

HAGENS BERMAN SOBOL SHAPIRO LLP

Steve W. Berman (*pro hac vice*)
1918 Eighth Avenue, Suite 3300
Seattle, Washington 98101
Telephone: 206-623-7292

– and –

ROBINSON CALCAGNIE ROBINSON
SHAPIRO DAVIS, INC.

Mark P. Robinson, Jr. (*pro hac vice*)
19 Corporate Plaza Drive
Newport Beach, CA 92660
Telephone: 940-720-1292

*Counsel for The People of the State of
California, acting by and through Orange
County District Attorney Tony Rackauckas*

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

-----X		
IN RE:	:	Chapter 11
	:	
MOTORS LIQUIDATION COMPANY, <i>et al.</i> ,	:	No. 09-50026 (REG)
f/k/a GENERAL MOTORS CORP., <i>et al.</i> ,	:	
	:	(Jointly Administered)
Debtors.	:	
-----X		

PEOPLE OF THE STATE OF CALIFORNIA’S “NO STRIKE” PLEADING

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. BACKGROUND	4
A. The State’s claims target only New GM’s post-Sale misconduct.....	4
B. The State claims that New GM independently violated the California UCL and FAL.	7
III. ARGUMENT	9
A. On its face, the Sale Order does not bar the State’s claims based on New GM’s violations of its own independent legal duties.	9
B. The Bankruptcy Court did not have jurisdiction to provide New GM with immunity for its own post-Sale violations of its independent legal obligations.	11
C. The fact that the <i>California</i> Complaint contains factual allegations about Old GM does not mean that the legal claims in the Complaint are based on the conduct, cars or parts of Old GM.....	14
1. The Sale Order enjoins legal “claims,” <i>not</i> factual allegations.	14
2. The Complaint’s factual allegations concerning pre-bankruptcy events are proper, since (a) New GM has knowledge of pre-bankruptcy information because the same personnel worked at Old GM; and (b) pre-bankruptcy events provide context for New GM’s alleged misconduct.	15
a. An employee’s knowledge of facts learned in the scope of her employment is broadly imputed to the corporate employer. ...	16
b. The knowledge of GM personnel who worked at <i>both</i> Old and New GM is properly imputed to New GM.	18
c. The remaining allegations concerning Old GM and pre-bankruptcy events provide context for the post-bankruptcy claims arising solely from the independent actions of New GM.	22
IV. CONCLUSION.....	23

TABLE OF AUTHORITIES

Page(s)

CASES

In re 1031 Tax Grp., LLC,
2011 U.S. Dist. LEXIS 33755 (S.D.N.Y. Mar. 29, 2011)13

Albert v. Alex. Brown Mgmt. Servs., Inc.,
2005 Del. Ch. LEXIS 133 (Del. Ch. Aug. 26, 2005)19

Allard v. Arthur Andersen & Co. (USA),
924 F. Supp. 488 (S.D.N.Y. 1996).....17

Columbia Pictures Corp. v. DeToth,
87 Cal. App. 2d 620 (1948)18

Copeman Labs. Co. v. Gen. Motors Corp.,
36 F. Supp. 755 (E.D. Mich. 1941).....19

In re Cuyahoga Equip. Corp.,
980 F.2d 110 (2d Cir. 1992).....12

In re Gen. Motors LLC Ignition Switch Litig.,
2014 WL 6655796 (S.D.N.Y. Nov. 24, 2014).....5

In re Johns-Manville Corp.,
517 F.3d 52 (2d Cir. 2008), *rev'd on other grounds sub nom., Travelers
Indem. Co. v. Bailey*, 557 U.S. 137 (2009)11

In re Johns-Manville Corp.,
600 F.3d 135 (2d Cir. 2010).....13

Kellogg Brown & Root Servs., Inc. v. United States,
728 F.3d 1348 (Fed. Cir. 2013).....18

Kirschner v. KPMG LLP,
938 N.E.2d 941 (N.Y. 2010).....17

Link v. Wabash R.R. Co.,
370 U.S. 626 (1962).....17

Mack v. Dep't of Alcoholic Beverage Control,
178 Cal. App. 2d 149 (1960)16, 17

In re Motors Liquidation Co.,
2015 Bankr. LEXIS 1296 (Bankr. S.D.N.Y. Apr. 15, 2015)..... *passim*

N.Y. Marine & Gen. Ins. Co. v. Tradeline L.L.C.,
266 F.3d 112 (2d Cir. 2001).....17

O’Riordan v. Federal Kemper Life Assurance Co.,
114 P.3d 753 (Cal. 2005)17, 18

Ortega v. Natural Balance Inc.,
2013 WL 6596792 (C.D. Cal. Dec. 16, 2013)2

In re Quigley Co., Inc.,
676 F.3d 45 (2d Cir. 2012), *cert. denied*, 133 S. Ct. 2849 (2013)12

United States v. Gen. Motors Corp.,
574 F. Supp. 1047 (D.D.C. 1983).....21

Upjohn Co. v. New Hampshire Ins. Co.,
476 N.W.2d 392 (Mich. 1991).....19

Veal v. Geraci,
23 F.3d 722 (2d Cir. 1994).....17

In re Wood,
825 F.2d 90 (5th Cir. 1987)12

Woods v. Maytag Co.,
807 F. Supp. 2d 112 (E.D.N.Y. 2011)18

Zerand-Bernal Grp. v. Cox,
23 F.3d 159 (7th Cir. 1994)11, 12, 13

STATUTES

28 U.S.C. § 1334(b)12

49 U.S.C. § 30101.....3

49 U.S.C. § 30118(c)21

49 U.S.C. § 30165(a)(1).....21

49 U.S.C. § 30166(m)(3)21

Cal. Civ. Code § 232.....16

Cal. Civ. Code § 17200.....8
Cal. Civ. Code § 17500.....8

OTHER AUTHORITIES

3 William Meade Fletcher, Fletcher Cyclopedia of the Law of Private
Corporations § 790 (1994).....17
49 C.F.R. § 573.6(b)-(c).....21
49 C.F.R. §§ 576.5-576.6.....21
49 C.F.R. §§ 577.5(a).....21
49 C.F.R. § 577.7(a).....21
49 C.F.R. § 579.2121
Restatement (Third) of Agency § 5.03 cmt. b17
Restatement (Third) of Agency § 5.03 cmt. c.....19

The People of the State of California, acting by and through Orange County District Attorney Tony Rackauckas, submit this No Strike Pleading in accordance with paragraph 12(c) of this Court's Judgment dated June 1, 2015. For the reasons stated herein, the State submits that the Sale Order neither does, nor properly could, enjoin any of the claims or allegations in the *California* action.¹

I. INTRODUCTION

The *California* action is a law enforcement action for civil penalties and injunctive relief against General Motors LLC ("New GM") based *exclusively* on New GM's independent violations of the California's Unfair Competition Law ("UCL") (Cal. Bus. Code § 17200) and False Advertising Law ("FAL") (Cal Bus. Code § 17500). The *California* action seeks to hold New GM liable for only its *own* acts and omissions after this Court approved the 363 Transaction² and New GM began operations on July 11, 2009. The *California* action does not seek to recover any remedies resulting from the actions or conduct of General Motors Corporation ("Old GM") and therefore is not subject to this Court's Sale Order bar on claims against New GM arising from or related to the conduct of Old GM.³ Accordingly, under the

¹ The "*California* action" is *The People of the State of California, acting by and through Orange County District Attorney Tony Rackauckas v. General Motors LLC*, Case No.: 30-2014-00731038-CU-BT-CXC, pending in the Orange County Superior Court before Judge Kim G. Dunning, and a copy of the First Amended Complaint is attached as Exhibit A.

² The term "363 Transaction" refers to the sale of Old GM's assets to New GM pursuant to 11 U.S.C. § 363, as effectuated by this Court's July 5, 2009 Sale Order. Capitalized terms used but not defined herein shall have the meanings ascribed to them in this Court's *Decision on Motion to Enforce Sale Order*, entered on April 15, 2015, ("Decision"), and reported as *In re Motors Liquidation Co.*, 2015 Bankr. LEXIS 1296 (Bankr. S.D.N.Y. Apr. 15, 2015).

³ In response to this Court's statements at page 6 n.8 of its *Decision re Form of Judgment*, entered on May 27, 2015, the State wishes to be clear: the State has never questioned this Court's jurisdiction to enforce the Sale Order, and has never had anything but respect for the authority of

logic of this Court's Decision, the *California* action consists exclusively of Independent Claims, and should be permitted to proceed without amendment.

Plaintiff alleges that New GM is liable for civil penalties as a result of its post-July 10, 2009 conduct in (i) concealing the existence of the many known defects plaguing an astounding number of models and years of GM-branded vehicles;⁴ (ii) maintaining a corporate culture that valued cost-cutting over safety and actively discouraged GM personnel from flagging or addressing safety issues, while (iii) falsely marketing its brand and its vehicles as safe and reliable. *See, e.g.*, ¶¶ 2-5, 9.⁵ In fact, the *California* action is limited to New GM's conduct occurring after June 27, 2010; that is because the UCL has a four year statute of limitations,⁶ and the original complaint was filed on June 27, 2014. The State's claims for violations of the California UCL and FAL target New GM's conduct in creating safety defects, concealing known safety defects, and falsely marketing its vehicles as safe and reliable. ¶¶ 253-273.

Simply put, the State's claims arose after the 363 Transaction, and are based *solely* on the post-Sale conduct of New GM. As such, the claims do not fall properly within the category of claims barred or released by the Sale Order. Moreover, as a matter of law, the Sale Order cannot bar claims based solely on the conduct of the non-debtor New GM that did not arise until *after*

this Court. The reason that the State is not now amending its Complaint is because of its strong belief that under the Sale Order, and the logic of the Decision, the *California* action should be free to proceed.

⁴ The term "GM vehicles" (or "GM-branded vehicles") is used in the Complaint as a generic term for GM vehicles—regardless of whether they were sold by Old GM or New GM. In either case, the *California* action seeks to impose liability only on New GM for its own, post-Sale Order conduct.

⁵ References preceded by "¶" are to the paragraphs of the *California* First Amended Complaint for Violations of California Unfair Competition Law and False Advertising Law, attached hereto as Ex. A.

⁶ *See Ortega v. Natural Balance Inc.*, 2013 WL 6596792, at *4 (C.D. Cal. Dec. 16, 2013).

the 363 Transaction. There is no precedent for providing immunity for future wrongdoing to a purchaser in a 363 transaction—no matter how much more enticing that would make the offer of sale—and no court has the subject matter jurisdiction to grant such immunity. Accordingly, the State’s claims are not subject to the injunction in the Sale Order.

The State is not alone in its belief that New GM violated the law. Indeed, New GM has conceded as much by entering into a Consent Order with the National Highway Safety Administration (“NHTSA”), in which it “admits that it violated the Safety Act by failing to provide notice to NHTSA [of the ignition switch defects] ... within five working days as required by” the Act and applicable regulations.⁷ And the Department of Justice has reportedly found evidence of criminal wrongdoing by New GM in connection with its cover-up of the ignition switch defect.⁸ Surely New GM can be held liable for its own violations of California law.

Finally, this Court should reject New GM’s argument that the mere mention of Old GM or pre-bankruptcy events somehow renders the *California* Complaint improper (in whole or in part). By its own terms, the Sale Order enjoins “*claims*,” or causes of action – and not factual allegations. In fact, the pre-Sale conduct alleged in the Complaint involved Old GM personnel

⁷ See Consent Order at 4 (available at <http://www.nhtsa.gov/staticfiles/communications/pdf/May-16-2014-TQ14-001-Consent-Order.pdf>). The “Safety Act” refers to the National Traffic Vehicle and Motor Vehicle Safety Act, 49 U.S.C. § 30101, *et seq.*, as amended by the Transportation Recall, Enhancement, Accountability and Documentation Act (the “TREAD Act”). In Section 6.15 of the Sale Agreement through which it acquired substantially all of the assets and assumed certain responsibilities of Old GM, New GM agreed to abide by all Safety Act obligations with respect to vehicles and parts manufactured by Old GM.

⁸ See, e.g., “*G.M. Inquiry Said to Find Criminal Wrongdoing*,” N.Y. Times (May 22, 2015) (available at http://www.nytimes.com/2015/05/23/business/gm-inquiry-said-to-find-criminal-wrongdoing.html?_r=0); *GM CEO Says She’s Been Interviewed in Ignition Switch Probe*, Associated Press (June 10, 2015) (available at <http://www.latimes.com/business/la-fi-hy-gm-barra-20150609-story.html>).

that New GM employed in the same or similar capacities. Hence, just as employees' knowledge acquired in the scope of their employment was imputed to Old GM under California law, it was also imputed to New GM. When New GM chose to maintain dozens of Old GM employees who were aware of the Ignition Switch Defect and "relatively senior in position,"⁹ those employees carried that knowledge into New GM. The *California* Complaint focuses in part on what New GM did and did not do given that knowledge. The State's claims arise solely from New GM's conduct, and the propriety of the action should not turn on whether or not the term "Old GM" appears in the Complaint, or on whether the New GM employees with knowledge of dangerous defects had previously worked for Old GM.

In sum, the *California* action has been delayed long enough, and should now proceed in California state court.¹⁰

II. BACKGROUND

A. The State's claims target only New GM's post-Sale misconduct.

The State commenced the *California* action in California State court against New GM on June 27, 2014, seeking an injunction and civil penalties from New GM as a remedy for New

⁹ *In re Motors Liquidation Co.*, 2015 Bankr. LEXIS 1296, at *111 n.154.

¹⁰ The State is mindful of this Court's admonition that "the No Strike Pleading shall not reargue issues that were already decided by the Decision and Judgment." Judgment, ¶ 12(c). But the State also notes the Court's statement in the Decision that, apart from the claims of the Pre-Closing Accident Plaintiffs, the "matters now before the Court" and addressed by the Decision "involves only *economic losses* allegedly sustained with respect to Old GM vehicles or parts." *In re Motors Liquidation Co.*, 2015 Bankr. LEXIS 1296, at *7 n.4 (emphasis in original); *see also id.* at *11 n.8 (noting that briefs were filed on behalf of personal injury and "Economic Loss Plaintiffs" only). The State, of course, does not seek "economic losses" of any sort, let alone "losses sustained with respect to Old GM vehicles or parts." Instead, the State's law enforcement claims seek civil penalties and injunctive relief based solely on New GM's post-Sale acts and omissions. The State does not believe that this Court has yet decided the issues addressed herein given the unique circumstances of the *California* action.

GM's misleading misrepresentations to California consumers concerning the safety and reliability of its vehicles, the integrity of the New GM brand, and New GM's alleged concealment of defects in certain GM-branded vehicles or parts. After the State filed an Amended Complaint on June 27, 2014, New GM filed a Notice of Removal. Then, on October 9, 2014, the State filed a motion to remand. (14-MD-2543 Docket No. 335.)

On November 24, 2014, Judge Furman granted Plaintiff's motion to remand and directed the *California* action back to the Orange County Superior Court where it was filed. *In re Gen. Motors LLC Ignition Switch Litig.*, 2014 WL 6655796, at *8 (S.D.N.Y. Nov. 24, 2014). In his remand order, Judge Furman noted that: "The Amended Complaint asserts that the case is a 'law enforcement action which primarily seeks to protect the public safety and welfare, brought by a governmental unit in the exercise of and to enforce its police power' and that [the State] only seeks to hold New GM liable for its '*own* acts and omissions *after* the July 10, 2009 effective date' of the Sale Order. (Am. Compl. ¶¶ 1, 3 (emphasis in original))." *In re Gen. Motors LLC Ignition Switch Litig.*, 2014 WL 6655796, at *1. In fact, the Amended Complaint expressly states that:

This action seeks to hold [New] GM liable only for its *own* acts and omissions *after* the July 10, 2009 effective date of the Sale Order and Purchase Agreement through which [New] GM acquired virtually all of the assets and certain liabilities of Old GM. [¶ 3].^[11]

As the Amended Complaint alleges, after the 363 Transaction, New GM "told the world that it was a new and improved company" committed to innovation, safety and maintaining a

¹¹ As this paragraph makes clear, the term "GM" in the Amended Complaint refers to what is referred to by lawyers and judges in this litigation as "New GM." *See also, e.g.*, ¶ 10 (defining "Defendant General Motors LLC" as "GM."); ¶ 22 ("From its inception in 2009, GM has known that many defects exist in GM-branded vehicles.").

strong brand. ¶ 238. The Amended Complaint provides many examples of New GM’s public statements to that effect, and New GM’s marketing of its vehicles as safe, reliable and of high-quality. ¶¶ 228-247. New GM made these misrepresentations in order “misle[a]d and/or deceive[] [California consumers] into believing that they would be purchasing a safe and reliable vehicle built by a reputable manufacturer that values safety and stands behind its vehicles after they are sold....” ¶ 261. Indeed, “[a] vehicle made by a reputable manufacturer of safe and reliable vehicles is worth more than an otherwise similar vehicle made by a disreputable manufacturer that is known to devalue safety and to conceal serious defects from consumers and regulators,” ¶ 4, and New GM successfully—and falsely—branded itself as the former.

In reality, New GM failed to disclose, and affirmatively concealed, both its own systemic devaluation of safety¹² and a staggering and ever-growing number of safety defects in GM-branded vehicles. ¶¶ 31, 224.¹³ The Complaint further alleges that New GM’s systematic concealment of safety defects was deliberate:

From its inception in 2009, [New] GM knew about an ever-growing list of serious safety defects in millions of GM-branded vehicles, but concealed them from consumers and regulators in order to boost sales and avoid the cost and publicity of recalls. [¶ 32] ***

The available evidence shows a consistent pattern: [New] GM learned about a particular defect and, often only at the prodding of regulatory authorities, “investigated” the defect and decided upon a “root cause.” [New] GM then took minimal action – such as issuing a carefully-worded “Technical Service Bulletin” to its dealers, or even recalling a very small number of affected vehicles. All the while, the true nature and scope of the defects were kept under wraps, vehicles affected by the defects remained on the road,

¹² See, e.g., ¶¶ 179-211.

¹³ The parade of recalls continued on throughout 2014, covering many millions of more vehicles with many more safety defects.

and [New] GM enticed consumers to purchase its vehicles by touting the safety, quality, and reliability of its vehicles, and presenting itself as a manufacturer that stands behind its products. [¶ 36.]

Now the truth has come out, as (i) New GM was forced to disclose scores of serious defects in a never-ending series of recalls affecting over 17 million GM-branded vehicles (¶ 224; *see* ¶¶ 38-177 (describing the defects that had been revealed as of the time of the filing of the Amended Complaint, and explaining that New GM was often aware of them prior to 2014 but chose to conceal them)); (ii) information about New GM's systemic de-valuation of safety and active discouragement of personnel who might otherwise flag safety issues has been publicized in a report by Anton Valukas commissioned by New GM (*see* ¶¶ 179-211); and (iii) in a Consent Order with NHTSA, New GM admitted that it had violated its legal obligations to promptly disclose the existence of known safety defects (¶ 13). As a result of the revelation of New GM's fraudulent omissions and misrepresentations, and New GM's extreme mishandling of safety issues, the value of *all* GM-branded vehicles sold after New GM's inception has diminished. ¶ 224.

