed to give them a true picture of his financial situation, particularly the blanket lien Chrysler Financial had on his businesses and personal property.

Hecker's lawyer, Skolnick, said: "We deny those claims, they're simply not true."

HECKER HITS THE SKIDS

Having turned over all his inventory and closed or sold most of his businesses, there was nothing else for Hecker to do once the judge ruled in Chrysler's favor but throw himself at the mercy of the bankruptcy court. He filed for Chapter 7 protection — meaning he was willing to liquidate, not just reorganize, his assets — on June 4. But the initial filing was a bare-bones affair.

When a fuller picture emerged in early July, the numbers were staggering: Hecker listed assets of just $18.5 million, a sliver of what he had claimed to Hyundai just two years before, and liabilities of $767 million, most of it owed to Chrysler Financial.

But what caught most people's attention was everything Hecker claimed he still had: The million-dollar homes. The 53-foot yacht. A fishing lodge. The collection of more than 30 watches, including five Rolexes.

The only person who seemed unimpressed with Hecker's listed holdings was the trustee in the bankruptcy case. Randall Seaver, described by many bankruptcy lawyers as "aggressive," quickly started raising questions about hidden assets.

Seaver has questioned whether a lease agreement, dated May 1, 2009, between Hecker and his

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girlfriend, Christi Rowan, is legitimate. The two-year lease allows Rowan, 36, to live at Hecker's former Medina home with her two young children for $5,000 per month.

The trustee has questioned Hecker about a $60,000 fur coat and a $30,000 guard dog he bought for Rowan in the months prior to filing for bankruptcy. In an answer to a similar question, Hecker couldn't recall who received his gift of $47,000 in jewelry purchased at a Chanel boutique in Las Vegas in March.

Seaver also questioned a deal involving Hecker's Inver Grove Heights Toyota dealership. The June sale included a personal services agreement for Hecker's consulting services for four years. Hecker would be paid a total of $1 million in 48 monthly installments. The trustee told the court he thinks the deal is merely a diversion of the purchase price, rather than the post-bankruptcy earnings that Hecker claims it to be.

Hecker wants to keep his $8.9 million-dollar-home on Cross Lake as his homestead — exempting it from creditors. But the bankruptcy judge denied the request, saying Hecker had not previously treated it as his primary residence. The judge noted that Hecker had only lived there days before filing for bankruptcy and that the property is actually owned by one of Hecker's companies. Hecker's appeal is pending.

As if dealing with Seaver and a criminal investigation weren't enough, Hecker is also involved in a messy divorce.

Hecker's marriage to his fourth wife, Tamitha, had been on the rocks for years. They started divorce proceedings in the spring of 2008 but later reconciled. The couple had tried to get divorced "four or five times in last 10 years," Hecker said.

They had "tried to make a terrible marriage work" for the sake of their two children, now 14 and 8, he said.

Shortly before Hecker filed for bankruptcy, Tamitha filed for divorce after 15 years of marriage, asking for $15 million. She said Hecker never told her he had promised "everything they had" by personally guaranteeing his business deals.

Hecker said she knew the stakes.

THE LONG FIGHT AHEAD

Hecker's failed attempt last week to postpone key parts of his personal bankruptcy case means he will have to fight legal battles on more than a dozen fronts.

He sought six-month delays for the lawsuits filed by creditors and the trustee because of the ongoing federal grand jury investigation into his business dealings.

Hecker's St. Louis Park headquarters was raided twice this summer by state and federal agents and his records seized, first to look for evidence that he and his companies had pocketed money for taxes, title and license fees owed the state of Minnesota. The second time, the FBI led a search for evidence that Hecker was involved in money laundering, conspiracy, mail fraud, wire fraud and bankruptcy fraud.

The alleged misrepresentations and omissions raised by eight creditors in Hecker's bankruptcy case could also become fodder for a criminal indictment, says Ted Sampsell-Jones, a white-collar crime expert and assistant professor at William Mitchell College of Law in St. Paul.

"The definition of criminal fraud is incredibly

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broad," he said. "Essentially, any time that you try to profit by deceiving someone, that's a federal crime. The deception can be by lying outright, or even just by omission — by failing to give someone the whole story."

Even if he avoids indictment, the allegations could prevent Hecker from walking out of bankruptcy court debt-free.

Those eight creditors have filed lawsuits asking the judge not to discharge a combined $160 million in debt. It's up to those creditors to prove to the court that Hecker obtained loans through false pretenses or actual fraud, according to Bloomington bankruptcy attorney Craig Andresen.

The trustee also has the ability to file a lawsuit asking that none of the debt be discharged by proving the debtor intentionally hid assets or was not truthful to the trustee. Andresen said typically the trustee wins "when there's an accumulation of examples — once there gets to be a lot of evidence piled up, then the judge will say, yeah, he intentionally misled us."

Seaver has until Nov. 19 to file that suit, though he could ask for an extension.

Despite all this, Hecker is ready to go after the next deal. In June, he created a new company, New Dimension Advisors, that he says provides consulting to other automotive businesses. He says he has several opportunities for new deals but hasn't had time to pursue them.

"I'm in a rut right now that I need to get beyond," he said recently. "This is one of those deals that I've got to slug it out one day at a time."

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