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Chrysler Bankruptcy Challenge Could Snag GM Restructuring

DETROIT (Dow Jones)--General Motors Corp.'s (GMGMQ) creditors, facing deep concessions in bankruptcy court, could be emboldened to seek better terms if Chrysler LLC's lenders succeed in their challenge.

The U.S. Supreme Court on Monday held up Chrysler's sale to Fiat SpA (FIATY) - a move the U.S. government has warned could lead to liquidation - at the request of several Indiana pension funds and consumer groups that opposed the transaction.

The opposition, if it succeeds, could bode poorly for GM in the midst of a parallel government-orchestrated Chapter 11 filing it hopes to complete no later than September.

"This will give them a sense that if they appeal to the courts, the higher court may overturn the bankruptcy court and require that these groups have to be recognized as a class and that class to be treated fairly," said bankruptcy attorney Jerry Reisman.

GM is seeking to use the court process to shutter thousands of auto dealers, slash debt owed by unsecured bond holders and cut benefits to non-union retired workers.

Dealer and retiree groups already have begun to fight the moves in court. And while just over half of GM's bondholders signed off on a deal to swap \$27 billion in debt for equity, another faction has vowed to fight as well. The dissenting bondholders are represented by Thomas Lauria, the lead attorney for the pension funds challenging Chrysler.

In the Chrysler case, the pension funds argued the sale, orchestrated by the U.S. and Canadian governments under bankruptcy laws, was illegal and that the federal government exceeded its bailout authority with its involvement. Justice Ruth Bader Ginsburg, in a brief order on Monday, said the court will extend a temporary stay put in place by an appeals court pending further court action.

GM has faced contentions similar to those outlined in the Chrysler case that other creditors are receiving preferential treatment under the plan crafted by the U.S. Treasury.

Under the GM deal, the U.S. and Canadian governments will own 72.5% of the restructured GM. The auto maker struck an out-of-court deal with the United Auto Workers in which union agreed to reduce GM's obligation to retirees and other concessions in exchange for a 12.5% equity stake in the new GM.

GM bondholders are receiving no cash and a far smaller equity stake than the union or government. Dealers and retirees, meantime, are left with little recourse as they lose their business and benefits.

-By Sharon Terlep, Dow Jones Newswires; 248-204-5532; sharon.terlep@dowjones.com.