B. The State claims that New GM independently violated the California UCL and FAL.

The State asserts only claims against New GM solely for its post-Sale violations of California law. As the Amended Complaint alleges, the *California* action:

arises from [New] GM's breach of its obligations and duties, including but not limited to: (i) its concealment of, and failure to disclose that, as a result of a spate of safety defects, over 17 million Defective Vehicles were on the road nationwide – and many hundreds of thousands in California; (ii) its failure to disclose the defects despite its TREAD Act obligations; (iii) its failure to disclose that it devalued safety and systemically encouraged the concealment of known defects; (iv) its continued use of defective ignition switches as replacement parts; (v) its sale

of used “GM certified” vehicles that were actually plagued with a variety of known safety defects; and (vi) its repeated and false statements that its vehicles were safe and reliable, and that it stood behind its vehicles after they were purchased. [¶ 21.]

The Amended Complaint asserts that this conduct of New GM violated the California UCL, which prohibits “unfair competition,” including “any unlawful, unfair or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising.” Cal. Bus. Code § 17200. See ¶¶ 253-264. The Amended Complaint also asserts that New GM’s conduct violated the California FAL, which states that:

It is unlawful for any ... corporation ... with intent directly or indirectly to dispose of real or personal property . . . to induce the public to enter into any obligation relating thereto, to make or disseminate or cause to be made or disseminated ... from this state before the public in any state, in any newspaper or other publication, or any advertising device, ... or in any other manner or means whatever, including over the Internet, any statement ... which is untrue or misleading, and which is known, or which by the exercise of reasonable care should be known, to be untrue or misleading.

Cal. Bus. Code § 17500. By definition, then, New GM can only be held liable if *it* committed unlawful, unfair or fraudulent business acts or practices, or if *it* promulgated untrue or misleading advertising. The claims necessarily arise exclusively from the alleged acts and omissions of New GM and did not accrue until after the Sale Order.

Likewise, in the Prayer for Relief, all the remedies are targeted at New GM’s conduct, as the State seeks to (A) enjoin New GM from committing further acts of unfair competition; and (B) obtain civil penalties from New GM for its violations of the UCL and FAL. Ultimately, there are two possible results in the *California* action: (i) New GM is found to have *itself* violated the California UCL and/or FAL by using unlawful, unfair or fraudulent business acts or

practices, and/or promulgating untrue or misleading advertising, and is therefore subject to civil penalties and injunctive relief; **or** (ii) New GM is found not to have violated the California statutes and New GM therefore prevails. The *California* Complaint simply cannot be read as an effort to hold New GM liable for the conduct of Old GM—under a successor liability theory, a transferee theory, or any other theory.

III. ARGUMENT

A. **On its face, the Sale Order does not bar the State’s claims based on New GM’s violations of its own independent legal duties.**

The Sale Order has no application to the State’s claims against New GM for New GM’s post-Sale violations of the California UCL and FAL. The claims do not attempt to hold New GM liable for the conduct of Old GM—whether on a successor liability theory, a “transferee” theory, or any other theory. Under the plain language of the Sale Order, and the logic of this Court’s Decision, the State’s claims against the non-debtor New GM are Independent Claims and should proceed in California State Court without further impediment.

New GM has argued that it is has no liability for at least certain of the State’s claims under paragraph 46 of the Sale Order, which reads as follows:

Except for the Assumed Liabilities expressly set forth in the [Sale Agreement], ... *[New GM] ... shall [not] have any liability for any claim that arose prior to the Closing Date, relates to the production of vehicles prior to the Closing Date, or otherwise is assertable against [Old GM] . . . prior to the Closing Date. . . . Without limiting the foregoing, [New GM] shall not have any successor, transferee, derivative, or vicarious liabilities of any kind or character for any claims, including, but not limited to, under any theory of successor or transferee liability, de facto merger or continuity . . . and products . . . liability, whether known or unknown as of the Closing, now existing or hereafter arising, asserted or unasserted, fixed or contingent, liquidated or unliquidated.* [Emphasis added.]

The State's claims did not arise prior to the Closing Date of the 363 Transaction, as the conduct of New GM about which the State complains had not yet occurred. Nor do the claims "relate[] to the *production* of vehicles prior to the Closing Date;" the State does not seek to hold New GM liable for the "production" of any vehicles prior to the Sale date, but rather for its own post-Sale misconduct. Finally, the State's claims were never "assertable against Old GM," as they are based on the conduct of New GM and did not arise until *after* Old GM ceased to exist.

Paragraph 46 cannot be read to bar the State's claims.

New GM also claims immunity from some or all of the State's claims based on the injunction in the Sale Order, but that injunction cannot be read to bar the State's claims. Under the injunction:

[A]ll persons and entities ... holding liens, claims, encumbrances, and other *interests of any kind or nature whatsoever, including rights or claims based on any successor or transferee liability, against [Old GM] or the Purchased Assets* (whether legal or equitable, secured or unsecured, matured or unmatured, contingent or noncontingent, senior or subordinated), *arising under or in any way relating to, [Old GM], the Purchased Assets, the operation of the Purchased Assets prior to the Closing . . . are forever barred, estopped, and permanently enjoined . . . from asserting against [New GM] . . . such persons' or entities' liens, claims, encumbrances, and other interests, including rights or claims based on any successor or transferee liability.*

Sale Order, ¶ 8 (emphasis added).

Once again, the State does not assert any claims based on successor or transferee liability, and its legal claims neither "arise under" nor are "related to" the conduct of Old GM. Once again, while the Complaint contains factual allegations pre-dating the existence of Old GM, the State's legal claims arise solely from New GM's own post-Sale misconduct. The injunction

cannot be read as providing New GM with immunity for its future misconduct, and has no application to the State's claims.

B. The Bankruptcy Court did not have jurisdiction to provide New GM with immunity for its own post-Sale violations of its independent legal obligations.

If the Sale Order had purported to enjoin claims against New GM for its own post-Sale conduct, such an injunction would extend beyond the jurisdiction of the bankruptcy court. Subject matter jurisdiction in a bankruptcy proceeding over third-party claims (such as the non-derivative claims of the State) can extend only to actions affecting the *res* of the bankruptcy estate. *In re Johns-Manville Corp.*, 517 F.3d 52, 66-68 (2d Cir. 2008), *rev'd on other grounds sub nom., Travelers Indem. Co. v. Bailey*, 557 U.S. 137 (2009) (holding that, despite a "common nucleus of operative facts involving" the debtor and the insurer, bankruptcy order enjoining actions unrelated to the *res* of the estate are outside the scope of the bankruptcy court's injunction power). The Sale Order cannot properly bar the *California* action.

While a bankruptcy court assuredly has jurisdiction to interpret and enforce its own 363 transaction orders, that ancillary jurisdiction exists only to the extent that the court has the jurisdiction to enter the 363 transaction order itself. *See Zerand-Bernal Grp. v. Cox*, 23 F.3d 159, 164 (7th Cir. 1994) (affirming the bankruptcy court's holding that it "lacked jurisdiction" to enjoin a post-363 transaction claim against a non-debtor: "[T]he fact that the bankruptcy court, in the order approving the bankruptcy sale and later in the plan of reorganization, purported expressly to assume jurisdiction ... could not confer jurisdiction. A court cannot write its own jurisdictional ticket."); *see also In re Johns-Manville Corp.*, 517 F.3d at 65 n.22 ("The ancillary jurisdiction courts possess to enforce their own orders 'is itself limited by the jurisdictional limits of the order sought to be enforced.'").

This Court did not have subject matter jurisdiction to protect the non-debtor New GM by limiting the right of the State to bring suit against New GM for New GM's own post-Sale misconduct in breach of New GM's own independent legal duties. Subject matter jurisdiction of bankruptcy courts is limited to "civil proceedings arising under Title 11, or arising in or related to cases under Title 11." 28 U.S.C. § 1334(b). Because the State's claims are based solely on the non-debtor New GM's post-sale conduct, the claims cannot be said to "arise in" or "under" Title 11. *See Zerand-Bernal Grp.*, 23 F.3d at 162 ("arising under" jurisdiction "is limited to questions that arise during the bankruptcy proceeding and concern the administration of the bankrupt estate, such as whether to discharge a debtor"). And the State's claims are not "related to" Title 11, since the outcome of the *California* action can have no conceivable effect on the bankrupt estate. *See In re Cuyahoga Equip. Corp.*, 980 F.2d 110, 114 (2d Cir. 1992); *see also In re Quigley Co., Inc.*, 676 F.3d 45, 61-62 (2d Cir. 2012) (bankruptcy court lacks jurisdiction to enjoin a claim against a third party where such claim would not have an effect on the *res* of the bankruptcy estate), *cert. denied*, 133 S. Ct. 2849 (2013). *See generally In re Wood*, 825 F.2d 90, 93 (5th Cir. 1987) ("For the purpose of determining whether a particular matter falls within bankruptcy jurisdiction, it is not necessary to distinguish between proceedings 'arising under', 'arising in a case under', or 'related to a case under', title 11.... [I]t is necessary only to determine whether a matter is at least 'related to' the bankruptcy.").

This Court should reject any argument that New GM should get immunity for its own post-Sale misconduct because immunity for the non-debtor increases the value of the estate. That a broad injunction against future claims against a purchaser might result in a buyer paying a higher price for assets in a 363 transaction is pure speculation, and in any event cannot confer

jurisdiction over future claims against the purchaser arising from its independent misconduct. *See Zerand-Bernal Grp.*, 23 F.3d at 164 (rejecting the argument that bankruptcy courts may immunize a purchaser from state or federal law in the interests of increasing the value of a debtor's assets). As the *Zerand-Bernal Grp.* court reasoned, the argument that "the price received in a bankruptcy sale will be lower if a court is free to disregard a condition in the sale agreement enjoining claims against the purchaser based on the seller's misconduct" should be rejected because it "proves too much":

It implies, what no one believes, that by virtue of the arising-under jurisdiction a bankruptcy court enjoys a blanket power to enjoin all future lawsuits against a buyer at a bankruptcy sale in order to maximize the sale price; more, that the court could in effect immunize such buyers from all state and federal laws that might reduce the value of the assets bought from the bankrupt[.]^[14]

There is no sound reason to encourage non-debtors to pay a purchase price in a 363 transaction that reflects a belief that they are forever immunized from liability for breaches of their *own* independent legal duties.

Thus, as the Second Circuit reiterated in *In re Johns-Manville Corp.*, 600 F.3d 135, 153 (2d Cir. 2010), bankruptcy courts do not have jurisdiction to enjoin "claims against non-debtor third parties" where those claims are based on the non-derivative misconduct of the non-debtor and the claims do not impact the bankruptcy estate. *See also, e.g., In re 1031 Tax Grp., LLC*, 2011 U.S. Dist. LEXIS 33755, at *7 (S.D.N.Y. Mar. 29, 2011) ("federal courts are without jurisdiction to enjoin actions against third-parties not in bankruptcy when those actions are premised upon an 'independent legal duty'"). Here, again, the State's law enforcement claims

¹⁴ *Zerand-Bernal Grp.*, 23 F.3d at 163 (citation omitted).

are based on New GM's fraudulent concealment of the scores of defects plaguing GM-branded vehicles; New GM's culture, which systematically devalued safety; and New GM's misrepresentations concerning the safety and reliability of GM-branded vehicles—all in violation of New GM's independent legal duties. A Bankruptcy Court simply does not have jurisdiction to enjoin such claims.

Accordingly, to the extent New GM claims that the Sale Order bars the claims in the *California* Amended Complaint, New GM asks this Court to exercise jurisdiction that it does not have.

C. The fact that the *California* Complaint contains factual allegations about Old GM does not mean that the legal claims in the Complaint are based on the conduct, cars or parts of Old GM.

1. The Sale Order enjoins legal “claims,” *not* factual allegations.

New GM has advanced the facile argument that any factual allegations concerning Old GM and events that occurred prior to the bankruptcy automatically are improper under the Sale Order. But this Court has at least implicitly rejected that argument by holding that the Economic Loss Plaintiffs can assert “claims involving Old GM vehicles and parts so long as they were basing their claims *solely on New GM conduct*, and not based on any kind of successor liability or any other act by Old GM.” *In re Motors Liquidation Co.*, 2015 Bankr. LEXIS 1296, at *22. It is hard to envision how such a legal claim could be pled without at least mentioning that the vehicle at issues was manufactured by Old GM. It simply cannot be that the mere mention of Old GM is improper.

Indeed, the Sale Order and Sale Agreement speak of legal “claims” being enjoined, *not* factual allegations. *See supra* at 9-10 (discussing relevant provisions of Sale Order and Sale Agreement). So it is not enough for New GM to simply point to the mention of Old GM (or pre-

Sale events) in the Complaint. Rather, New GM must explain how it is that the State's assertion of law enforcement claims against New GM for its own alleged violations of California law are somehow claims based on the conduct of Old GM. Because New GM has not and cannot do so, the mention of Old GM cars and past events cannot be said to run afoul of the Sale Order or the Sale Agreement.

2. The Complaint's factual allegations concerning pre-bankruptcy events are proper, since (a) New GM has knowledge of pre-bankruptcy information because the same personnel worked at Old GM; and (b) pre-bankruptcy events provide context for New GM's alleged misconduct.

As New GM ignores in challenging the propriety of the *California* action under the Sale Order, the law in California and elsewhere broadly imputes an employee's knowledge to its corporate employer. Significantly, each of the 24 Old GM employees that this Court found to be aware of the Ignition Switch Defect remained at New GM because New GM chose to keep them. As there is no reason to suppose those employees lost their knowledge of the defects on the day Old GM became New GM, their knowledge is imputed to New GM, as is the knowledge of all other New GM employees acting within the scope of their employment. To impute the knowledge of those employees to New GM is not a successor liability claim. If New GM hadn't elected to retain Old GM's employees, the knowledge of those employees would not be imputed to New GM. And if New GM or those employees had acted appropriately upon their hiring by New GM to address (rather than conceal) the known problems, New GM would not have liability.

New GM's knowledge of the Ignition Switch Defect and a host of other defects is, of course, highly relevant to the State's claims against New GM. Moreover, because of New GM's continuing obligations under the Safety Act, the Company was under a duty to (i) continue to

monitor all GM vehicles that were on the road, and (ii) maintain the many records it was required to generate in connection with actual or potential safety issues. Because of this, the actual number of New GM personnel with knowledge of the defects and safety issues in Old GM vehicles is far greater than the 24 found by this Court. The State's claims against New GM are properly premised, in part, on the knowledge of the dozens of personnel that New GM employed who were aware of the defects and safety issues in Old GM vehicles. That fact accounts for nearly all the allegations in the *California* Complaint that concern events that pre-date the existence of New GM. The few remaining allegations concerning pre-bankruptcy facts are in the Complaint to provide context. None of those allegations can possibly be used to hold New GM liable for the actions of Old GM.

a. An employee's knowledge of facts learned in the scope of her employment is broadly imputed to the corporate employer.

Knowledge of the ignition switch defects and other pre-bankruptcy defects was wide-reaching and extensive within Old GM—and therefore New GM—including among Old GM's in-house counsel, management, and lead design engineers (most or all of whom stayed on at New GM). Under California agency principles, the knowledge of these employees and counsel is imputed to Old GM because knowledge acquired by an agent in the scope of her employment is imputed to the principal. That is especially clear here given that the Old GM employees with knowledge of the defects were performing the car manufacturer's obligations under the Safety Act. *See infra* at 20-22.

According to Cal. Civ. Code § 232, "As against a principal, both principal and agent are deemed to have notice of whatever either has notice of, and ought, in good faith and the exercise of ordinary care and diligence, to communicate to the other." *See, e.g., Mack v. Dep't of*

Alcoholic Beverage Control, 178 Cal. App. 2d 149 (1960) (knowledge of employee acquired during transaction of his employer's business is imputed to the employer with same effect as if the employer actually participated in transaction). The law on these issues is substantially the same across the law of Michigan (where New GM is based), Delaware (where it was incorporated), and New York (most frequently analyzed before the Bankruptcy Court), and therefore the law applicable in all of these potentially relevant jurisdictions is also discussed herein.¹⁵

As discussed *infra* at 19-20, knowledge of the Ignition Switch Defect was widespread and communicated throughout New GM. But even if that were not the case, employees' knowledge acquired within the scope of their employment is imputed to the corporation even if it is never communicated. Indeed, since an agent generally has a duty to disclose matters to his or her principal, the actual knowledge of the agent is imputed to the principal. *See, e.g., O'Riordan v. Federal Kemper Life Assurance Co.*, 114 P.3d 753 (Cal. 2005); *see also Kirschner v. KPMG LLP*, 938 N.E.2d 941, 950-51 (N.Y. 2010) (applying legal presumption that agents communicate information to principals).¹⁶ “The fact that the knowledge acquired by the agent was not

¹⁵ *N.Y. Marine & Gen. Ins. Co. v. Tradeline L.L.C.*, 266 F.3d 112, 122 (2d Cir. 2001); *Allard v. Arthur Andersen & Co. (USA)*, 924 F. Supp. 488, 494-95 (S.D.N.Y. 1996) (applying New York and Michigan law to impute the knowledge and conduct of corporate officials acting within the scope of their employment); *see also Link v. Wabash R.R. Co.*, 370 U.S. 626, 633-34 (1962) (“[E]ach party is deemed bound by the acts of his lawyer-agent and is considered to have notice of all facts, notice of which can be charged upon the attorney.”) (citation omitted), *reh'g denied*, 371 U.S. 873 (1962); *Veal v. Geraci*, 23 F.3d 722, 725 (2d Cir. 1994) (“[U]nder traditional principles of agency the attorney's knowledge must be imputed to [the client].”).

¹⁶ *See also* 3 William Meade Fletcher, *Fletcher Cyclopedia of the Law of Private Corporations* § 790 (1994) (noting that it has been widely held that a corporation is charged with imputed knowledge “even though the officer or agent does not in fact communicate the knowledge to the corporation”); Restatement (Third) of Agency § 5.03 cmt. b (“A principal may not rebut imputation of an agent's notice of a fact by establishing that the agent kept silent.”).

actually communicated to the principal ... does not prevent operation of the rule.” *O’Riordan*, 114 P.3d at 757 (quoting *Columbia Pictures Corp. v. DeToth*, 87 Cal. App. 2d 620, 630 (1948)). And the principle is “charged with knowledge which his agent acquires before the commencement of the relationship when that knowledge can reasonably be said to be present in the mind of the agent while acting for the principle.” *Columbia Pictures Corp. v. DeToth*, 87 Cal. App. 2d at 631.

b. The knowledge of GM personnel who worked at both Old and New GM is properly imputed to New GM.

Here, many GM attorneys, managers, lead engineers, and other personnel who worked at both Old and New GM acquired knowledge of the Ignition Switch Defect while performing their duties, using systems and procedures that Old and then New GM maintained to comply with Safety Act obligations. As this Court found, “at least 24 Old GM personnel ..., including engineers, senior managers, and attorneys, were informed or otherwise aware of the Ignition Switch Defect prior to the Sale motion,” and, based on that knowledge, Old GM should have conducted a recall prior to the 2009 bankruptcy. *See In re Motors Liquidation Co.*, 2015 Bankr. LEXIS 1296, at *54. In reaching this conclusion, the Court effectively rejected New GM’s arguments that only a “limited” number of Old GM personnel were aware of the ignition switch defect, or that only Old GM’s low- or mid-level employees knew of the defect.¹⁷

¹⁷ In any event, an employee’s position within the corporate hierarchy is irrelevant or purposes of imputation, so long as she obtained the knowledge while acting within the scope of her authority. *See Kellogg Brown & Root Servs., Inc. v. United States*, 728 F.3d 1348, 1369-70 (Fed. Cir. 2013) (reversing holding that employees were insufficiently senior in the corporate hierarchy for their actions and knowledge to be imputed), *cert. denied*, 135 S. Ct. 167 (2014); *Woods v. Maytag Co.*, 807 F. Supp. 2d 112, 126-27 (E.D.N.Y. 2011) (imputing authorized Maytag repairman’s knowledge of oven’s defects and of attempts to conceal the defects to Maytag, where repairmen obtained this knowledge in the course of repairing Maytag ovens).

