



June 2, 2009

Chrysler filing offers lessons for GM process

Suppliers won't be paid much, but lawyers will

BY GREG GARDNER
FREE PRESS BUSINESS WRITER

Chapter 11 bankruptcy is about redeploying limited resources among thousands of parties who are bound to be disappointed.

The goal is to come out at the end with a viable business, also known as a "going concern." Here are lessons from Chrysler's case that may prove relevant to General Motors.

Lesson 1: Speed is the restructuring company's friend and creditors' enemy.

"We learned bankruptcy court can move a lot faster than most people think if you have a partner with money -- the government -- and a buyer that threatens to walk away," meaning Fiat, said Van Conway, president of Conway McKenzie Inc., a turnaround advisory firm.

Lesson 2: Despite President Barack Obama's professed disinterest in running the company, Steven Rattner and Ron Bloom, leaders of his auto task force, have unfettered and absolute control. They are mandating the structure from which each company will compete.

"They are acting like a hedge fund more than government bureaucrats," said John Pottow, a University of Michigan law professor who teaches bankruptcy law. "They have been given a free hand to run the deal as they see fit."

Lesson 3: Suppliers will be offered less than they are owed. Some suppliers won't receive anything.

Lesson 4: Consumers' right to sue the surviving company could be restricted. Fiat avoided all liability from Chrysler vehicles produced and sold before it gains control of Chrysler.

Lesson 5: Expect to hear and read about the "OldCo" and "NewCo." This is legal shorthand tied to Section 363 of the federal bankruptcy code. Think of it as "DeadCo" and "LiveCo."

Lesson 6: Lawyers will make between \$600 and \$950 an hour. Financial advisers -- Al Koch of AlixPartners is GM's -- have broad influence on key decisions. They are paid very well. Capstone Advisory Group, Chrysler's lead consultant, will be paid \$17 million. Of that, \$10 million goes to the executive director, Robert Manzo.

What are the likely differences between the Chrysler and GM cases?

"GM is more complex," said U-M's Pottow. "They have to shed four brands and there is a more international dimension."

Lawyers and U.S. Bankruptcy Judge Arthur Gonzalez frequently compared Chrysler's bankruptcy to a melting ice cube. The longer it sits in the sun, the less is left to save.

Summer is just three weeks away.

Contact GREG GARDNER: 313-222-8762 or ggardner@freepress.com