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U.S. top court judge delays Chrysler sale for now

By James Vicini and Poornima Gupta

WASHINGTON/DETROIT (Reuters) - The sale of bankrupt automaker Chrysler LLC to a group led by Italian carmaker Fiat SpA was temporarily blocked by a U.S. Supreme Court justice on Monday, with no indication how long the delay would last.

In a one-sentence order, Justice Ruth Bader Ginsburg said the bankruptcy judge's orders allowing the sale "are stayed pending further order" by her or by the Supreme Court. It was unclear what the next step would be.

Ginsburg acted right before a 4 p.m. EDT deadline from a U.S. appeals court in New York. The end of the appeals court order would have allowed Chrysler to proceed with its Obama administration-backed sale to Fiat, a union-aligned trust and the U.S. and Canadian governments.

Both Chrysler and the Obama administration have said a long delay could kill the deal and end up with Chrysler's liquidation. Fiat can walk away from the deal if it does not close by June 15. The Chrysler case could set a precedent for General Motors Corp, which is using a similar quick-sale strategy in its bankruptcy in New York.

Jerry Reisman, a lawyer in New York said, "Unless Chrysler is allowed to reorganize and sell its assets to Fiat, GM will certainly face the same type of opposition from objecting creditors which will doom GM's reorganization." Chrysler had no immediate reaction to the high court delay. "Pending further information from the court, we have no comment at this time," a spokesman said. The U.S. Treasury Department, which oversees the administration's autos task force, also had no immediate comment.

Indiana pension funds and consumer groups had asked the Supreme Court over the weekend to stop the sale of Chrysler so they could challenge the deal in an appeal to the nation's highest court. Bankruptcy lawyers said Ginsburg's order could be designed to give the high court more time to decide whether to intervene in the dispute.

MAINTAINING THE STATUS QUO

Sheryl Toby, a bankruptcy attorney in Michigan, said, "I don't think this gives you an indication that they're ruling on the merits, but she (Ginsburg) is maintaining the status quo at least to determine whether to consider the appeal."

Steven Gross, co-head of the restructuring group at law firm Debevoise & Plimpton in New York, said, "If the court waits too long, Chrysler might not be around."

"We don't know why the court has agreed to extend the stay. We have no transparency on any of it," he said. "I haven't really seen much like this before. This whole thing is pretty unusual."

The Obama administration, earlier on Monday, urged the Supreme Court to allow the sale, saying that blocking the deal would have "grave consequences."

Solicitor General Elena Kagan of the U.S. Justice Department, the administration's lawyer before the high court, said in a written argument that blocking the sale could force Chrysler's liquidation. The Indiana pension funds argued that the sale of Chrysler unlawfully rewards unsecured creditors ahead of secured lenders and amounts to an illegal reorganization plan, and that the U.S. Treasury Department overstepped its legal authority by using financial bailout funds for Chrysler when Congress intended the money for banks.

Congressman Gary Peters of Michigan, whose district is home to Chrysler's headquarters, said Indiana's appeal was not in the best interest of the people in that state.

"Indiana officials are fighting over \$4.8 million at the risk of costing their state over \$20 million in tax revenue, tens of millions more in related costs and putting 4,000 of their own people out of work" he said.

Chrysler filed for bankruptcy protection on April 30 to complete the sale and alliance with Fiat within 60 days, in a case that analysts have seen as a test for the much bigger and more complex bankruptcy of GM.

The \$2 billion sale of Chrysler's assets to a new company that will be 68 percent controlled by a healthcare trust aligned with the United Auto Workers union was approved by a U.S. bankruptcy judge on June 1.

Fiat will control 20 percent, the U.S. and Canadian governments will control the other 12 percent.

(Additional reporting by Emily Chasan, John Crawley, Tom Hals, Phil Wahba; Editing by John Wallace and Tim Dobbyn)