Because almost all of the Old GM employees involved in the ignition switch debacle and the other safety issues involved in the State's case stayed on at New GM, and generally held the same positions at both companies, New GM can be charged with its employees' knowledge of pre-bankruptcy information from day one of its existence. Indeed, as this Court noted, *all* of the 24 employees with knowledge of the Ignition Switch Defect transferred from Old GM to New GM. *In re Motors Liquidation Co.*, 2015 LEXIS 1296, at *54. And New GM does not dispute that Old GM personnel knew enough as of the time of Old GM's June 2009 bankruptcy filing for Old GM then to have been obligated to conduct a recall of the affected vehicles under the Safety Act. *Id.* at *54-55.

Under the logic of this Court's ruling and under established California law, the pre-bankruptcy knowledge of employees who worked first at Old GM and then at New GM is imputed to New GM. This Court based its conclusion in part on the fact that Old GM—and later

And a corporation is charged with the collective knowledge of all of its employees even if no single individual possessed all of the relevant knowledge or was individually responsible for acting on it. *See Copeman Labs. Co. v. Gen. Motors Corp.*, 36 F. Supp. 755, 762 (E.D. Mich. 1941) (“The knowledge possessed by a corporation about a particular thing is the sum total of all the knowledge which its officers and agents, who are authorized and charged with the doing of the particular thing acquire, while acting under and within the scope of their authority.”); *Albert v. Alex. Brown Mgmt. Servs., Inc.*, 2005 Del. Ch. LEXIS 133, at *39 (Del. Ch. Aug. 26, 2005) (“Delaware law states the knowledge of an agent acquired while acting within the scope of his or her authority is imputed to the principal.”); Restatement (Third) of Agency § 5.03 cmt. c. (“Organizations are treated as possessing the collective knowledge of their employees and other agents, when that knowledge is material to the agents' duties, however the organization may have configured itself or its internal practices for transmission of information.”). The Michigan Supreme Court applied this “imputed collective knowledge” standard in *Upjohn Co. v. New Hampshire Ins. Co.*, 476 N.W.2d 392 (Mich. 1991), *reh'g denied*, 503 N.W.2d 442 (Mich. 1991), where it considered an insurance claim for damages from the continuous leaking of toxic materials from a corroded underground storage tank, which was regularly monitored by the plaintiff corporation's employees. 476 N.W.2d at 395-96. The court held that information available to the corporation, “through its various employees and through its records,” permitted a finding that the corporation had expected the leak, and *refused* to ignore knowledge obtained by individual employees, even if they could not comprehend its full import. *Id.* at 400-01.

New GM—engineers, senior managers, and attorneys who knew of the Ignition Switch Defect were part of “a group large in size and relatively senior in position.” *In re Motors Liquidation Co.*, 2015 Bankr. LEXIS 1296, at *111 n.154. In this Court’s opinion, “a group of this size is sufficient for the Court to conclude that a ‘critical mass’ of Old GM personnel had the requisite knowledge—*i.e.*, were in a position to influence the noticing process.” *Id.* (citing *cf. Weisfelner v. Fund 1 (In re Lyondell Chemical Co.)*, 503 B.R. 348, 389 (Bankr. S.D.N.Y. 2014) (Gerber, J.)). Necessarily, given the presence of this same “critical mass” at New GM, New GM had knowledge of the Ignition Switch Defect from day one after the 363 Transaction. The same conclusion would follow if New GM had cleaned house and hired a group of engineers, senior managers, and attorneys from a rival car company, and that group happened to be aware (or became aware) of the Ignition Switch Defect in Old GM vehicles. The fact that the key employees previously worked at Old GM cannot immunize New GM from the consequences of its failure to act appropriately on the information its employees possessed.¹⁸

The State’s argument on imputation is bolstered by the fact that New GM had ongoing obligations under the Safety Act to monitor GM-branded vehicles on the road, to make quarterly reports to NHTSA, and to maintain all relevant records for five years. The Safety Act and related regulations require the quarterly submission to NHTSA of “early warning reporting” data, including incidents involving death or injury, claims relating to property damage received by the manufacturer, warranty claims paid by the manufacturer, consumer complaints, and field

¹⁸ The same is true with respect to the other pre-bankruptcy defects discussed in the Amended Complaint. But for the purposes of this pleading the State notes that if it cannot prove New GM’s awareness (or imputed awareness) of one or more of the defects, then those defects will fall out of the case. ***In no circumstances would (or could) the State prove that New GM violated the California UCL or FAL based on the conduct of Old GM.***

reports prepared by the manufacturer's employees or representatives concerning failure, malfunction, lack of durability, or other performance issues. 49 U.S.C. § 30166(m)(3); 49 C.F.R. § 579.21. Manufacturers must retain for five years all underlying records on which the early warning reports are based and all records containing information on malfunctions that may be related to motor vehicle safety. 49 C.F.R. §§ 576.5-576.6.

The Safety Act further requires *immediate* action when a manufacturer *determines or should determine that a safety defect exists*. *United States v. Gen. Motors Corp.*, 574 F. Supp. 1047, 1050 (D.D.C. 1983). Within five days of learning about a safety defect, a manufacturer *must* notify NHTSA and provide a description of the vehicles potentially containing the defect, and “a summary of all warranty claims, field or service reports, and other information” that formed the basis of the determination that the defect was safety related. 49 U.S.C. § 30118(c); 49 C.F.R. § 573.6(b)-(c). Then, “within a reasonable time”¹⁹ after deciding that a safety issue exists, the manufacturer *must* notify the owners of the defective vehicles. 49 C.F.R. §§ 577.5(a), 577.7(a), 49 U.S.C. § 30165(a)(1).

Old and New GM used several processes to identify safety issues, including the TREAD database and Problem Resolution Tracking System (“PRTS”). *See* Valukas Report at 282-313 (available at <http://www.nhtsa.gov/staticfiles/nvs/pdf/Valukas-report-on-gm-redacted.pdf>). The TREAD database, used to store the data required for the quarterly NHTSA early warning reports, was the principal database used by Old and New GM to track incidents related to GM-branded vehicles. *Id.* at 306. The database included information from (i) customer service requests; (ii) repair orders from dealers; (iii) internal and external surveys; (iv) field reports from employees

¹⁹ 49 C.F.R. § 577.7(a) was updated, effective October 11, 2013, to replace “within a reasonable time” to “no later than 60 days” from the filing of the NHTSA notification.

who bought GM-branded vehicles and from Captured Test Fleet reports;²⁰ (v) complaints from the OnStar call center; and (vi) a database maintained by GM legal staff to track data concerning complaints filed in court. *Id.* A TREAD reporting team would conduct monthly database searches and prepare scatter graphs to identify spikes in the number of accidents or complaints related to various GM-branded vehicles. *Id.* at 307. Because the same employees carried out the TREAD Act obligations at Old and New GM, they not only retained the knowledge acquired during the days of Old GM—they were in fact required to do so.

Once again, the pre-bankruptcy allegations in the Amended Complaint concern the ignition switch defects and other defects, and are in the Complaint because the Old GM personnel with knowledge of the defects stayed on at New GM; that knowledge is imputed to New GM as a matter of law.

c. The remaining allegations concerning Old GM and pre-bankruptcy events provide context for the post-bankruptcy claims arising solely from the independent actions of New GM.

The remaining allegations concerning Old GM provide context for the *California* action—but none seek to hold New GM liable for Old GM’s conduct. So, for example, the Complaint states:

This action seeks to hold [New] GM liable only for its *own* acts and omissions *after* the July 10, 2009 effective date of the Sale Order and Purchase Agreement through which [New] GM acquired virtually all of the assets and certain liabilities of Old GM.

¶ 3. By pointing out the origins of New GM, the State is not attempting to hold New GM responsible for the actions of Old GM.

²⁰ Captured Test Fleet reports were submitted by employees who were given vehicles and asked to document any problems that arose while driving. Valukas Report at 300. The Quality Group would review, summarize, and group these reports into categories. *Id.*

To take just one more example, in its discussion of how New GM's focus on cost-cutting negatively impacted the safety of GM-branded vehicles, the State alleges that "From the date of its inception in 2009, [the Company's TREAD database] has been the principal database used by [New] GM to track [safety] incidents related to its vehicles." ¶ 188. The New GM employees charged with monitoring the TREAD database were known as the "TREAD Reporting team." ¶¶ 187, 189. The State further alleges that New GM "starv[ed] the TREAD Reporting team of the resources it needed to identify potential safety issues" and thereby "helped to ensure that safety issues would not come to light." ¶ 191. By way of context, the Complaint explains that—while at one point pre-bankruptcy "the TREAD Reporting team had eight employees who would conduct monthly searches and prepare scatter graphs to identify spikes in accidents or complaints with respect to various GM-branded vehicles," New GM used only three TREAD Reporting team employees for its pared-down searches. ¶¶ 189-190. Once again, there is no reading of these allegations under which New GM could be held liable for the conduct of Old GM.

IV. CONCLUSION

For the reasons stated above, the *California* action should be allowed to proceed forthwith in California State court.

Dated: June 16, 2015

/s/ Steve W. Berman
Steve W. Berman (*pro hac vice*)
HAGENS BERMAN SOBOL SHAPIRO LLP
1918 Eighth Avenue, Suite 3300
Seattle, Washington 98101
Tel.: 206-623-7292
steve@hbsslaw.com

ROBINSON CALCAGNIE ROBINSON
SHAPIRO DAVIS, INC.

Mark P. Robinson, Jr. (*pro hac vice*)

19 Corporate Plaza Drive

Newport Beach, CA 92660

Tel.: 949-720-1288

mrobinson@rcrlaw.net

*Counsel for Plaintiff, The People of
the State of California*

CERTIFICATE OF SERVICE

I hereby certify that on June 16, 2015, I caused the People of the State of California's
"No Strike" Pleading to be filed and served upon all parties receiving notice via the Court's ECF
system.

Dated: June 16, 2015

/s/ Steve W. Berman
Steve W. Berman (*pro hac vice*)
HAGENS BERMAN SOBOL SHAPIRO LLP
1918 Eighth Avenue, Suite 3300
Seattle, Washington 98101
Tel.: 206-623-7292
steve@hbsslaw.com

Exhibit A

ELECTRONICALLY FILED
Superior Court of California,
County of Orange
07/01/2014 at 12:58:00 PM
Clerk of the Superior Court
By Irma Cook, Deputy Clerk

1 ORANGE COUNTY DISTRICT ATTORNEY
2 Tony Rackauckas, District Attorney
3 Joseph D'Agostino, Senior Assistant District Attorney
4 401 Civil Center Drive
5 Santa Ana, CA 92701-4575
6 Tel: (714) 834-3600
7 Fax: (714) 648-3636

8 – *In association with* –

9 Mark P. Robinson, Jr., SBN 05442
10 Kevin F. Calcagnie, SBN 108994
11 Scot D. Wilson, SBN 223367
12 ROBINSON CALCAGNIE ROBINSON
13 SHAPIRO DAVIS, INC.
14 19 Corporate Plaza Drive
15 Newport Beach, CA 92660
16 Tel: (949) 720-1288
17 Fax: (949) 720-1292
18 mrobinson@rcrlaw.net

Steve W. Berman (*Pro Hac Vice* Pending)
Andrew Volk (*Pro Hac Vice* Pending)
HAGENS BERMAN SOBOL
SHAPIRO LLP
1918 Eighth Avenue, Suite 3300
Seattle, WA 98101
Tel: (206) 623-7292
Fax: (206) 623-0594
steve@hbsslaw.com

19 *Attorneys for Plaintiff*
20 **THE PEOPLE OF THE STATE OF CALIFORNIA**

21 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**

22 **IN AND FOR THE COUNTY OF ORANGE – COMPLEX LITIGATION DIVISION**

23 THE PEOPLE OF THE STATE OF
24 CALIFORNIA, acting by and through Orange
25 County District Attorney Tony Rackauckas,

26 Plaintiff,

27 v.

28 GENERAL MOTORS LLC

Defendant.

Case No. 30-2014-00731038-CU-BT-CXC

**FIRST AMENDED COMPLAINT FOR
VIOLATIONS OF CALIFORNIA
UNFAIR COMPETITION LAW AND
FALSE ADVERTISING LAW**

TABLE OF CONTENTS

Page

1

2

3 I. INTRODUCTION 1

4 II. PLAINTIFF’S AUTHORITY 5

5 III. DEFENDANT 6

6 IV. JURISDICTION AND VENUE..... 6

7 V. FACTUAL BACKGROUND 6

8 A. There Are Serious Safety Defects in Millions of GM Vehicles Across Many
Models and Years, and, Until Recently, GM Concealed them from Consumers..... 6

9 1. The ignition switch defects..... 8

10 2. The power steering defect. 16

11 3. Airbag defect. 17

12 4. The brake light defect..... 20

13 5. Shift cable defect 23

14 6. Safety belt defect..... 25

15 7. Ignition lock cylinder defect..... 26

16 8. The Camaro key-design defect..... 27

17 9. The ignition key defect..... 27

18 10. At least 26 other defects were revealed by GM in recalls during the
19 first half of 2014. 27

20 B. GM Valued Cost-Cutting Over Safety, and Actively Encouraged Employees
to Conceal Safety Issues..... 33

21 C. The Ignition Switch Defects Have Harmed Consumers in Orange County
22 and the State 38

23 D. Given GM’s Knowledge of the Defects and the Risk to Public Safety, it
Was Obligated to Promptly Disclose and Remedy the Defects. 38

24 E. GM’s Misrepresentations and Deceptive, False, Untrue and Misleading
25 Advertising, Marketing and Public Statements 42

26 VI. CAUSES OF ACTION..... 52

27 FIRST CAUSE OF ACTION: VIOLATION OF BUSINESS AND PROFESSIONS
CODE SECTION 17200 52

28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

SECOND CAUSE OF ACTION: VIOLATION OF BUSINESS AND PROFESSIONS
CODE SECTION 1750055

PRAYER FOR RELIEF57

1 Plaintiff, the People of the State of California (“Plaintiff” or “the People”), by and through
2 Tony Rackauckas, District Attorney for the County of Orange (“District Attorney”), alleges the
3 following, on information and belief:

4 **I. INTRODUCTION**

5 1. This is a law enforcement action which primarily seeks to protect the public safety
6 and welfare, brought by a governmental unit in the exercise of and to enforce its police power. *City*
7 *& Cnty. of San Francisco v. PG & E Corp.*, 433 F.3d 1115, 1124-1125 (9th Cir. 2006). The action
8 is brought by Tony Rackauckas, District Attorney of the County of Orange, under California
9 Business and Professions Code sections 17200 *et seq.*, the Unfair Competition Law (“UCL”), and
10 17500 *et seq.*, the False Advertising Law (“FAL”), and involves sales, leases, or other wrongful
11 conduct or injuries occurring in California. The defendant is General Motors LLC (“Defendant” or
12 “GM”), which is based in Detroit, Michigan.

13 2. This case arises from GM’s egregious failure to disclose, and the affirmative
14 concealment of, at least 35 separate known defects in vehicles sold by GM, and by its predecessor,
15 “Old GM” (collectively, “GM-branded vehicles”). By concealing the existence of the many known
16 defects plaguing many models and years of GM-branded vehicles and the fact that GM values cost-
17 cutting over safety, and concurrently marketing the GM brand as “safe” and “reliable,” GM enticed
18 vehicle purchasers to buy GM vehicles under false pretenses.

19 3. This action seeks to hold GM liable only for its *own* acts and omissions *after* the
20 July 10, 2009 effective date of the Sale Order and Purchase Agreement through which GM
21 acquired virtually all of the assets and certain liabilities of Old GM.

22 4. A vehicle made by a reputable manufacturer of safe and reliable vehicles is worth
23 more than an otherwise similar vehicle made by a disreputable manufacturer that is known to
24 devalue safety and to conceal serious defects from consumers and regulators. GM Vehicle Safety
25 Chief Jeff Boyer has recently stated that: “Nothing is more important than the safety of our
26 customers in the vehicles they drive.” Yet GM failed to live up to this commitment, instead
27 choosing to conceal at least 35 serious defects in over 17 million GM-branded vehicles sold in the
28 United States (collectively, the “Defective Vehicles”).

1 5. The systematic concealment of known defects was deliberate, as GM followed a
2 consistent pattern of endless “investigation” and delay each time it became aware of a given defect.
3 In fact, recently revealed documents show that GM valued cost-cutting over safety, trained its
4 personnel to *never* use the words “defect,” “stall,” or other words suggesting that any GM-branded
5 vehicles are defective, routinely chose the cheapest part supplier without regard to safety, and
6 discouraged employees from acting to address safety issues.

7 6. Under the Transportation Recall Enhancement, Accountability and Documentation
8 Act (“TREAD Act”)¹ and its accompanying regulations, when a manufacturer learns that a vehicle
9 contains a safety defect, the manufacturer must promptly disclose the defect.² If it is determined
10 that the vehicle is defective, the manufacturer may be required to notify vehicle owners,
11 purchasers, and dealers of the defect, and may be required to remedy the defect.³

12 7. GM *explicitly assumed* the responsibilities to report safety defects with respect to
13 all GM-branded vehicles as required by the TREAD Act. GM also had the same duty under
14 California law.

15 8. When a manufacturer with TREAD Act responsibilities is aware of myriad safety
16 defects and fails to disclose them as GM has done, that manufacturer’s vehicles are not safe. And
17 when that manufacturer markets and sells its new vehicles by touting that its vehicles are “safe,” as
18 GM has also done, that manufacturer is engaging in deception.

19 9. GM has recently been forced to disclose that it had been concealing a large number
20 of known safety defects in GM-branded vehicles ever since its inception in 2009, and that other
21 defects arose on its watch due in large measure to GM’s focus on cost-cutting over safety, its
22 discouragement of raising safety issues and its training of employees to avoid using language such
23 as “stalls,” “defect” or “safety issue” in order to avoid attracting the attention of regulators. As a
24 result, GM has been forced to recall over 17 million vehicles in some 40 recalls covering 35
25 separate defects during the first five and a half months of this year –20 times more than during the
26

27 ¹ 49 U.S.C. §§ 30101-30170.

28 ² 49 U.S.C. § 30118(c)(1) & (2).

³ 49 U.S.C. § 30118(b)(2)(A) & (B).

1 same period in 2013. The cumulative negative effect on the value of the vehicles sold by GM has
2 been both foreseeable and significant.

3 10. The highest-profile defect concealed by GM concerns the ignition switches in more
4 than 1.5 million vehicles sold by GM's predecessor (the "ignition switch defect"). The ignition
5 switch defect can cause the affected vehicles' ignition switches to inadvertently move from the
6 "run" position to the "accessory" or "off" position during ordinary driving conditions, resulting in a
7 loss of power, vehicle speed control, and braking, as well as a failure of the vehicle's airbags to
8 deploy. GM continued to use defective ignition switches in "repairs" of vehicles it sold after July
9 10, 2009.

