

The New York Times
April 30, 2009

Chrysler Files to Seek Bankruptcy Protection

by Jim Rutenberg and Bill Vlasic

WASHINGTON — President Obama forced Chrysler into federal bankruptcy protection on Thursday so it could pursue a lifesaving alliance with the Italian automaker Fiat, in yet another extraordinary intervention into private industry by the federal government.

Flanked by his automobile task force of cabinet secretaries and business advisers in the White House's grand entranceway, Mr. Obama announced a plan that would allow the United Automobile Workers, through their retirement plan, to take control of Chrysler, with Fiat and the United States as junior partners. The government would lend about \$8 billion more to the company, on top of the \$4 billion it had already provided.

The arrangement came after an intensive round of White House-sponsored negotiations among the Treasury Department, the union and Chrysler's executives and creditors. After working through the night, a small group of debtholders balked at Mr. Obama's final terms, leading the president to decide that bankruptcy could not be averted.

It was a stark moment, and one unseen in modern times, as the fledgling president deepened his involvement in a struggling but iconic American company. Chrysler, which Mr. Obama called "a pillar" of the industrial economy, invented the minivan and owns the Jeep brand.

With Thursday's filing, Chrysler became the first major American automaker to seek bankruptcy protection since Studebaker did so in 1933.

It was a humbling moment for the nation's third-largest automaker, which recovered strongly after a near bankruptcy in 1979 with help from the Carter administration before entering its latest, dangerously fallow period under the ownership of the German auto company Daimler-Benz and, as of 2007, Cerberus Capital Management.

Bringing to bear his White House megaphone on Thursday, Mr. Obama laid out the terms of a deal that he said would save well over 35,000 jobs. And with a hint of anger, he railed against the holdout lenders, now effectively a hostile group of business partners, whom he called "speculators." "They were hoping that everybody else would make sacrifices, and they would have to make none," Mr. Obama said of the creditors, among them several hedge funds and boutique investment funds. "I don't stand with them."

As the most visible investor in the newly formed Chrysler, Mr. Obama also donned his presidential sales cap, emphasizing that Chrysler's warranties would now be backed by the United States government — addressing a potential concern for those in the market for a new car.

"If you are considering buying a car, I hope it will be an American car," he said. "I want to remind you that if you decide to buy a Chrysler, your warranty will be safe."

The crisis in the auto industry has presented an early test for Mr. Obama, who has had to wrestle with the limits of federal involvement in private industry as few presidents have since the Great Depression. Save for crucial moments of decision, officials said he left the automotive task force he formed in February to work through sticking points with the participants, with its main leaders, the financiers Ron Bloom and Steven Rattner, handling the late-night phone calls.

Mr. Rattner and Mr. Bloom both have experience with corporate turnarounds and were able to wring critical concessions from the U.A.W. The union, for example, agreed to accept company stock for 50 percent of what Chrysler owes its retiree health care fund. Most of the major

debtholders, led by JPMorgan Chase, agreed to write down the debt owed to them by more than two-thirds.

That put the onus on the remaining holdouts — including units of OppenheimerFunds, Xerion Capital Fund of Perella Weinberg Partners and Stairway Capital Management — which argued they were falling victim to the willingness of their big banking partners in Chrysler to play nice with a government that had helped bail them out as well. Perella Weinberg decided late Thursday that it would accept the government's terms.

Administration officials said the holdouts' position left them no option but to force Chrysler into bankruptcy.

The hope now is that Chrysler will come out of bankruptcy quickly, perhaps as soon as late June, and serve as a model for General Motors, which has to produce its own lifesaving plan in the next 30 days.

But court documents filed by Chrysler in New York on Thursday showed that Chrysler's re-emergence from bankruptcy could take until Aug. 28, or four months from now. Bankruptcy always contains some element of unpredictability, and the minority of debtholders who oppose the new arrangement could argue in court that the company is worth more to them in liquidation.

But administration officials said they believed that it was highly unlikely that a bankruptcy court judge would side with the minority when those holding 70 percent of the debt had signed off on the arrangement.

Chrysler said its factories would go mostly idle starting Monday, and remain so for the bulk of the process. Auto workers will receive about 80 percent of their base pay during the shutdown. The Treasury is providing \$3.3 billion in so-called debtor-in-possession financing, and administration officials said during a conference call with reporters that no jobs would be lost during the bankruptcy.

Any future cuts, they said, would be decided by the new company's board — which is to include representatives appointed by the union, the administration and the government of Canada, which also lent money — and the successor to the Chrysler chief executive, Robert L. Nardelli, who said he would leave the company at the bankruptcy's end.

In Auburn Hills, Mich., groups of Chrysler workers watched the president's speech on television Thursday at the Red Ox Tavern on their lunch break. While they welcomed Mr. Obama's endorsement of Chrysler's future, they worried about the stigma associated with bankruptcy.

"It seems like an ugly word — bankruptcy," said Christopher Whiteman, an engineering supervisor at the company. "It puts a lot of doubt in people's minds."

That sort of trepidation is common in politically important Michigan, which is bracing itself for General Motors to submit its restructuring plans some 30 days from now.

Nick Bunkley and Micheline Maynard contributed reporting from Detroit.