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WASHINGTON (Dow Jones)--While the U.S. Supreme Court on Monday refused to consider an appeal that challenged the sale of Chrysler LLC to a group that included Fiat SpA (FIATY, F.MI), critics of the deal found one bright spot in the court's order.

The court did not directly reject a legal challenge filed by a group of Indiana state pension funds which held debt in the old Chrysler. Instead, the justices sent the case back to the 2nd U.S. Circuit Court of Appeals in New York and ordered that court to dismiss the challenge as moot.

The Supreme Court's order, while leaving the Chrysler sale undisturbed, vacated the 2nd Circuit's June ruling that affirmed the manner in which Chrysler's assets were sold.

The order means the 2nd Circuit's decision no longer has the force of legal precedent.

Critics have argued the quick Chrysler sale trampled on creditors' rights and the normal Chapter 11 bankruptcy process.

"If the appeals court's decision had stayed on the books, it would have been very difficult for people to challenge these kinds of asset sales," said Richard Samp of the Washington Legal Foundation, which filed a court brief supporting the Indiana challengers.

Samp said the lower court ruling had been "the most definitive one yet" affirming the emergency sale of a troubled company's assets through a section of the bankruptcy code that allows a distressed business to circumvent the normal, and lengthy, bankruptcy process.

Indiana State Treasurer Richard Mourdock said in a statement that he was "heartened" by the court's order and said the state was reviewing it.

Todd Geremia of the Jones Day law firm, an attorney for the old Chrysler, said the Supreme Court's order did not reflect any assessment of the merits of the lower court's ruling. Instead, he said, the order reflected the justices' agreement with Chrysler and the federal government, which backed the sale, that the case was now moot because the deal was final.

The Supreme Court had declined on June 9 to intervene in the case, and the sale was finalized the next day.

The Indiana pension funds, which held less than 1% of a \$6.9 billion secured lien on Chrysler's assets, had argued the \$2 billion sale shortchanged the automaker's secured lenders.

In their petition to the Supreme Court, the challengers conceded that the sale of Chrysler's assets could not be unwound, but they said the lower court decision had far-reaching consequences for creditors' rights and for the bankruptcy process.

Chrysler and the federal government had asked the Supreme Court to reject the challenge directly, which would have left the 2nd Circuit's ruling in place as precedent.

There is legal precedent for how the Supreme Court chose how to dispose of the appeal. The court's order cited to a 1950 decision in which it took a similar approach to a case that had become moot.

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