10 11. For the past five years, GM received reports of crashes and injuries that put GM on
11 notice of the serious safety issues presented by its ignition switch system. GM was aware of the
12 ignition switch defects (and many other serious defects in numerous models of GM-branded
13 vehicles) *from the very date of its inception on July 10, 2009.*

14 12. Yet, despite the dangerous nature of the ignition switch defects and the effects on
15 critical safety systems, GM concealed the existence of the defects and failed to remedy the problem
16 from the date of its inception until February of 2014. In February and March of 2014, GM issued
17 three recalls for a combined total of 2.19 million vehicles with the ignition switch defects.

18 13. On May 16, 2014, GM entered a Consent Order with NHTSA in which it admitted
19 that it violated the TREAD Act by not disclosing the ignition switch defect, and agreed to pay the
20 maximum available civil penalties for its violations.

21 14. Unfortunately for all owners of vehicles sold by GM, the ignition switch defect was
22 only one of a seemingly never-ending parade of recalls in the first half of 2014 – many concerning
23 safety defects that had been long known to GM.

24 15. Between 2003 and 2010, over 1.3 million GM-branded vehicles in the United States
25 were sold with a safety defect that causes the vehicle's electric power steering ("EPS") to suddenly
26 fail during ordinary driving conditions and revert back to manual steering, requiring greater effort
27 by the driver to steer the vehicle and increasing the risk of collisions and injuries (the "power
28 steering defect").

1 16. As with the ignition switch defect, GM was aware of the power steering defect from
2 the date of its inception, and concealed the defect for years.

3 17. From 2007 until at least 2013, nearly 1.2 million GM-branded vehicles were sold in
4 the United States with defective wiring harnesses. Increased resistance in the wiring harnesses of
5 driver and passenger seat-mounted, side-impact air bag (“SIAB”) in the affected vehicles may
6 cause the SIABs, front center airbags, and seat belt pretensioners to not deploy in a crash (the
7 “airbag defect”). The vehicles’ failure to deploy airbags and pretensioners in a crash increases the
8 risk of injury and death to the drivers and front-seat passengers.

9 18. Once again, GM knew of the dangerous airbag defect from the date of its inception
10 on July 10, 2009, but chose instead to conceal the defect, and marketed its vehicles as “safe” and
11 “reliable.”

12 19. To take just one more example, between 2003 and 2012, 2.4 million GM-branded
13 vehicles in the United States were sold with a wiring harness defect that could cause brake lamps to
14 fail to illuminate when the brakes are applied or cause them to illuminate when the brakes are not
15 engaged (the “brake light defect”). The same defect could also disable traction control, electronic
16 stability control, and panic braking assist operations. Though GM received hundreds of complaints
17 and was aware of at least 13 crashes caused by this defect, it waited until May of 2014 before
18 finally ordering a full recall.

19 20. As further detailed in this First Amended Complaint, the ignition switch, power
20 steering, airbag, and brake light defects are just 4 of the 35 separate defects that resulted in 40
21 recalls of GM-branded vehicles in the first five and a half months of 2014, affecting over 17
22 million vehicles. Most or all of these recalls are for safety defects, and many of the defects were
23 apparently known to GM, but concealed for years.

24 21. This case arises from GM’s breach of its obligations and duties, including but not
25 limited to: (i) its concealment of, and failure to disclose that, as a result of a spate of safety defects,
26 over 17 million Defective Vehicles were on the road nationwide – and many hundreds of thousands
27 in California; (ii) its failure to disclose the defects despite its TREAD Act obligations; (iii) its
28 failure to disclose that it devalued safety and systemically encouraged the concealment of known

1 defects; (iv) its continued use of defective ignition switches as replacement parts; (v) its sale of
2 used “GM certified” vehicles that were actually plagued with a variety of known safety defects;
3 and (vi) its repeated and false statements that its vehicles were safe and reliable, and that it stood
4 behind its vehicles after they were purchased.

5 22. From its inception in 2009, GM has known that many defects exist in millions of
6 GM-branded vehicles sold in the United States. But, to protect its profits and to avoid remediation
7 costs and a public relations nightmare, GM concealed the defects and their sometimes tragic
8 consequences.

9 23. GM violated the TREAD Act by failing to timely inform NHTSA of the myriad
10 safety defects plaguing GM-branded vehicles and allowed the Defective Vehicles to remain on the
11 road. In addition to violating the TREAD Act, GM fraudulently concealed the defects from owners
12 and from purchasers of new and used vehicles sold after July 10, 2009, and even used defective
13 ignition switches as replacement parts. These same acts and omissions also violated California law
14 as detailed below.

15 24. GM’s failure to disclose the many defects, as well as advertising and promotion
16 concerning GM’s record of building “safe” cars of high quality, violated California law.

17 **II. PLAINTIFF’S AUTHORITY**

18 25. Tony Rackauckas, District Attorney of the County of Orange, acting to protect the
19 public as consumers from unlawful, unfair, and fraudulent business practices, brings this action in
20 the public interest in the name of the People of the State of California for violations of the Unfair
21 Competition Law pursuant to California Business and Professions Code Sections 17200, 17204 and
22 17206, and for violations of the False Advertising Law pursuant to California Business and
23 Professions Code Sections 17500, 17535 and 17536. Plaintiff, by this action, seeks to enjoin GM
24 from engaging in the unlawful, unfair, and fraudulent business practices alleged herein, and seeks
25 civil penalties for GM’s violations of the above statutes.

1 **III. DEFENDANT**

2 26. Defendant General Motors LLC (“GM”) is a foreign limited liability company
3 formed under the laws of Delaware with its principal place of business located at 300 Renaissance
4 Center, Detroit, Michigan. GM was incorporated in 2009.

5 27. GM has significant contacts with Orange County, California, and the activities
6 complained of herein occurred, in whole or in part, in Orange County, California.

7 28. At all times mentioned GM was engaged in the business of designing,
8 manufacturing, distributing, marketing, selling, leasing, certifying, and warranting the GM cars
9 that are the subject of this First Amended Complaint, throughout the State of California, including
10 in Orange County, California.

11 **IV. JURISDICTION AND VENUE**

12 29. This Court has jurisdiction over this matter pursuant to the California Constitution,
13 Article XI, section 10 and California Code of Civil Procedure (“CCP”) section 410.10 because GM
14 transacted business and committed the acts complained of herein in California, specifically in the
15 County of Orange. The violations of law alleged herein were committed in Orange County and
16 elsewhere within the State of California.

17 30. Venue is proper in Orange County, California, pursuant to CCP section 395 and
18 because many of the acts complained about occurred in Orange County.

19 **V. FACTUAL BACKGROUND**

20 **A. There Are Serious Safety Defects in Millions of GM Vehicles Across Many Models
21 and Years, and, Until Recently, GM Concealed them from Consumers.**

22 31. In the first five and a half months of 2014, GM announced some 40 recalls affecting
23 over 17 million GM-branded vehicles from model years 2003-2014. The recalls concern 35
24 separate defects. The numbers of recalls and serious safety defects are unprecedented, and can
25 only lead to one conclusion: GM and its predecessor sold a large number of unsafe vehicle models
26 with myriad defects during a long period of time.

27 32. Even more disturbingly, the available evidence shows a common pattern: From its
28 inception in 2009, GM knew about an ever-growing list of serious safety defects in millions of

1 GM-branded vehicles, but concealed them from consumers and regulators in order to boost sales
2 and avoid the cost and publicity of recalls.

3 33. GM inherited from Old GM a company that valued cost-cutting over safety, actively
4 discouraged its personnel from taking a “hard line” on safety issues, avoided using “hot” words
5 like “stall” that might attract the attention of NHTSA and suggest that a recall was required, and
6 trained its employees to avoid the use of words such as “defect” that might flag the existence of a
7 safety issue. GM did nothing to change these practices.

8 34. The Center for Auto Safety recently stated that it has identified 2,004 death and
9 injury reports filed by GM with federal regulators in connection with vehicles that have recently
10 been recalled.⁴ Many of these deaths and injuries would have been avoided had GM complied with
11 its TREAD Act obligations over the past five years.

12 35. The many defects concealed by GM affected key safety systems in GM vehicles,
13 including the ignition, power steering, airbags, brake lights, gear shift systems, and seatbelts.

14 36. The available evidence shows a consistent pattern: GM learned about a particular
15 defect and, often at the prodding of regulatory authorities, “investigated” the defect and decided
16 upon a “root cause.” GM then took minimal action – such as issuing a carefully-worded
17 “Technical Service Bulletin” to its dealers, or even recalling a very small number of affected
18 vehicles. All the while, the true nature and scope of the defects were kept under wraps, vehicles
19 affected by the defects remained on the road, and GM enticed consumers to purchase its vehicles
20 by touting the safety, quality, and reliability of its vehicles, and presenting itself as a manufacturer
21 that stands behind its products.

22 37. The nine defects affecting the greatest number of vehicles are discussed in some
23 detail below, and the remainder are summarized thereafter.

24
25
26
27
28 ⁴ See *Thousands of Accident Reports Filed Involving Recalled GM Cars: Report*, Irvin Jackson
(June 3, 2014).

1 **1. The ignition switch defects.**

2 38. The ignition switch defects can cause the vehicle’s engine and electrical systems to
3 shut off, disabling the power steering and power brakes and causing non-deployment of the
4 vehicle’s airbag and the failure of the vehicle’s seatbelt pretensioners in the event of a crash.

5 39. The ignition switch systems at issue are defective in at least three major respects.
6 The first is that the switches are simply weak; because of a faulty “detent plunger,” the switch can
7 inadvertently move from the “run” to the “accessory” or “off” position.

8 40. The second defect is that, due to the low position of the ignition switch, the driver’s
9 knee can easily bump the key (or the hanging fob below the key), and cause the switch to
10 inadvertently move from the “run” to the “accessory” or “off” position.

11 41. The third defect is that the airbags immediately become inoperable whenever the
12 ignition switch moves from the “run” to the “accessory” position. As NHTSA’s Acting
13 Administrator, David Friedman, recently testified before Congress, NHTSA is not convinced that
14 the non-deployment of the airbags in the recalled vehicles is solely attributable to a mechanical
15 defect involving the ignition switch:

16 And it may be even more complicated than that, actually. And that’s
17 one of the questions that we actually have in our timeliness query to
18 General Motors. It is possible that it’s not simply that the – the
19 power was off, but a much more complicated situation where the
20 very specific action of moving from on to the accessory mode is what
21 didn’t turn off the power, but may have disabled the algorithm.

22 That, to me, frankly, doesn’t make sense. From my perspective, if a
23 vehicle – certainly if a vehicle is moving, the airbag’s algorithm
24 should require those airbags to deploy. Even if the – even if the
25 vehicle is stopped and you turn from ‘on’ to ‘accessory,’ I believe
26 that the airbags should be able to deploy.

27 So this is exactly why we’re asking General Motors this question, to
28 understand is it truly a power issue or is there something embedded
in their [software] algorithm that is causing this, something that
should have been there in their algorithm.⁵

⁵ Congressional Transcript, Testimony of David Friedman, Acting Administrator of NHTSA (Apr. 2, 2014), at 19.

1 42. Vehicles with defective ignition switches are, therefore, unreasonably prone to be
2 involved in accidents, and those accidents are unreasonably likely to result in serious bodily harm
3 or death to the drivers and passengers of the vehicles.

4 43. Alarminglly, GM knew of the deadly ignition switch defects and at least some of
5 their dangerous consequences from the date of its inception on July 10, 2009, but concealed its
6 knowledge from consumers and regulators.

7 44. In part, GM’s knowledge of the ignition switch defects arises from the fact that key
8 personnel with knowledge of the defects remained in their same positions once GM took over from
9 Old GM.

10 45. For example, the Old GM Design Research Engineer who was responsible for the
11 rollout of the defective ignition switch in 2003 was Ray DeGiorgio. Mr. DeGiorgio continued to
12 serve as an engineer at GM until April 2014 when he was suspended as a result of his involvement in
13 the defective ignition switch problem. Later in 2014, in the wake of the GM Report,⁶ Mr. DeGiorgio
14 was fired.

15 46. In 2001, two years *before* vehicles with the defective ignition switches were ever
16 available to consumers, Old GM privately acknowledged in an internal pre-production report for
17 the model/year (“MY”) 2003 Saturn Ion that there were problems with the ignition switch.⁷ Old
18 GM’s own engineers had personally experienced problems with the ignition switch. In a section of
19 the internal report titled “Root Cause Summary,” Old GM engineers identified “two causes of
20 failure,” namely: “[l]ow contact force and low detent plunger force.”⁸ The report also stated that
21 the GM person responsible for the issue was Ray DeGiorgio.⁹

22 47. Mr. DeGiorgio actively concealed the defect, both while working for Old GM *and*
23 while working for GM.

24
25
26 ⁶ References to the “GM Report” are to the “*Report to Board of Directors of General Motors
Company Regarding Ignition Switch Recalls*,” Anton R. Valukas, Jenner & Block (May 29, 2014).

27 ⁷ GM Report/Complaint re “Electrical Concern” opened July 31, 2001, GMHEC000001980-90.

28 ⁸ *Id.* at GMHEC000001986.

⁹ *Id.* at GMHEC000001981, 1986.

1 48. Similarly, Gary Altman was Old GM's program-engineering manager for the
2 Cobalt, which is one of the models with the defective ignition switches and hit the market in MY
3 2005. He remained as an engineer at GM until he was suspended on April 10, 2014, by GM for his
4 role in the ignition switch problem and then fired in the wake of the GM Report.

5 49. On October 29, 2004, Mr. Altman test-drove a Cobalt. While he was driving, his
6 knee bumped the key and the vehicle shut down.

7 50. In response to the Altman incident, Old GM opened an engineering inquiry, known
8 as a "Problem Resolution Tracking System inquiry" ("PRTS"), to investigate the issue. According
9 to the chronology provided to NHTSA by GM in March 2014, engineers pinpointed the problem
10 and were "able to replicate this phenomenon during test drives."

11 51. The PRTS concluded in 2005 that:

12 There are two main reasons that we believe can cause a lower effort
13 in turning the key:

- 14 1. A low torque detent in the ignition switch and
- 15 2. A low position of the lock module in the column.¹⁰

16 52. The 2005 PRTS further demonstrates the knowledge of Ray DeGiorgio (who, like
17 Mr. Altman, worked for Old GM and continued until very recently working for GM), as the
18 PRTS's author states that "[a]fter talking to Ray DeGiorgio, I found out that it is close to
19 impossible to modify the present ignition switch. The switch itself is very fragile and doing any
20 further changes will lead to mechanical and/or electrical problems."¹¹

21 53. Gary Altman, program engineering manager for the 2005 Cobalt, recently admitted
22 that Old GM engineering managers (including himself and Mr. DeGiorgio) knew about ignition
23 switch problems in the vehicle that could disable power steering, power brakes, and airbags, but
24 launched the vehicle anyway because they believed that the vehicles could be safely coasted off the
25 road after a stall. Mr. Altman insisted that "the [Cobalt] was maneuverable and controllable" with
26 the power steering and power brakes inoperable.

27 _____
¹⁰ Feb. 1, 2005 PRTS at GMHEC000001733.

28 ¹¹ *Id.*

1 54. Incredibly, GM now claims that it and Old GM did not view vehicle stalling and the
2 loss of power steering as a “safety issue,” but only as a “customer convenience” issue.¹² GM bases
3 this claim on the equally incredible assertion that, at least for some period of time, it was not aware
4 that when the ignition switch moves to the “accessory” position, the airbags become inoperable –
5 even though Old GM itself designed the airbags to not deploy under that circumstance.¹³

6 55. Even crediting GM’s claim that some at the Company were unaware of the rather
7 obvious connection between the defective ignition switches and airbag non-deployment, a stall and
8 loss of power steering and power brakes is a serious safety issue under any objective view. GM
9 *itself* recognized in 2010 that a loss of power steering *standing alone* was grounds for a safety
10 recall, as it did a recall on such grounds.

11 56. In fact, as multiple GM employees confirm, GM *intentionally* avoids using the
12 word “stall” “because such language might draw the attention of NHTSA” and “may raise a
13 concern about safety, which suggests GM should recall the vehicle....”¹⁴

14 57. Rather than publicly admitting the dangerous safety defects in the vehicles with the
15 defective ignition switches, GM attempted to attribute these and other incidents to “driver error.”
16 GM continued to receive reports of deaths in Cobalts involving steering and/or airbag failures from
17 its inception up through at least 2012.

18 58. In April 2006, the GM design engineer who was responsible for the ignition switch
19 in the recalled vehicles, Design Research Engineer Ray DeGiorgio, authorized part supplier Delphi
20 to implement changes to fix the ignition switch defect.¹⁵ The design change “was implemented to
21 increase torque performance in the switch.”¹⁶ However, testing showed that, even with the
22 proposed change, the performance of the ignition switch was *still* below original specifications.¹⁷

24 ¹² GM Report at 2.

25 ¹³ *Id.*

26 ¹⁴ GM Report at 92-93.

27 ¹⁵ General Motors Commodity Validation Sign-Off (Apr. 26, 2006), GMHEC000003201. *See also* GM Mar. 11, 2014 Ltr. to NHTSA, attached chronology at 2.

28 ¹⁶ *Id.*

¹⁷ Delphi Briefing, Mar. 27, 2014.

1 59. Modified ignition switches – with greater torque – started to be installed in 2007
2 model/year vehicles.¹⁸ In what a high-level engineer at Old GM now calls a “cardinal sin” and “an
3 extraordinary violation of internal processes,” Old GM changed the part design *but kept the old*
4 *part number*.¹⁹ That makes it impossible to determine from the part number alone which GM
5 vehicles produced after 2007 contain the defective ignition switches.

6 60. At a May 15, 2009 meeting, Old GM engineers (soon to be GM engineers) learned
7 that data in the black boxes of Chevrolet Cobalts showed that the dangerous ignition switch defects
8 existed in hundreds of thousands of Defective Vehicles. But still GM did not reveal the defect to
9 NHTSA, Plaintiff, or consumers.

10 61. After the May 15, 2009 meeting, GM continued to get complaints of unintended
11 shut down and continued to investigate frontal crashes in which the airbags did not deploy.

12 62. After the May 15, 2009 meeting, GM told the families of accident victims related to
13 the ignition switch defects that it did not have sufficient evidence to conclude that there was any
14 defect. In one case involving the ignition switch defects, GM threatened to sue the family of an
15 accident victim for reimbursement of its legal fees if the family did not dismiss its lawsuit. In
16 another, GM sent the victim’s family a terse letter, saying there was no basis for any claims against
17 GM. These statements were part of GM’s campaign of deception.

18 63. In July 2011, GM legal staff and engineers met regarding an investigation of crashes
19 in which the air bags did not deploy. The next month, in August 2011, GM initiated a Field
20 Performance Evaluation (“FPE”) to analyze multiple frontal impact crashes involving MY 2005-
21 2007 Chevrolet Cobalt vehicles and 2007 Pontiac G5 vehicles, as well as a review of information
22 related to the Ion, HHR, and Solstice vehicles, and airbag non-deployment.²⁰

23 64. GM continued to conceal and deny what it privately knew – that the ignition
24 switches were defective. For example, in May 2012, GM engineers tested the torque of the
25

26 _____
¹⁸ GM Mar. 11, 2014 Ltr. to NHTSA, attached chronology at 2.

27 ¹⁹ “‘Cardinal sin’: Former GM engineers say quiet ‘06 redesign of faulty ignition switch was a
28 major violation of protocol.” *Automotive News* (Mar. 26, 2014).

²⁰ GM Mar. 11, 2014 Ltr. to NHTSA, attached chronology at 2.

