

This is a bankruptcy update on the Chrysler bankruptcy for the first half of June 2009.

1. Things moved very quickly in June in the Chrysler bankruptcy. The bankruptcy court approved the Fiat transaction after three days of testimony and evidence. The order granting that motion was entered on Monday, June 1. The case was immediately appealed to the Second Circuit Court of Appeals, primarily by three Indiana pension funds. The court of appeals ruled in favor of the transaction. The matter was then appealed to the United States Supreme Court. After a brief halt to the transaction, the court cleared the Fiat transaction for closing. The Fiat transaction was finalized and a closing held on Wednesday, June 10. Based upon the closing, New Chrysler became the manufacturer and distributor of Chrysler, Jeep, and Dodge motor vehicles.
2. The bankruptcy court took evidence and heard witnesses on Thursday, June 4 and Friday, June 5 with respect to the rejections. On Tuesday, June 9, the court ruled that it would reject all 789 dealers. As of the close of business on Tuesday, June 9, 789 dealers could no longer operate as authorized dealers.
3. Prior to the closing on the Fiat transaction, New Chrysler filed its list of dealers whose agreements it confirmed it would honor. Once that confirmation was filed by New Chrysler and the Fiat Transaction closed, New Chrysler could no longer reject any of those dealers. That list of dealers whose agreements were assumed and confirmed by New Chrysler and that are no longer subject to rejection is an exhibit to the notice that is attached.
4. In connection with the dealer rejections, Chrysler created a program for redistribution for new vehicles, parts and special tools from the rejected dealers to the remaining dealers. During the argument over the rejection motion on Tuesday, June 9, Chrysler committed to allow rejected dealers to enroll in the redistribution process through June 15.
5. There was concern about warranties for new vehicles held by rejected dealers after the date of rejection. At the hearing in which argument took place on the rejected motion, an attorney for Chrysler made clear that the warranty will follow the vehicle and committed to advise dealers of the process for protecting the warranties of vehicles.
6. In connection with the "orphan" franchises of rejected dealers, Chrysler has commenced negotiations with continuing dealers to create "Genesis" dealers that sell Chrysler, Jeep and Dodge vehicles. However, in connection with these negotiations, Chrysler has asked dealers to sign a Letter of Understanding. This LOU contains two troubling provisions. First, it commits a dealer to waive its protest rights under state law. Much more seriously, it requires dealers to provide 30 years of site control in connection with receiving the right to be a "Genesis" dealer. Dealers should contact their own counsel before entering any such agreement.