1 ignition switches in numerous Old GM vehicles.²¹ The results from the GM testing showed that
2 the majority of the vehicles tested from the 2003 to 2007 model/years had torque performance at or
3 below 10 Newton centimeters (“Ncm”), which was below the original design specifications
4 required by GM.²² Around the same time, high ranking GM personnel continued to internally
5 review the history of the ignition switch issue.²³

6 65. In September 2012, GM had a GM Red X Team Engineer (a special engineer
7 assigned to find the root cause of an engineering design defect) examine the changes between the
8 2007 and 2008 Chevrolet Cobalt models following reported crashes where the airbags failed to
9 deploy and the ignition switch was found in the “off” or “accessory” position.²⁴

10 66. The next month, in October of 2012, Design Research Engineer Ray DeGiorgio (the
11 lead engineer on the defective ignition switch) sent an email to Brian Stouffer of GM regarding the
12 “2005-7 Cobalt and Ignition Switch Effort,” stating: “If we replaced switches on ALL the model
13 years, i.e., 2005, 2006, 2007 the piece price would be about \$10.00 per switch.”²⁵

14 67. The October 2012 email makes clear that GM considered implementing a recall to
15 fix the defective ignition switches in the Chevy Cobalt vehicles, but declined to do so in order to
16 save money.

17 68. In April 2013, GM again *internally* acknowledged that it understood that there was
18 a difference in the torque performance between the ignition switch parts in later model Chevrolet
19 Cobalt vehicles compared with the 2003-2007 model/year vehicles.²⁶

20 69. Notwithstanding what GM actually knew and privately acknowledged,²⁷ its public
21 statements and position in litigation was radically different. For example, in May 2013, Brian
22 Stouffer testified in deposition in a personal injury action (*Melton v. General Motors*) that the Ncm

23 ²¹ GMHEC000221427; *see also* Mar. 11, 2014 Ltr. to NHTSA, attached chronology.

24 ²² *Id.*

25 ²³ GMHEC000221438.

26 ²⁴ Email from GM Field Performance Assessment Engineer to GM Red X Team Engineer
(Sept. 6, 2012, 1:29:14 p.m., GMHEC000136204).

27 ²⁵ GMHEC000221539.

28 ²⁶ GM Mar. 11, 2014 Ltr. to NHTSA, attached chronology at 4.

²⁷ *See* GMHEC000221427.

1 performance (a measurement of the strength of the ignition switch) was *not* substantially different
2 as between the early (*e.g.*, 2005) and later model year (*e.g.*, 2008) Chevrolet Cobalt vehicles.²⁸

3 70. Similarly, a month before Mr. Stouffer's testimony, in April 2013, GM engineer
4 Ray DeGiorgio denied the existence of any type of ignition switch defect:

5 Q: Did you look at, as a potential failure mode for this switch, the
6 ease of which the key could be moved from run to accessory?

7 ...

8 THE WITNESS: No, because in our minds, moving the key from, I
9 want to say, *run to accessory is not a failure mode, it is an expected*
10 *condition*. It is important for the customer to be able to rotate the
11 key fore and aft, so as long as we meet those requirements, *it's not*
12 *deemed as a risk*.

13 Q: Well, it's not expected to move from run to accessory when
14 you're driving down the road at 55 miles an hour, is it?

15 ...

16 THE WITNESS: *It is expected for the key to be easily and*
17 *smoothly transitioned from one state to the other* without binding
18 and without harsh actuations.

19 Q: And why do you have a minimum torque requirement from run to
20 accessory?

21 ...

22 THE WITNESS: It's a design feature that is required. You don't
23 want anything flopping around. You want to be able to control the
24 dimensions and basically provide – one of the requirements in this
25 document talks about having a smooth transition from detent to
26 detent. One of the criticisms – I shouldn't say criticisms. One of the
27 customer complaints we have had in the – and previous to this was
28 he had cheap feeling switches, they were cheap feeling, they were
higher effort, and the intent of this design was to provide a smooth
actuation, provide a high feeling of a robust design. That was the
intent.

Q: I assume the intent was also to make sure that when people were
using the vehicle under ordinary driving conditions, that if the key
was in the run position, it wouldn't just move to the accessory
position, correct?

...

²⁸ GMHEC000146933. That said, “[t]he modified switches used in 2007-2011 vehicles were also approved by GM despite not meeting company specifications.” Mar. 31, 2014 Ltr. to Mary Barra from H. Waxman, D. DeGette, and J. Schankowsky.

1 A: That is correct, but also – it was not intended – *the intent was to*
2 *make the transition to go from run to off with relative ease.*²⁹

3 71. Brian Stouffer, in an email to Delphi regarding the ignition switch in the Chevy
4 Cobalt, acknowledged that the ignition switch in early Cobalt vehicles – although bearing the same
5 part number – was different than the ignition switch in later Cobalt vehicles.³⁰ Mr. Stouffer
6 claimed that “[t]he discovery of the plunger and spring change was made aware to GM during a
7 [sic] course of a lawsuit (*Melton v. GM*).”³¹ Delphi personnel responded that GM had authorized
8 the change back in 2006 but the part number had remained the same.³²

9 72. Eventually, the defect could no longer be ignored or swept under the rug.

10 73. After analysis by GM’s Field Performance Review Committee and the Executive
11 Field Action Decision Committee (“EFADC”), the EFADC finally ordered a recall of *some* of the
12 vehicles with defective ignition switches on January 31, 2014.

13 74. Initially, the EFADC ordered a recall of only the Chevrolet Cobalt and Pontiac G5
14 for model years 2005-2007.

15 75. After additional analysis, the EFADC expanded the recall on February 24, 2014, to
16 include the Chevrolet HHR and Pontiac Solstice for model years 2006 and 2007, the Saturn Ion for
17 model years 2003-2007, and the Saturn Sky for model year 2007.

18 76. Most recently, on March 28, 2014, GM expanded the recall a third time, to include
19 Chevrolet Cobalts, Pontiac G5s and Solstices, Saturn Ions and Skys from the 2008 through 2010
20 model years, and Chevrolet HHRs from the 2008 through 2011 model years.

21 77. All told, GM has recalled some 2.19 million vehicles in connection with the ignition
22 switch defect.

23 78. In a video message addressed to GM employees on March 17, 2014, CEO Mary
24 Barra admitted that the Company had made mistakes and needed to change its processes.

25
26 ²⁹ GMHEC000138906 (emphasis added).

27 ³⁰ GMHEC000003197.

28 ³¹ *Id.* See also GMHEC000003156-3180.

³² See GMHEC000003192-93.

1 79. According to Ms. Barra, “[s]omething went terribly wrong in our processes in this
2 instance, and terrible things happened.” Barra went on to promise, “[w]e will be better because of
3 this tragic situation if we seize this opportunity.”³³

4 80. Based on its egregious conduct in concealing the ignition switch defect, GM
5 recently agreed to pay the maximum possible civil penalty in a Consent Order with the National
6 Highway Traffic Safety Administration (“NHTSA”) and admitted that it had violated its legal
7 obligations to promptly disclose the existence of known safety defects.

8 **2. The power steering defect.**

9 81. Between 2003 and 2010, over 1.3 million GM-branded vehicles in the United States
10 were sold with a safety defect that causes the vehicle’s electric power steering (“EPS”) to suddenly
11 fail during ordinary driving conditions and revert back to manual steering, requiring greater effort
12 by the driver to steer the vehicle and increasing the risk of collisions and injuries.

13 82. As with the ignition switch defects, GM was aware of the power steering defect
14 long before it took anything approaching full remedial action.

15 83. When the power steering fails, a message appears on the vehicle’s dashboard, and a
16 chime sounds to inform the driver. Although steering control can be maintained through manual
17 steering, greater driver effort is required, and the risk of an accident is increased.

18 84. In 2010, GM first recalled Chevy Cobalt and Pontiac G5 models for these power
19 steering issues, yet it did *not* recall the many other vehicles that had the very same power steering
20 defect.

21 85. Documents released by NHTSA show that GM waited years to recall nearly
22 335,000 Saturn Ions for power steering failure – despite receiving nearly 4,800 consumer
23 complaints and more than 30,000 claims for warranty repairs. That translates to a complaint rate of
24 14.3 incidents per thousand vehicles and a warranty claim rate of 9.1 percent. By way of
25
26
27

28 ³³ “*Something Went ‘Very Wrong’ at G.M., Chief Says.*” N.Y. TIMES (Mar. 18, 2014).

1 comparison, NHTSA has described as “high” a complaint rate of 250 complaints per 100,000
2 vehicles.³⁴ Here, the rate translates to 1430 complaints per 100,000 vehicles.

3 86. In response to the consumer complaints, in September 2011 NHTSA opened an
4 investigation into the power steering defect in Saturn Ions.

5 87. NHTSA database records show complaints from Ion owners as early as June 2004,
6 with the first injury reported in May 2007.

7 88. NHTSA linked approximately 12 crashes and two injuries to the power steering
8 defect in the Ions.

9 89. In 2011, GM missed yet another opportunity to recall the additional vehicles with
10 faulty power steering when CEO Mary Barra – then head of product development – was advised by
11 engineer Terry Woychowski that there was a serious power steering issue in Saturn Ions.
12 Ms. Barra was also informed of the ongoing NHTSA investigation. At the time, NHTSA
13 reportedly came close to concluding that Saturn Ions should have been included in GM’s 2005
14 steering recall of Cobalt and G5 vehicles.

15 90. Yet GM took no action for four years. It wasn’t until March 31, 2014, that GM
16 finally recalled the approximately 1.3 million vehicles in the United States affected by the power
17 steering defect.

18 91. After announcing the March 31, 2014 recall, Jeff Boyer, GM’s Vice President of
19 Global Vehicle Safety, acknowledged that GM recalled some of these same vehicle models
20 previously for the *same issue*, but that GM “did not do enough.”

21 **3. Airbag defect.**³⁵

22 92. From 2007 until at least 2013, nearly 1.2 million GM-branded vehicles in the United
23 States were sold with defective wiring harnesses. Increased resistance in the wiring harnesses of
24 driver and passenger seat-mounted, side-impact air bag (“SIAB”) in the affected vehicles may
25 cause the SIABs, front center airbags, and seat belt pretensioners to not deploy in a crash. The

26 _____
27 ³⁴ See [http://www-odi.nhtsa.dot.gov/cars/problems/defect/-
results.cfm?action_number=EA06002&SearchType=QuickSearch&summary=true](http://www-odi.nhtsa.dot.gov/cars/problems/defect/-results.cfm?action_number=EA06002&SearchType=QuickSearch&summary=true).

28 ³⁵ This defect is distinct from the airbag component of the ignition switch defect discussed
above and from other airbag defects affecting a smaller number of vehicles, discussed below.

1 vehicles' failure to deploy airbags and pretensioners in a crash increases the risk of injury and
2 death to the drivers and front-seat passengers.

3 93. Once again, GM knew of the dangerous airbag defect long before it took anything
4 approaching the requisite remedial action.

5 94. As the wiring harness connectors in the SIABs corrode or loosen over time,
6 resistance will increase. The airbag sensing system will interpret this increase in resistance as a
7 fault, which then triggers illumination of the "SERVICE AIR BAG" message on the vehicle's
8 dashboard. This message may be intermittent at first and the airbags and pretensioners will still
9 deploy. But over time, the resistance can build to the point where the SIABs, pretensioners, and
10 front center airbags will not deploy in the event of a collision.³⁶

11 95. The problem apparently arose when GM made the switch from using gold-plated
12 terminals to connect its wire harnesses to cheaper tin terminals in 2007.

13 96. In June 2008, Old GM noticed increased warranty claims for airbag service on
14 certain of its vehicles and determined it was due to increased resistance in airbag wiring. After
15 analysis of the tin connectors in September 2008, Old GM determined that corrosion and wear to
16 the connectors was causing the increased resistance in the airbag wiring. It released a technical
17 service bulletin on November 25, 2008, for 2008-2009 Buick Enclaves, 2009 Chevy Traverse,
18 2008-2009 GMC Acadia, and 2008-2009 Saturn Outlook models, instructing dealers to repair the
19 defect by using Nyogel grease, securing the connectors, and adding slack to the line. Old GM also
20 began the transition back to gold-plated terminals in certain vehicles. At that point, Old GM
21 suspended all investigation into the defective airbag wiring and took no further action.³⁷

22 97. In November 2009, GM learned of similar reports of increased airbag service
23 messages in 2010 Chevy Malibu and 2010 Pontiac G6 vehicles. After investigation, GM
24 concluded that corrosion and wear in the same tin connector was the root of the airbag problems in
25 the Malibu and G6 models.³⁸

26
27 ³⁶ See GM Notice to NHTSA dated March 17, 2014, at 1.

28 ³⁷ See GM Notification Campaign No. 14V-118 dated March 31, 2014, at 1-2.

³⁸ See *id.*, at 2.

1 98. In January 2010, after review of the Malibu and G6 airbag connector issues, GM
2 concluded that ignoring the service airbag message could increase the resistance such that an SIAB
3 might not deploy in a side impact collision. On May 11, 2010, GM issued a Customer Satisfaction
4 Bulletin for the Malibu and G6 models and instructed dealers to secure both front seat-mounted,
5 side-impact airbag wire harnesses and, if necessary, reroute the wire harness.³⁹

6 99. From February to May 2010, GM revisited the data on vehicles with faulty harness
7 wiring issues, and noted another spike in the volume of the airbag service warranty claims. This
8 led GM to conclude that the November 2008 bulletin was “not entirely effective in correcting the
9 [wiring defect present in the vehicles].” On November 23, 2010, GM issued another Customer
10 Satisfaction Bulletin for certain 2008 Buick Enclave, 2008 Saturn Outlook, and 2008 GMC Acadia
11 models built from October 2007 to March 2008, instructing dealers to secure SIAB harnesses and
12 re-route or replace the SIAB connectors.⁴⁰

13 100. GM issued a revised Customer Service Bulletin on February 3, 2011, requiring
14 replacement of the front seat-mounted side-impact airbag connectors in the same faulty vehicles
15 mentioned in the November 2010 bulletin. In July 2011, GM again replaced its connector, this
16 time with a Tyco-manufactured connector featuring a silver-sealed terminal.⁴¹

17 101. But in 2012, GM noticed another spike in the volume of warranty claims relating to
18 SIAB connectors in vehicles built in the second half of 2011. After further analysis of the Tyco
19 connectors, it discovered that inadequate crimping of the connector terminal was causing increased
20 system resistance. In response, GM issued an internal bulletin for 2011-12 Buick Enclave, Chevy
21 Traverse, and GMC Acadia vehicles, recommending dealers repair affected vehicles by replacing
22 the original connector with a new sealed connector.⁴²

23 102. The defect was still uncured, however, because in 2013 GM again marked an
24 increase in service repairs and buyback activity due to illuminated airbag service lights. On
25

26 ³⁹ See *id.*

27 ⁴⁰ See *id.*, at 3.

28 ⁴¹ See *id.*

⁴² See *id.*, at 4.

1 October 4, 2013, GM opened an investigation into airbag connector issues in 2011-2013 Buick
2 Enclave, Chevy Traverse, and GMC Acadia models. The investigation revealed an increase in
3 warranty claims for vehicles built in late 2011 and early 2012.⁴³

4 103. On February 10, 2014, GM concluded that corrosion and crimping issues were again
5 the root cause of the airbag problems.⁴⁴

6 104. GM initially planned to issue a less-urgent Customer Satisfaction Program to
7 address the airbag flaw in the 2010-2013 vehicles. But it wasn't until a call with NHTSA on
8 March 14, 2014, that GM finally issued a full-blown safety recall on the vehicles with the faulty
9 harness wiring – years after it first learned of the defective airbag connectors, after four
10 investigations into the defect, and after issuing at least six service bulletins on the topic. The recall
11 as first approved covered only 912,000 vehicles, but on March 16, 2014, it was increased to cover
12 approximately 1.2 million vehicles.⁴⁵

13 105. On March 17, 2014, GM issued a recall for 1,176,407 vehicles potentially afflicted
14 with the defective airbag system. The recall instructs dealers to remove driver and passenger SIAB
15 connectors and splice and solder the wires together.⁴⁶

16 **4. The brake light defect.**

17 106. Between 2004 and 2012, approximately 2.4 million GM-branded vehicles in the
18 United States were sold with a safety defect that can cause brake lamps to fail to illuminate when
19 the brakes are applied or to illuminate when the brakes are not engaged; the same defect can
20 disable cruise control, traction control, electronic stability control, and panic brake assist operation,
21 thereby increasing the risk of collisions and injuries.⁴⁷

22 107. Once again, GM knew of the dangerous brake light defect for years before it took
23 anything approaching the requisite remedial action. In fact, although the brake light defect has
24

25 ⁴³ *See id.*

26 ⁴⁴ *See id.*, at 5.

27 ⁴⁵ *See id.*

28 ⁴⁶ *See id.*

⁴⁷ *See* GM Notification Campaign No. 14V-252 dated May 28, 2014, at 1.

1 caused at least 13 crashes since 2008, GM did not recall all 2.4 million vehicles with the defect
2 until May 2014.

3 108. The vehicles with the brake light defect include the 2004-2012 Chevrolet Malibu,
4 the 2004-2007 Malibu Maxx, the 2005-2010 Pontiac G6, and the 2007-2010 Saturn Aura.⁴⁸

5 109. According to GM, the brake defect originates in the Body Control Module (BCM)
6 connection system. “Increased resistance can develop in the [BCM] connection system and result
7 in voltage fluctuations or intermittency in the Brake Apply Sensor (BAS) circuit that can cause
8 service brakes lamp malfunction.”⁴⁹ The result is brake lamps that may illuminate when the brakes
9 are not being applied and may not illuminate when the brakes are being applied. ⁵⁰

10 110. The same defect can also cause the vehicle to get stuck in cruise control if it is
11 engaged, or cause cruise control to not engage, and may also disable the traction control, electronic
12 stability control, and panic-braking assist features.⁵¹

13 111. GM now acknowledges that the brake light defect “may increase the risk of a
14 crash.”⁵²

15 112. As early as September 2008, NHTSA opened an investigation for model year 2005-
16 2007 Pontiac G6 vehicles involving allegations that the brake lights may turn on when the driver
17 had not depressed the brake pedal and may turn on when the brake pedal was depressed.⁵³

18 113. During its investigation of the brake light defect in 2008, Old GM found elevated
19 warranty claims for the brake light defect for MY 2005 and 2006 vehicles built in January 2005,
20 and found “fretting corrosion in the BCM C2 connector was the root cause” of the problem.⁵⁴ Old
21 GM and its part supplier Delphi decided that applying dielectric grease to the BCM C2 connector
22
23

24 ⁴⁸ *Id.*

25 ⁴⁹ *Id.*

26 ⁵⁰ *Id.*

27 ⁵¹ *Id.*

28 ⁵² *Id.*

⁵³ *Id.* at 2.

⁵⁴ *Id.*

1 would be “an effective countermeasure to the fretting corrosion.”⁵⁵ Beginning in November of
2 2008, the company began applying dielectric grease in its vehicle assembly plants.⁵⁶

3 114. On December 4, 2008, Old GM issued a TSB recommending the application of
4 dielectric grease to the BCM C2 connector for the MY 2005-2009, Pontiac G6, 2004-2007
5 Chevrolet Malibu/Malibu Maxx and 2008 Malibu Classic and 2007-2009 Saturn Aura vehicles.⁵⁷
6 One month later, in January 2009, Old GM recalled only a small subset of the vehicles with the
7 brake light defect – 8,000 MY 2005-2006 Pontiac G6 vehicles built during the month of January,
8 2005.⁵⁸

9 115. Not surprisingly, the brake light problem was far from resolved.

10 116. In October 2010, GM released an updated TSB regarding “intermittent brake lamp
11 malfunctions,” and added MY 2008-2009 Chevrolet Malibu/Malibu Maxx vehicles to the list of
12 vehicles for which it recommended the application of dielectric grease to the BCM C2 connector.⁵⁹

13 117. In September of 2011, GM received an information request from Canadian
14 authorities regarding brake light defect complaints in vehicles that had not yet been recalled. Then,
15 in June 2012, NHTSA provided GM with additional complaints “that were outside of the build
16 dates for the brake lamp malfunctions on the Pontiac G6” vehicles that had been recalled.⁶⁰

17 118. In February of 2013, NHTSA opened a “Recall Query” in the face of 324
18 complaints “that the brake lights do not operate properly” in Pontiac G6, Malibu and Aura vehicles
19 that had not yet been recalled.⁶¹

20 119. In response, GM asserts that it “investigated these occurrences looking for root
21 causes that could be additional contributors to the previously identified fretting corrosion,” but that
22
23

24 ⁵⁵ *Id.*

25 ⁵⁶ *Id.* at 3.

26 ⁵⁷ *Id.* at 2.

27 ⁵⁸ *Id.*

28 ⁵⁹ *Id.*

⁶⁰ *Id.*

⁶¹ *Id.* at 3.

1 it continued to believe that “fretting corrosion in the BCM C2 connector” was the “root cause” of
2 the brake light defect.⁶²

3 120. In June of 2013, NHTSA upgraded its “Recall Query” concerning brake light
4 problems to an “Engineering Analysis.”⁶³

5 121. In August 2013, GM found an elevated warranty rate for BCM C2 connectors in
6 vehicles built *after* Old GM had begun applying dielectric grease to BCM C2 connectors at its
7 assembly plants in November of 2008.⁶⁴ In November of 2013, GM concluded that “the amount of
8 dielectric grease applied in the assembly plant starting November 2008 was insufficient....”⁶⁵

9 122. Finally, in March of 2014, “GM engineering teams began conducting analysis and
10 physical testing to measure the effectiveness of potential countermeasures to address fretting
11 corrosion. As a result, GM determined that additional remedies were needed to address fretting
12 corrosion.”⁶⁶

13 123. On May 7, 2014, GM’s Executive Field Action Decision Committee finally decided
14 to conduct a safety recall.

15 124. According to GM, “Dealers are to attach the wiring harness to the BCM with a
16 spacer, apply dielectric lubricant to both the BCM CR and harness connector, and on the BAS and
17 harness connector, and relearn the brake pedal home position.”⁶⁷

18 125. Once again, GM sat on and concealed its knowledge of the brake light defect, and
19 did not even consider available countermeasures (other than the application of grease that had
20 proven ineffective) until March of this year.

21 **5. Shift cable defect**

22 126. From 2004 through 2010, more than 1.1 million GM-branded vehicles were sold
23 throughout the United States with a dangerously defective transmission shift cable. The shift cable

24 _____
25 ⁶² *Id.*

26 ⁶³ *Id.*

27 ⁶⁴ *Id.*

28 ⁶⁵ *Id.*

⁶⁶ *Id.* at 4.

⁶⁷ *Id.*

1 may fracture at any time, preventing the driver from switching gears or placing the transmission in
2 the “park” position. According to GM, “[i]f the driver cannot place the vehicle in park, and exits
3 the vehicle without applying the park brake, the vehicle could roll away and a crash could occur
4 without prior warning.”⁶⁸

5 127. Yet again, GM knew of the shift cable defect long before it issued the recent recall
6 of more than 1.1 million vehicles with the defect.

7 128. In May of 2011, NHTSA informed GM that it had opened an investigation into
8 failed transmission cables in 2007 model year Saturn Aura vehicles. In response, GM noted “a
9 cable failure model in which a tear to the conduit jacket could allow moisture to corrode the
10 interior steel wires, resulting in degradation of shift cable performance, and eventually, a possible
11 shift cable failure.”⁶⁹

12 129. Upon reviewing these findings, GM’s Executive Field Action Committee conducted
13 a “special coverage field action for the 2007-2008 MY Saturn Aura vehicles equipped with 4 speed
14 transmissions and built with Leggett & Platt cables.” GM apparently chose that cut-off date
15 because, on November 1, 2007, Kongsberg Automotive replaced Leggett & Platt as the cable
16 provider.⁷⁰

17 130. GM did not recall any of the vehicles with the shift cable defect at this time, and
18 limited its “special coverage field action” to the 2007-2008 Aura vehicles even though “the same
19 or similar Leggett & Platt cables were used on ... Pontiac G6 and Chevrolet Malibu (MMX380)
20 vehicles.”

21 131. In March 2012, NHTSA sent GM an Engineering Assessment request to investigate
22 transmission shift cable failures in 2007-2008 MY Auras, Pontiac G6s, and Chevrolet Malibus.⁷¹

23 132. In responding to the Engineering Assessment request, GM for the first time “noticed
24 elevated warranty rates in vehicles built with Kongsberg shift cables.” Similar to their predecessor
25

26 ⁶⁸ See GM letter to NHTSA Re: NHTSA Campaign No. 14V-224 dated May 22, 2014, at 1.

27 ⁶⁹ *Id.* at 2.

28 ⁷⁰ *Id.*

⁷¹ *Id.*

1 vehicles built with Leggett & Platt shift cables, in the vehicles built with Kongsberg shift cables
2 “the tabs on the transmission shift cable end may fracture and separate without warning, resulting
3 in failure of the transmission shift cable and possible unintended vehicle movement.”⁷²

4 133. Finally, on September 13, 2012, the Executive Field Action Decision Committee
5 decided to conduct a safety recall. This initial recall was limited to 2008-2010 MY Saturn Aura,
6 Pontiac G6, and Chevrolet Malibu vehicles with 4-speed transmission built with Kongsberg shifter
7 cables, as well as 2007-2008 MY Saturn Aura and 2005-2007 MY Pontiac G6 vehicles with 4-
8 speed transmissions which may have been serviced with Kongsberg shift cables.⁷³

9 134. But the shift cable problem was far from resolved.

10 135. In March of 2013, NHTSA sent GM a second Engineering Assessment concerning
11 allegations of failure of the transmission shift cables on all 2007-2008 MY Saturn Aura, Chevrolet
12 Malibu, and Pontiac G6 vehicles.⁷⁴

13 136. GM continued its standard process of “investigation” and delay. But by May 9,
14 2014, GM was forced to concede that “the same cable failure mode found with the Saturn Aura 4-
15 speed transmission” was present in a wide population of vehicles.⁷⁵

16 137. Finally, on May 19, 2014, GM’s Executive Field Actions Decision Committee
17 decided to conduct a safety recall of more than 1.1 million vehicles with the defective shift cable
18 issue, including the following models and years (as of May 23, 2014): MY 2007-2008 Chevrolet
19 Saturn; MY 2004-2008 Chevrolet Malibu; MY 2004-2007 Chevrolet Malibu Maxx; and MY 2005-
20 2008 Pontiac G6.

21 **6. Safety belt defect.**

22 138. Between the years 2008-2014, more than 1.4 million GM-branded vehicles were
23 sold with a dangerous safety belt defect. According to GM, “[t]he flexible steel cable that connects
24 the safety belt to the vehicle at the outside of the front outside of the front outboard seating
25

26 ⁷² *Id.*

27 ⁷³ *Id.*

28 ⁷⁴ *Id.*

⁷⁵ *Id.*

1 positions can fatigue and separate over time as a result of occupant movement into the seat. In a
2 crash, a separated cable could increase the risk of injury to the occupant.”⁷⁶

3 139. On information and belief, GM knew of the safety belt defect long before it issued
4 the recent recall of more than 1.3 million vehicles with the defect.

5 140. While GM has yet to submit its full chronology of events to NHTSA, suffice to say
6 that GM has waited some five years before disclosing this defect. This delay is consistent with
7 GM’s long period of concealment of the other defects as set forth above.

8 141. On May 19, 2014, GM’s Executive Field Action Decision Committee decided to
9 conduct a recall of the following models and years in connection with the safety belt defect: MY
10 2009-2014 Buick Enclave; MY 2009-2014 Chevrolet Traverse; MY 2009-2014 GMC Acadia; and
11 MY 2009-2010 Saturn Outlook.

12 **7. Ignition lock cylinder defect.**

13 142. On April 9, 2014, GM recalled 2,191,014 GM-branded vehicles to address faulty
14 ignition lock cylinders.⁷⁷ Though the vehicles are the same as those affected by the ignition switch
15 defect,⁷⁸ the lock cylinder defect is distinct.

16 143. In these vehicles, faulty ignition lock cylinders can allow removal of the ignition
17 key while the engine is not in the “Off” position. If the ignition key is removed when the ignition
18 is not in the “Off” position, unintended vehicle motion may occur. That could cause a vehicle
19 crash and injury to the vehicle’s occupants or pedestrians. As a result, some of the vehicles with
20 faulty ignition lock cylinders may fail to conform to Federal Motor Vehicle Safety Standard
21 number 114, “*Theft Prevention and Rollaway Prevention*.”⁷⁹

22 144. On information and belief, GM was aware of the ignition lock cylinder defect for
23 years before finally acting to remedy it.

24
25
26 ⁷⁶ See GM Notice to NHTSA dated May 19, 2014, at 1.

27 ⁷⁷ See GM Notice to NHTSA dated April 9, 2014.

28 ⁷⁸ Namely, MY 2005-2010 Chevrolet Cobalts, 2005-2011 Chevrolet HHRs, 2007-2010 Pontiac G5s, 2003-2007 Saturn Ions, and 2007-2010 Saturn Skys.

⁷⁹ GM Notice to NHTSA dated April 9, 2014, at 1.

1 **8. The Camaro key-design defect.**

2 145. On June 13, 2014, GM recalled more than 500,000 MY 2010-2014 Chevrolet
3 Camaros because a driver's knee can bump the key fob out of the "run" position and cause the
4 vehicle to lose power. This issue that has led to at least three crashes. GM said it learned of the
5 issue which primarily affects drivers who sit close to the steering wheel, during internal testing it
6 conducted following its massive ignition switch recall earlier this year. GM knows of three crashes
7 that resulted in four minor injuries attributed to this defect.

8 **9. The ignition key defect.**

9 146. On June 16, 2014, GM announced a recall of 3.36 million cars due to a problem
10 with keys that can turn off ignitions and deactivate air bags, a problem similar to the ignition
11 switch defects in the 2.19 million cars recalled earlier in the year.

12 147. The company said that keys laden with extra weight – such as additional keys or
13 objects attached to a key ring – could inadvertently switch the vehicle's engine off if the car struck
14 a pothole or crossed railroad tracks.

15 148. GM said it was aware of eight accidents and six injuries related to the defect.

16 149. As early as December 2000, drivers of the Chevrolet Impala and the other newly
17 recalled cars began lodging complaints about stalling with the National Highway Traffic Safety
18 Administration. "When foot is taken off accelerator, car will stall without warning," one driver of
19 a 2000 Cadillac Deville told regulators in December 2000. "Complete electrical system and engine
20 shutdown while driving," another driver of the same model said in January 2001. "Happened three
21 different times to date. Dealer is unable to determine cause of failure."

22 150. The vehicles covered include the Buick Lacrosse, model years 2005-09; Chevrolet
23 Impala, 2006-14; Cadillac Deville, 2000-05; Cadillac DTS, 2004-11; Buick Lucerne, 2006-11;
24 Buick Regal LS and RS, 2004-05; and Chevrolet Monte Carlo, 2006-08.

25 **10. At least 26 other defects were revealed by GM in recalls during the first half of**
26 **2014.**

27 151. The nine defects discussed above – and the resultant 12 recalls – are but a subset of
28 the 40 recalls ordered by GM in connection with 35 separate defects during the first five and one-

1 half months of 2014. The additional 26 defects are briefly summarized in the following
2 paragraphs.

3 152. **Transmission oil cooler line defect:** On March 31, 2014, GM recalled 489,936
4 MY 2014 Chevy Silverado, 2014 GMC Sierra, 2014 GMC Yukon, 2014 GMC Yukon XL, 2015
5 Chevy Tahoe, and 2015 Chevy Suburban vehicles. These vehicles may have transmission oil
6 cooler lines that are not securely seated in the fitting. This can cause transmission oil to leak from
7 the fitting, where it can contact a hot surface and cause a vehicle fire.

8 153. **Power management mode software defect:** On January 13, 2014, GM recalled
9 324,970 MY 2014 Chevy Silverado and GMC Sierra Vehicles. When these vehicles are idling in
10 cold temperatures, the exhaust components can overheat, melt nearby plastic parts, and cause an
11 engine fire.

12 154. **Substandard front passenger airbags:** On March 17, 2014, GM recalled 303,013
13 MY 2009-2014 GMC Savana vehicles. In certain frontal impact collisions below the air bag
14 deployment threshold in these vehicles, the panel covering the airbag may not sufficiently absorb
15 the impact of the collision. These vehicles therefore do not meet the requirements of Federal
16 Motor Vehicle Safety Standard number 201, "Occupant Protection in Interior Impact."

17 155. **Light control module defect:** On May 16, 2014, GM recalled 218,214 MY 2004-
18 2008 Chevrolet Aveo (subcompact) and 2004-2008 Chevrolet Optra (subcompact) vehicles. In
19 these vehicles, heat generated within the light control module in the center console in the
20 instrument panel may melt the module and cause a vehicle fire.

21 156. **Front axle shaft defect:** On March 28, 2014, GM recalled 174,046 MY 2013-2014
22 Chevrolet Cruze vehicles. In these vehicles, the right front axle shaft may fracture and separate. If
23 this happens while the vehicle is being driven, the vehicle will lose power and coast to a halt. If a
24 vehicle with a fractured shaft is parked and the parking brake is not applied, the vehicle may move
25 unexpectedly which can lead to accident and injury.

26 157. **Brake boost defect:** On May 13, 2014, GM recalled 140,067 MY 2014 Chevrolet
27 Malibu vehicles. The "hydraulic boost assist" in these vehicles may be disabled; when that
28 happens, slowing or stopping the vehicle requires harder brake pedal force, and the vehicle will

1 travel a greater distance before stopping. Therefore, these vehicles do not comply with Federal
2 Motor Vehicle Safety Standard number 135, "Light Vehicle Brake Systems," and are at increased
3 risk of collision.

4 158. **Low beam headlight defect:** On May 14, 2014, GM recalled 103,158 MY 2005-
5 2007 Chevrolet Corvette vehicles. In these vehicles, the underhood bussed electrical center
6 (UBEC) housing can expand and cause the headlamp low beam relay control circuit wire to bend.
7 When the wire is repeatedly bent, it can fracture and cause a loss of low beam headlamp
8 illumination. The loss of illumination decreases the driver's visibility and the vehicle's conspicuity
9 to other motorists, increasing the risk of a crash.

10 159. **Vacuum line brake booster defect:** On March 17, 2014, GM recalled 63,903 MY
11 2013-2014 Cadillac XTS vehicles. In these vehicles, a cavity plug on the brake boost pump
12 connector may dislodge and allow corrosion of the brake booster pump relay connector. This can
13 have an adverse impact on the vehicle's brakes.

14 160. **Fuel gauge defect:** On April 29, 2014, GM recalled 51,460 MY 2014 Chevrolet
15 Traverse, GMC Acadia and Buick Enclave vehicles. In these vehicles, the engine control module
16 (ECM) software may cause inaccurate fuel gauge readings. An inaccurate fuel gauge may result in
17 the vehicle unexpectedly running out of fuel and stalling, and thereby increases the risk of accident.

18 161. **Acceleration defect:** On April 24, 2014, GM recalled 50,571 MY 2013 Cadillac
19 SRX vehicles. In these vehicles, there may be a three- to four-second lag in acceleration due to
20 faulty transmission control module programming. That lag may increase the risk of a crash.

21 162. **Flexible flat cable airbag defect:** On April 9, 2014, GM recalled 23,247 MY
22 2009-2010 Pontiac Vibe vehicles. These vehicles are susceptible to a failure in the Flexible Flat
23 Cable ("FFC") in the spiral cable assemble connecting the driver's airbag module. When the FFC
24 fails, connectivity to the driver's airbag module is lost and the airbag is deactivated. The resultant
25 failure of the driver's airbag to deploy increases the risk of injury to the driver in the event of a
26 crash.

1 163. **Windshield wiper defect:** On May 14, 2014, GM recalled 19,225 MY 2014
2 Cadillac CTS vehicles. A defect leaves the windshield wipers in these vehicles prone to failure.
3 Inoperative windshield wipers can decrease the driver’s visibility and increase the risk of a crash.

4 164. **Brake rotor defect:** On May 7, 2014, GM recalled 8,208 MY 2014 Chevrolet
5 Malibu and Buick LaCrosse vehicles. In these vehicles, GM may have accidentally installed rear
6 brake rotors on the front brakes. The rear rotors are thinner than the front rotors, and the use of
7 rear rotors in the front of the vehicle may result in a front brake pad detaching from the caliper.
8 The detachment of a break pad from the caliper can cause a sudden reduction in braking which
9 lengthens the distance required to stop the vehicle and increases the risk of a crash.

10 165. **Passenger-side airbag defect:** On May 16, 2014, GM recalled 1,402 MY 2015
11 Cadillac Escalade vehicles. In these vehicles, the airbag module is secured to a chute adhered to
12 the backside of the instrument panel with an insufficiently heated infrared weld. As a result, the
13 front passenger-side airbag may only partially deploy in the event of crash, and this will increase
14 the risk of occupant injury. These vehicles do not conform to Federal Motor Vehicle Safety
15 Standard number 208, “Occupant Crash Protection.”

16 166. **Electronic stability control defect:** On March 26, 2014, GM recalled 656 MY
17 2014 Cadillac ELR vehicles. In these vehicles, the electronic stability control (ESC) system
18 software may inhibit certain ESC diagnostics and fail to alert the driver that the ESC system is
19 partially or fully disabled. Therefore, these vehicles fail to conform to Federal Motor Vehicle
20 Safety Standard number 126, “Electronic Stability Control Systems.” A driver who is not alerted
21 to an ESC system malfunction may continue driving with a disabled ESC system. That may result
22 in the loss of directional control, greatly increasing the risk of a crash.

23 167. **Steering tie-rod defect:** On May 13, 2014, GM recalled 477 MY 2014 Chevrolet
24 Silverado, 2014 GMC Sierra and 2015 Chevrolet Tahoe vehicles. In these vehicles, the tie-rod
25 threaded attachment may not be properly tightened to the steering gear rack. An improperly
26 tightened tie-rod attachment may allow the tie-rod to separate from the steering rack and result in a
27 loss of steering that greatly increases the risk of a vehicle crash.

28

1 168. **Automatic transmission shift cable adjuster:** On February 20, 2014, GM recalled
2 352 MY 2014 Buick Enclave, Buick LaCrosse, Buick Regal, Verano, Chevrolet Cruze, Chevrolet
3 Impala, Chevrolet Malibu, Chevrolet Traverse, and GMC Acadia vehicles. In these vehicles, the
4 transmission shift cable adjuster may disengage from the transmission shift lever. When that
5 happens, the driver may be unable to shift gears, and the indicated gear position may not be
6 accurate. If the adjuster is disengaged when the driver attempts to stop and park the vehicle, the
7 driver may be able to shift the lever to the “PARK” position but the vehicle transmission may not
8 be in the “PARK” gear position. That creates the risk that the vehicle will roll away as the driver
9 and other occupants exit the vehicle, or anytime thereafter.

10 169. **Fuse block defect:** On May 19, 2014, GM recalled 58 MY 2015 Chevrolet
11 Silverado HD and GMC Sierra HD vehicles. In these vehicles, the retention clips that attach the
12 fuse block to the vehicle body can become loose allowing the fuse block to move out of position.
13 When this occurs, exposed conductors in the fuse block may contact the mounting studs or other
14 metallic components, which in turn causes a “short to ground” event. That can result in an
15 arcing condition, igniting nearby combustible materials and starting an engine compartment fire.

16 170. **Diesel transfer pump defect:** On April 24, 2014, GM recalled 51 MY 2014 GMC
17 Sierra HD and 2015 Chevrolet Silverado HD vehicles. In these vehicles, the fuel pump
18 connections on both sides of the diesel fuel transfer pump may not be properly torqued. That can
19 result in a diesel fuel leak, which can cause a vehicle fire.

20 171. **Base radio defect:** On June 5, 2014, GM recalled 57,512 MY 2014 Chevrolet
21 Silverado LD, 2014 GMC Sierra LD and model year 2015 Silverado HD, Tahoe and Suburban and
22 2015 GMC Sierra HD and Yukon and Yukon XL vehicles because the base radio may not work.
23 The faulty base radio prevents audible warnings if the key is in the ignition when the driver’s door
24 is open, and audible chimes when a front seat belt is not buckled. Vehicles with the base radio
25 defect are out of compliance with motor vehicle safety standards covering theft protection,
26 rollaway protection and occupant crash protection.

27 172. **Shorting bar defect:** On June 5, 2014, GM recalled 31,520 MY 2012 Buick
28 Verano and Chevrolet Camaro, Cruze, and Sonic compact cars for a defect in which the shorting

1 bar inside the dual stage driver's air bag may occasionally contact the air bag terminals. If contact
2 occurs, the air bag warning light will illuminate. If the car and terminals are contacting each other
3 in a crash, the air bag will not deploy. GM admits awareness of one crash with an injury where the
4 relevant diagnostic trouble code was found at the time the vehicle was repaired. GM is aware of
5 other crashes where air bags did not deploy but it does not know if they were related to this
6 condition. GM conducted two previous recalls for this condition involving 7,116 of these vehicles
7 with no confirmed crashes in which this issue was involved.

8 173. **Front passenger airbag end cap defect:** On June 5, 2014, GM recalled 61 model
9 year 2013-2014 Chevrolet Spark and 2013 model year Buick Encore vehicles manufactured in
10 Changwon, Korea from December 30, 2012 through May 8, 2013 because the vehicles may have a
11 condition in which the front passenger airbag end cap could separate from the airbag inflator. In a
12 crash, this may prevent the passenger airbag from deploying properly.

13 174. **Sensing and Diagnostic Model ("SDM") defect:** On June 5, 2014, GM recalled
14 33 model year 2014 Chevrolet Corvettes in the U.S. because an internal short-circuit in the sensing
15 and diagnostic module (SDM) could disable frontal air bags, safety belt pretensioners and the
16 Automatic Occupancy Sensing module.

17 175. **Sonic Turbine Shaft:** On June 11, 2014, GM recalled 21,567 Chevrolet Sonics due
18 to a transmission turbine shaft that can malfunction.

19 176. **Electrical System defect:** On June 11, 2014, GM recalled 14,765 model year 2014
20 Buick LaCrosse sedans because a wiring splice in the driver's door can corrode and break, cutting
21 power to the windows, sunroof, and door chime under certain circumstances.

22 177. **Seatbelt Tensioning System defect:** On June 11, 2014, GM recalled 8,789 model
23 year 2004-11 Saab 9-3 convertibles because a cable in the driver's seatbelt tensioning system can
24 break.

25 178. In light of GM's history of concealing known defects, there is little reason to think
26 that either GM's recalls have fully addressed the 35 recently revealed defects or that GM has
27 addressed each defect of which it is or should be aware.
28

1 **B. GM Valued Cost-Cutting Over Safety, and Actively Encouraged Employees to**
2 **Conceal Safety Issues.**

3 179. Recently revealed information presents a disturbing picture of GM's approach to
4 safety issues – both in the design and manufacture stages, and in discovering and responding to
5 defects in GM-branded vehicles that have already been sold.

6 180. GM made very clear to its personnel that cost-cutting was more important than
7 safety, deprived its personnel of necessary resources for spotting and remedying defects, trained its
8 employees not to reveal known defects, and rebuked those who attempted to “push hard” on safety
9 issues.

10 181. One “directive” at GM was “cost is everything.”⁸⁰ The messages from top
11 leadership at GM to employees, as well as their actions, were focused on the need to control cost.⁸¹

12 182. One GM engineer stated that emphasis on cost control at GM “permeates the fabric
13 of the whole culture.”⁸²

14 183. According to Mark Reuss (President of GMNA from 2009-2013 before succeeding
15 Mary Barra as Executive Vice President for Global Product Development, Purchasing and Supply
16 Chain in 2014), cost and time-cutting principles known as the “Big 4” at GM “emphasized timing
17 over quality.”⁸³

18 184. GM's focus on cost-cutting created major disincentives to personnel who might
19 wish to address safety issues. For example, those responsible for a vehicle were responsible for its
20 costs, but if they wanted to make a change that incurred cost and affected other vehicles, they also
21 became responsible for the costs incurred in the other vehicles.⁸⁴

22 185. As another cost-cutting measure, parts were sourced to the lowest bidder, even if
23 they were not the highest quality parts.⁸⁵

24 _____
25 ⁸⁰ GM Report at 249.

26 ⁸¹ GM Report at 250.

27 ⁸² GM Report at 250.

28 ⁸³ GM Report at 250.

⁸⁴ GM Report at 250.

⁸⁵ GM Report at 251.

1 186. Because of GM's focus on cost-cutting, GM Engineers did not believe they had
2 extra funds to spend on product improvements.⁸⁶

3 187. GM's focus on cost-cutting also made it harder for GM personnel to discover safety
4 defects, as in the case of the "TREAD Reporting team."

5 188. GM used its TREAD database (known as "TREAD") to store the data required to be
6 reported quarterly to NHTSA under the TREAD Act.⁸⁷ From the date of its inception in 2009,
7 TREAD has been the principal database used by GM to track incidents related to its vehicles.⁸⁸

8 189. From 2003-2007 or 2008, the TREAD Reporting team had eight employees, who
9 would conduct monthly searches and prepare scatter graphs to identify spikes in the number of
10 accidents or complaints with respect to various GM-branded vehicles. The TREAD Reporting
11 team reports went to a review panel and sometimes spawned investigations to determine if any
12 safety defect existed.⁸⁹

13 190. In or around 2007-08, Old GM reduced the TREAD Reporting team from eight to
14 three employees, and the monthly data mining process pared down.⁹⁰ In 2010, GM restored two
15 people to the team, but they did not participate in the TREAD database searches.⁹¹ Moreover, until
16 2014, the TREAD Reporting team did not have sufficient resources to obtain any of the advanced
17 data mining software programs available in the industry to better identify and understand potential
18 defects.⁹²

19 191. By starving the TREAD Reporting team of the resources it needed to identify
20 potential safety issues, GM helped to insure that safety issues would not come to light.
21
22
23

24 ⁸⁶ GM Report at 251.

25 ⁸⁷ GM Report at 306.

26 ⁸⁸ GM Report at 306.

27 ⁸⁹ GM Report at 307.

28 ⁹⁰ GM Report at 307.

⁹¹ GM Report at 307-308.

⁹² GM Report at 208.

1 192. “[T]here was resistance or reluctance to raise issues or concerns in the GM culture.”
2 The culture, atmosphere and supervisor response at GM “discouraged individuals from raising
3 safety concerns.”⁹³

4 193. GM CEO Mary Barra experienced instances where GM engineers were “unwilling
5 to identify issues out of concern that it would delay the launch” of a vehicle.⁹⁴

6 194. GM supervisors warned employees to “never put anything above the company” and
7 “never put the company at risk.”⁹⁵

8 195. GM “pushed back” on describing matters as safety issues and, as a result, “GM
9 personnel failed to raise significant issues to key decision-makers.”⁹⁶

10 196. So, for example, GM discouraged the use of the word “stall” in Technical Service
11 Bulletins (“TSBs”) it sometimes sent to dealers about issues in GM-branded vehicles. According
12 to Steve Oakley, who drafted a TSB in connection with the ignition switch defects, “the term ‘stall’
13 is a ‘hot’ word that GM generally does not use in bulletins because it may raise a concern about
14 vehicle safety, which suggests GM should recall the vehicle, not issue a bulletin.”⁹⁷ Other GM
15 personnel confirmed Oakley on this point, stating that “there was concern about the use of ‘stall’ in
16 a TSB because such language might draw the attention of NHTSA.”⁹⁸

17 197. Oakley further noted that “he was reluctant to push hard on safety issues because of
18 his perception that his predecessor had been pushed out of the job for doing just that.”⁹⁹

19 198. Many GM employees “did not take notes at all at critical safety meetings because
20 they believed GM lawyers did not want such notes taken.”¹⁰⁰

21
22
23 ⁹³ GM Report at 252.

24 ⁹⁴ GM Report at 252.

25 ⁹⁵ GM Report at 252-253.

26 ⁹⁶ GM Report at 253.

27 ⁹⁷ GM Report at 92.

28 ⁹⁸ GM Report at 93.

⁹⁹ GM Report at 93.

¹⁰⁰ GM Report at 254.

1 199. A GM training document released by NHTSA as an attachment to its Consent Order
2 sheds further light on the lengths to which GM went to ensure that known defects were concealed.
3 It appears that the defects were concealed pursuant to a company policy GM inherited from Old
4 GM.

5 200. The document consists of slides from a 2008 Technical Learning Symposium for
6 “designing engineers,” “company vehicle drivers,” and other employees at Old GM. On
7 information and belief, the vast majority of employees who participated in this webinar
8 presentation continued on in their same positions at GM after July 10, 2009.

9 201. The presentation focused on recalls, and the “reasons for recalls.”

10 202. One major component of the presentation was captioned “Documentation
11 Guidelines,” and focused on what employees should (and should not say) when describing
12 problems in vehicles.

13 203. Employees were instructed to “[w]rite smart,” and to “[b]e factual, not fantastic” in
14 their writing.

15 204. Company vehicle drivers were given examples of comments to avoid, including the
16 following: “This is a safety and security issue”; “I believe the wheels are too soft and weak and
17 could cause a serious problem”; and “Dangerous ... almost caused accident.”

18 205. In documents used for reports and presentations, employees were advised to avoid a
19 long list of words, including: “bad,” “dangerous,” “defect,” “defective,” “failed,” “flawed,” “life-
20 threatening,” “problem,” “safety,” “safety-related,” and “serious.”

21 206. In truly Orwellian fashion, the Company advised employees to use the words (1)
22 “Issue, Condition [or] Matter” instead of “Problem”; (2) “Has Potential Safety Implications”
23 instead of “Safety”; (3) “Broke and separated 10 mm” instead of “Failed”; (4)
24 “Above/Below/Exceeds Specification” instead of “Good [or] Bad”; and (5) “Does not perform to
25 design” instead of “Defect/Defective.”

26 207. As NHTSA’s Acting Administrator Friedman noted at the May 16, 2014 press
27 conference announcing the Consent Order concerning the ignition switch defect, it was GM’s
28 company policy to avoid using words that might suggest the existence of a safety defect:

1 GM must rethink the corporate philosophy reflected in the
2 documents we reviewed, including training materials that explicitly
3 discouraged employees from using words like ‘defect,’ ‘dangerous,’
4 ‘safety related,’ and many more essential terms for engineers and
investigators to clearly communicate up the chain when they suspect
a problem.

5 208. GM appears to have trained its employees to conceal the existence of known safety
6 defects from consumers and regulators. Indeed, it is nearly impossible to convey the potential
7 existence of a safety defect without using the words “safety” or “defect” or similarly strong
8 language that was verboten at GM.

9 209. So institutionalized at GM was the “phenomenon of avoiding responsibility” that
10 the practice was given a name: “the ‘GM salute,’” which was “a crossing of the arms and pointing
11 outward towards others, indicating that the responsibility belongs to someone else, not me.”¹⁰¹

12 210. CEO Mary Barra described a related phenomenon , “known as the ‘GM nod,” which
13 was “when everyone nods in agreement to a proposed plan of action, but then leaves the room with
14 no intention to follow through, and the nod is an empty gesture.”¹⁰²

15 211. According to the GM Report prepared by Anton R. Valukas, part of the failure to
16 properly correct the ignition switch defect was due to problems with GM’s organizational
17 structure.¹⁰³ Part of the failure to properly correct the ignition switch defect was due to a corporate
18 culture that did not care enough about safety.¹⁰⁴ Part of the failure to properly correct the ignition
19 switch defect was due to a lack of open and honest communication with NHTSA regarding safety
20 issues.¹⁰⁵ Part of the failure to properly correct the ignition switch defect was due to improper
21 conduct and handling of safety issues by lawyers within GM’s Legal Staff.¹⁰⁶ On information and
22 belief, all of these issues also helped cause the concealment of and failure to remedy the many
23 defects that have led to the spate of recalls in the first half of 2014.

24
25 ¹⁰¹ GM Report at 255.

26 ¹⁰² GM Report at 256.

27 ¹⁰³ GM Report at 259-260.

28 ¹⁰⁴ GM Report at 260-261.

¹⁰⁵ GM Report at 263.

¹⁰⁶ GM Report at 264.

1 **C. The Ignition Switch Defects Have Harmed Consumers in Orange County and the**
2 **State**

3 212. GM's unprecedented concealment of a large number of serious defects, and its
4 irresponsible approach to safety issues, has caused damage to consumers in Orange County and
5 throughout California.

6 213. A vehicle made by a reputable manufacturer of safe and reliable vehicles who
7 stands behind its vehicles after they are sold is worth more than an otherwise similar vehicle made
8 by a disreputable manufacturer known for selling defective vehicles and for concealing and failing
9 to remedy serious defects after the vehicles are sold.

10 214. A vehicle purchased or leased under the reasonable assumption that it is safe and
11 reliable is worth more than a vehicle of questionable safety and reliability due to the
12 manufacturer's recent history of concealing serious defects from consumers and regulators.

13 215. Purchasers and lessees of new and used GM-branded vehicles after the July 10,
14 2009, inception of GM paid more for the vehicles than they would have had GM disclosed the
15 many defects it had a duty to disclose in GM-branded vehicles. Because GM concealed the defects
16 and the fact that it was a disreputable brand that valued cost-cutting over safety, these consumers
17 did not receive the benefit of their bargain. And the value of all their vehicles has diminished as
18 the result of GM's deceptive conduct.

19 216. If GM had timely disclosed the many defects as required by the TREAD Act and
20 California law, California vehicle owners' GM-branded vehicles would be considerably more
21 valuable than they are now. Because of GM's now highly publicized campaign of deception, and
22 its belated, piecemeal and ever-expanding recalls, so much stigma has attached to the GM brand
23 that no rational consumer would pay what otherwise would have been fair market value for GM-
24 branded vehicles.

25 **D. Given GM's Knowledge of the Defects and the Risk to Public Safety, it Was Obligated to**
26 **Promptly Disclose and Remedy the Defects.**

27 217. The National Traffic and Motor Vehicle Safety Act of 1966 (the "Safety Act")
28 requires manufacturers of motor vehicles and motor vehicle equipment to submit certain
information to the National Highway Traffic Safety Administration (NHTSA) in order "to reduce

1 traffic accidents and deaths and injuries resulting from traffic accidents.” 49 U.S.C. § 30101 *et*
2 *seq.*

3 218. Under the Safety Act, the manufacturer of a vehicle has a duty to notify dealers and
4 purchasers of a safety defect and remedy the defect without charge. 49 U.S.C. § 30118. In
5 November 2000, Congress enacted the Transportation Recall Enhancement, Accountability and
6 Documentation (TREAD) Act, 49 U.S.C. §§ 30101-30170, which amended the Safety Act and
7 directed the Secretary of Transportation to promulgate regulation expanding the scope of the
8 information that manufacturers are required to submit to NHTSA.

9 219. The Safety Act requires manufacturers to inform NHTSA within five days of
10 discovering a defect. 49 CFR § 573.6 provides that a manufacturer “shall furnish a report to the
11 NHTSA for each defect in his vehicles or in his items of original or replacement equipment that he
12 or the Administrator determines to be related to motor vehicle safety, and for each noncompliance
13 with a motor vehicle safety standard in such vehicles or items of equipment which either he or the
14 Administrator determines to exist,” and that such reports must include, among other
15 things: identification of the vehicles or items of motor vehicle equipment potentially containing
16 the defect or noncompliance, including a description of the manufacturer’s basis for its
17 determination of the recall population and a description of how the vehicles or items of equipment
18 to be recalled differ from similar vehicles or items of equipment that the manufacturer has not
19 included in the recall; in the case of passenger cars, the identification shall be by the make, line,
20 model year, the inclusive dates (month and year) of manufacture, and any other information
21 necessary to describe the vehicles; a description of the defect or noncompliance, including both a
22 brief summary and a detailed description, with graphic aids as necessary, of the nature and physical
23 location (if applicable) of the defect or noncompliance; a chronology of all principal events that
24 were the basis for the determination that the defect related to motor vehicle safety, including a
25 summary of all warranty claims, field or service reports, and other information, with their dates of
26 receipt; a description of the manufacturer’s program for remedying the defect or noncompliance;
27 and a plan for reimbursing an owner or purchaser who incurred costs to obtain a remedy for the
28

1 problem addressed by the recall within a reasonable time in advance of the manufacturer's
2 notification of owners, purchasers and dealers.

3 220. Manufacturers are also required to submit "early warning reporting" (EWR) data
4 and information that may assist the agency in identifying safety defects in motor vehicles or motor
5 vehicle equipment. *See* 49 U.S.C. § 30166(m)(3)(B). The data submitted to NHTSA under the
6 EWR regulation includes: production numbers (cumulative total of vehicles or items of equipment
7 manufactured in the year); incidents involving death or injury based on claims and notices received
8 by the manufacturer; claims relating to property damage received by the manufacturer; warranty
9 claims paid by the manufacturer (generally for repairs on relatively new products) pursuant to a
10 warranty program (in the tire industry these are warranty adjustment claims); consumer complaints
11 (a communication by a consumer to the manufacturer that expresses dissatisfaction with the
12 manufacturer's product or performance of its product or an alleged defect); and field reports
13 (prepared by the manufacturer's employees or representatives concerning failure, malfunction, lack
14 of durability or other performance problem of a motor vehicle or item of motor vehicle equipment).

15 221. Regulations promulgated under the TREAD Act also require manufacturers to
16 inform NHTSA of defects and recalls in motor vehicles in foreign countries. Under 49 CFR §§
17 579.11 and 579.12 a manufacturer must report to NHTSA not later than five working days after a
18 manufacturer determines to conduct a safety recall or other safety campaign in a foreign country
19 covering a motor vehicle sold or offered for sale in the United States. The report must include,
20 among other things: a description of the defect or noncompliance, including both a brief summary
21 and a detailed description, with graphic aids as necessary, of the nature and physical location (if
22 applicable) of the defect or noncompliance; identification of the vehicles or items of motor vehicle
23 equipment potentially containing the defect or noncompliance, including a description of the
24 manufacturer's basis for its determination of the recall population and a description of how the
25 vehicles or items of equipment to be recalled differ from similar vehicles or items of equipment
26 that the manufacturer has not included in the recall; the manufacturer's program for remedying the
27 defect or noncompliance, the date of the determination and the date the recall or other campaign
28 was commenced or will commence in each foreign country; and identify all motor vehicles that the

1 manufacturer sold or offered for sale in the United States that are identical or substantially similar
2 to the motor vehicles covered by the foreign recall or campaign.

3 222. 49 CFR § 579.21 requires manufacturers to provide NHTSA quarterly field reports
4 related to the current and nine preceding model years regarding various systems, including, but not
5 limited to, vehicle speed control. The field reports must contain, among other things: a report on
6 each incident involving one or more deaths or injuries occurring in the United States that is
7 identified in a claim against and received by the manufacturer or in a notice received by the
8 manufacturer which notice alleges or proves that the death or injury was caused by a possible
9 defect in the manufacturer's vehicle, together with each incident involving one or more deaths
10 occurring in a foreign country that is identified in a claim against and received by the manufacturer
11 involving the manufacturer's vehicle, if that vehicle is identical or substantially similar to a vehicle
12 that the manufacturer has offered for sale in the United States, and any assessment of an alleged
13 failure, malfunction, lack of durability, or other performance problem of a motor vehicle or item of
14 motor vehicle equipment (including any part thereof) that is originated by an employee or
15 representative of the manufacturer and that the manufacturer received during a reporting period.

16 223. GM has known throughout the liability period that many GM-branded vehicles sold
17 or leased in the State of California were defective – and, in many cases, dangerously so.

18 224. Since the date of GM's inception, many people have been injured or died in
19 accidents relating to the ignition switch defects alone. While the exact injury and death toll is
20 unknown, as a result of GM's campaign of concealment and suppression of the large number of
21 defects plaguing over 17 million GM-branded vehicles, numerous other drivers and passengers of
22 the Defective Vehicles have died or suffered serious injuries and property damage. All owners and
23 lessees of GM-branded vehicles have suffered economic damage to their property due to the
24 disturbingly large number of recently revealed defects that were concealed by GM. Many are
25 unable to sell or trade their cars, and many are afraid to drive their cars.

1 **E. GM's Misrepresentations and Deceptive, False, Untrue and Misleading Advertising,**
2 **Marketing and Public Statements**

3 225. Despite its knowledge of the many serious defects in millions of GM-branded
4 vehicles, GM continued to (1) sell new Defective Vehicles; (2) sell used Defective Vehicles as
5 "GM certified"; and (3) use defective ignition switches to repair GM vehicles, all without
6 disclosing or remedying the defects. As a result, the injury and death toll associated with the
7 Defective Vehicles has continued to increase and, to this day, GM continues to conceal and
8 suppress this information.

9 226. During this time period, GM falsely assured California consumers in various written
10 and broadcast statements that its cars were safe and reliable, and concealed and suppressed the true
11 facts concerning the many defects in millions of GM-branded vehicles, and GM's policies that led
12 to both the manufacture of an inordinate number of vehicles with safety defects and the subsequent
13 concealment of those defects once the vehicles are on the road. To this day, GM continues to
14 conceal and suppress information about the safety and reliability of its vehicles.

15 227. Against this backdrop of fraud and concealment, GM touted its reputation for safety
16 and reliability, and knew that people bought and retained its vehicles because of that reputation,
17 and yet purposefully chose to conceal and suppress the existence and nature of the many safety
18 defects. Instead of disclosing the truth about the dangerous propensity of the Defective Vehicles
19 and GM's disdain for safety, California consumers were given assurances that their vehicles were
20 safe and defect free, and that the Company stands behind its vehicles after they are on the road.

21 228. GM has consistently marketed its vehicles as "safe" and proclaimed that safety is
22 one of its highest priorities.

23 229. It told consumers that it built the world's best vehicles:

24 We truly are building a new GM, from the inside out. Our vision is
25 clear: to design, build and sell the world's best vehicles, and we have
26 a new business model to bring that vision to life. We have a lower
27 cost structure, a stronger balance sheet and a dramatically lower risk
28 profile. We have a new leadership team – a strong mix of executive
talent from outside the industry and automotive veterans – and a
passionate, rejuvenated workforce.

"Our plan is to steadily invest in creating world-class vehicles, which
will continuously drive our cycle of great design, high quality and
higher profitability."

1 230. It represented that it was building vehicles with design excellence, quality and
2 performance:

3 And across the globe, other GM vehicles are gaining similar acclaim
4 for design excellence, quality and performance, including the Holden
5 Commodore in Australia. Chevrolet Agile in Brazil, Buick LaCrosse
6 in China and many others.

7 The company's progress is early evidence of a new business model
8 that begins and ends with great vehicles. We are leveraging our
9 global resources and scale to maintain stringent cost management
10 while taking advantage of growth and revenue opportunities around
11 the world, to ultimately deliver sustainable results for all of our
12 shareholders.

13 ///

14 ///

15 ///

16 ///

17 ///

18 ///

19 ///

20 ///

21 ///

22 ///

23 ///

24 ///

25 ///

26 ///

27 ///

28 ///

1 231. The theme below was repeated in advertisements, company literature, and material
2 at dealerships as the core message about GM's Brand:

3
4
5 The new General Motors has one clear vision: to design, build and sell the world's
6 best vehicles. Our new business model revolves around this vision, focusing on fewer
7 brands, compelling vehicle design, innovative technology, improved manufacturing
8 productivity and streamlined, more efficient inventory processes. The end result
9 is products that delight customers and generate higher volumes and margins—
10 and ultimately deliver more cash to invest in our future vehicles.

11
12 A New Vision,
13 a New Business Model

14
15 Our vision is simple, straightforward and clear; to
16 design, build and sell the world's best vehicles. That
17 doesn't mean just making our vehicles better than
18 the ones they replace. We have set a higher standard
19 for the new GM—and that means building the best.

20 Our vision comes to life in a continuous cycle that
21 starts, ends and begins again with great vehicle
22 designs. To accelerate the momentum we've already
23 created, we reduced our North American portfolio
24 from eight brands to four: Chevrolet, Buick, Cadillac
25 and GMC. Worldwide, we're aggressively developing
26 and leveraging global vehicle architectures to
27 maximize our talent and resources and achieve
28 optimum economies of scale.

Across our manufacturing operations, we have largely
eliminated overcapacity in North America while
making progress in Europe, and we're committed to
managing inventory with a new level of discipline.
By using our manufacturing capacity more efficiently

and maintaining leaner vehicle inventories, we
are reducing the need to offer sales incentives
on our vehicles. These moves, combined with
offering attractive, high-quality vehicles, are driving
healthier margins—and at the same time building
stronger brands.

Our new business model creates a self-sustaining
cycle of reinvestment that drives continuous improve-
ment in vehicle design, manufacturing discipline,
brand strength, pricing and margins, because we are
now able to make money at the bottom as well as
the top of the industry cycles.

We are seeing positive results already. In the
United States, for example, improved design, content
and quality have resulted in solid gains in segment
share, average transaction prices and projected re-
sidual values for the Chevrolet Equinox, Buick LaCrosse
and Cadillac SRX. This is just the beginning.

232. It represented that it had a world-class lineup in North America:

A World-Class Lineup in North America



Chevrolet Cruze

Global success is no surprise for the new Chevrolet Cruze, which is sold in more than 80 countries around the world. In addition to a 42 mpg Eco model (sold in North America), Cruze's globally influenced design is complemented by its exceptional quietness, high quality and attention to detail not matched by the competition.



Buick Regal

The sport-injected Buick Regal is the brand's latest addition, attracting a whole new demographic for the Buick brand. The newly designed Buick lineup, which saw 52 percent volume growth in 2010 in the United States alone, is appealing to a broader spectrum of buyers.



Chevrolet Equinox

The Chevrolet Equinox delivers best-in-segment 32-mpg highway fuel economy in a sleek, roomy new package. With the success of the Equinox and other strong-selling crossovers, GM leads the U.S. industry in total unit sales for the segment.



Chevrolet Sonic

Stylish four-door sedan and sporty five-door hatchback versions of the Chevrolet Sonic will be in U.S. showrooms in fall 2011. Currently the only small car built in the United States, it will be sold as the Aveo in other parts of the world.



Buick LaCrosse

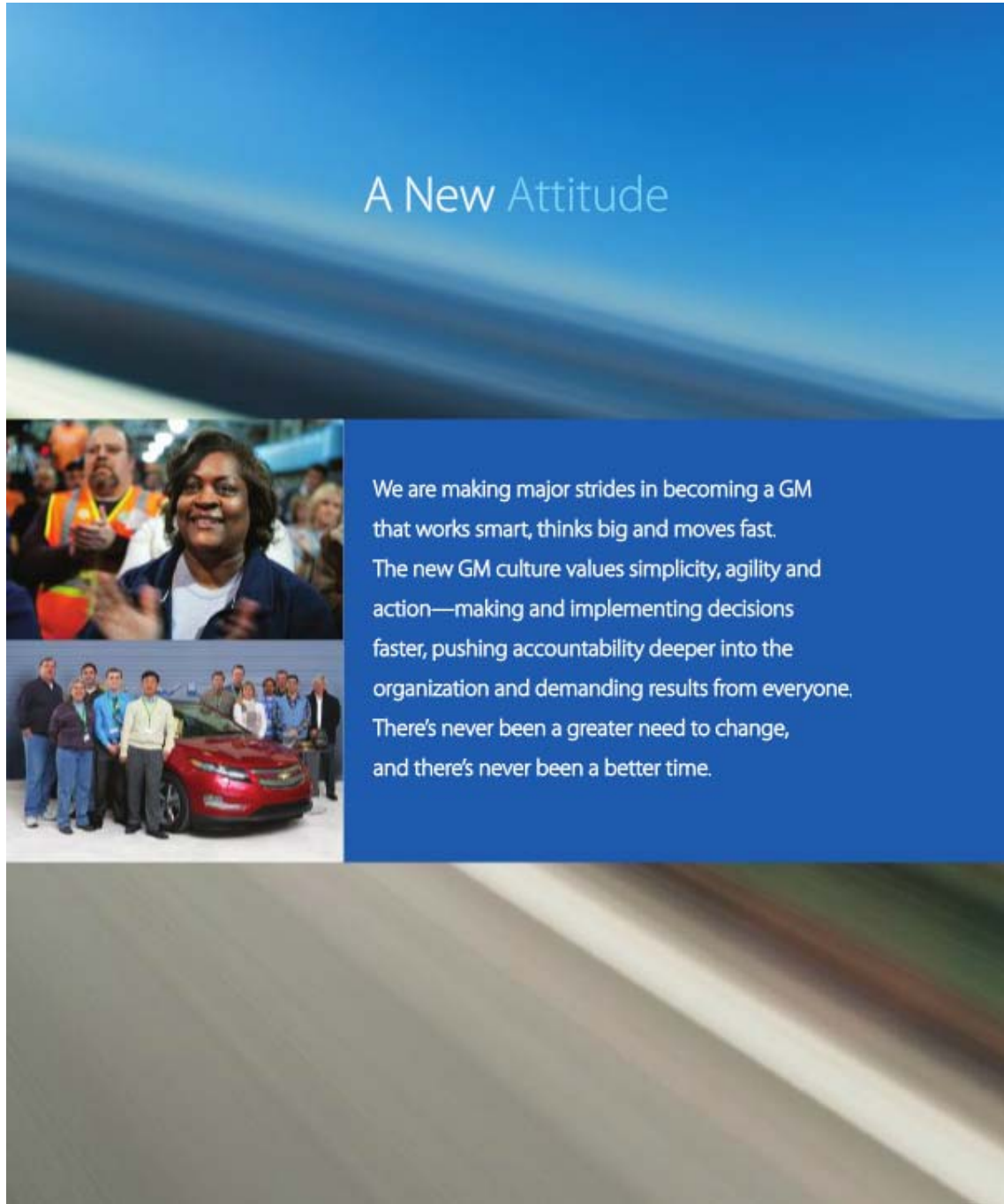
Buick builds on the brand's momentum in the United States and China with the fuel-efficient LaCrosse. With eAssist technology, the LaCrosse achieves an expected 37 mpg on the highway.



Buick Verano

The all-new Buick Verano, which will be available in late 2011, appeals to customers in the United States, Canada and Mexico who want great fuel economy and luxury in a smaller but premium package.

1 233. It boasted of its new “culture”:



2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 234. In its 2012 Annual Report, GM told the world the following about its brand:

25 What is immutable is our focus on the customer, which requires us to
26 go from “good” today to “great” in everything we do, including
product design, initial quality, durability and service after the sale.

27 235. GM also indicated it had changed its structure to create more “accountability”

28 which, as shown above, was a blatant falsehood:

1 That work continues, and it has been complemented by changes to
2 our design and engineering organization that have flattened the
3 structure and created more accountability for produce execution,
4 profitability and customer satisfaction.

5 236. And GM represented that product quality was a key focus – another blatant
6 falsehood:

7 Product quality and long-term durability are two other areas that
8 demand our unrelenting attention, even though we are doing well on
9 key measures.

10 237. In its 2013 Letter to Stockholders GM noted that its brand had grown in value and
11 boasted that it designed the “World’s Best Vehicles”:

12 Dear Stockholder:

13 Your company is on the move once again. While there were highs
14 and lows in 2011, our overall report card shows very solid marks,
15 including record net income attributable to common stockholders of
16 \$7.6 billion and EBIT-adjusted income of \$8.3 billion.

- 17 • GM’s overall momentum, including a 13 percent sales
18 increase in the United States, created new jobs and drove
19 investments. We have announced investments in 29 U.S.
20 facilities totaling more than \$7.1 billion since July 2009, with
21 more than 17,500 jobs created or retained.

22 Design, Build and Sell the World’s Best Vehicles

23 This pillar is intended to keep the customer at the center of
24 everything we do, and success is pretty easy to define. It means
25 creating vehicles that people desire, value and are proud to own.
26 When we get this right, it transforms our reputation and the
27 company’s bottom line.

28 Strengthen Brand Value

Clarity of purpose and consistency of execution are the cornerstones
of our product strategy, and two brands will drive our global growth.
They are Chevrolet, which embodies the qualities of value,
reliability, performance and expressive design; and Cadillac, which
creates luxury vehicles that are provocative and powerful. At the
same time the Holden, Buick, GMC, Baojun, Opel and Vauxhall
brands are being carefully cultivated to satisfy as many customers as
possible in select regions.

Each day the cultural change underway at GM becomes more
striking. The old internally focused, consensus-driven and overly
complicated GM is being reinvented brick by brick, by truly
accountable executives who know how to take calculated risks and
lead global teams that are committed to building the best vehicles in
the world as efficiently as we can.

1 That's the crux of our plan. The plan is something we can control.
2 We like the results we're starting to see and we're going to stick to
3 it – always.

3 238. Once it emerged from bankruptcy, GM told the world it was a new and improved
4 company:



1
2 239. A radio ad that ran from GM's inception until July 16, 2010, stated that "[a]t GM,
3 building quality cars is the most important thing we can do."

4 240. An online ad for "GM certified" used vehicles that ran from July 6, 2009 until
5 April 5, 2010, stated that "GM certified means no worries."

6 241. GM's Chevrolet brand ran television ads in 2010 showing parents bringing their
7 newborn babies home from the hospital, with the tagline "[a]s long as there are babies, there'll be
8 Chevys to bring them home."

9 242. Another 2010 television ad informed consumers that "Chevrolet's ingenuity and
10 integrity remain strong, exploring new areas of design and power, while continuing to make some
11 of the safest vehicles on earth."

12 243. An online national ad campaign for GM in April of 2012 stressed "Safety. Utility.
13 Performance."

14 244. A national print ad campaign in April of 2013 states that "[w]hen lives are on the
15 line, you need a dependable vehicle you can rely on. Chevrolet and GM ... for power,
16 performance and safety."

17 245. A December 2013 GM testimonial ad stated that "GM has been able to deliver a
18 quality product that satisfies my need for dignity and safety."

19 246. GM's website, GM.com, states:

20 Innovation: Quality & Safety; GM's Commitment to Safety; Quality
21 and safety are at the top of the agenda at GM, as we work on
22 technology improvements in crash avoidance and crashworthiness to
23 augment the post-event benefits of OnStar, like advanced automatic
24 crash notification. Understanding what you want and need from your
25 vehicle helps GM proactively design and test features that help keep
26 you safe and enjoy the drive. Our engineers thoroughly test our
27 vehicles for durability, comfort and noise minimization before you
28 think about them. The same quality process ensures our safety
technology performs when you need it.

25 247. On February 25, 2014, GM North America President Alan Batey publically stated:
26 "Ensuring our customers' safety is our first order of business. We are deeply sorry and we are
27 working to address this issue as quickly as we can."
28

1 248. These proclamations of safety and assurances that GM’s safety technology performs
2 when needed were false and misleading because they failed to disclose the dangerous defects in
3 millions of GM-branded vehicles, and the fact GM favored cost-cutting and concealment over
4 safety. GM knew or should have known that its representations were false and misleading.

5 249. GM continues to make misleading safety claims in public statements,
6 advertisements, and literature provided with its vehicles.

7 250. GM violated California law in failing to disclose and in actively concealing what it
8 knew regarding the existence of the defects, despite having exclusive knowledge of material facts
9 not known to the Plaintiff or to California consumers, and by making partial representations while
10 at the same time suppressing material facts. *LiMandri v. Judkins* (1997) 52 Cal. App. 4th 326, 337,
11 60 Cal. Rptr. 2d 539. In addition, GM had a duty to disclose the information that it knew about the
12 defects because such matters directly involved matters of public safety.

13 251. GM violated California law in failing to conduct an adequate retrofit campaign
14 (*Hernandez v. Badger Construction Equip. Co.* (1994) 28 Cal. App. 4th 1791, 1827), and in failing
15 to retrofit the Defective Vehicles and/or warn of the danger presented by the defects after becoming
16 aware of the dangers after their vehicles had been on the market (*Lunghi v. Clark Equip. Co.*
17 (1984) 153 Cal. App. 3d 485; *Balido v. Improved Machinery, Inc.* (1972) 29 Cal. App. 3d 633).

18 252. GM also violated the TREAD Act, and the regulations promulgated under the Act,
19 when it failed to timely inform NHTSA of the defects and allowed cars to remain on the road with
20 these defects. By failing to disclose and actively concealing the defects, by selling new Defective
21 Vehicles and used “GM certified” Defective Vehicles without disclosing or remedying the defects,
22 and by using defective ignition switches for “repairs,” GM engaged in deceptive business practices
23 prohibited by the CLRA, Cal. Civ. Code § 1750, *et seq.*, including (1) representing that GM
24 vehicles have characteristics, uses, benefits, and qualities which they do not have; (2) representing
25 that new Defective Vehicles and ignition switches and used “GM certified” vehicles are of a
26 particular standard, quality, and grade when they are not; (3) advertising GM vehicles with the
27 intent not to sell them as advertised; (4) representing that the subjects of transactions involving GM
28

1 vehicles have been supplied in accordance with a previous representation when they have not; and
2 (5) selling Defective Vehicles in violation of the TREAD Act.

3 **VI. CAUSES OF ACTION**

4 **FIRST CAUSE OF ACTION**

5 **VIOLATION OF BUSINESS AND PROFESSIONS CODE SECTION 17200**

6 253. Plaintiff realleges and incorporates by reference all preceding paragraphs.

7 254. GM has engaged in, and continues to engage in, acts or practices that constitute
8 unfair competition, as that term is defined in section 17200 of the California Business and
9 Professions Code.

10 255. GM has violated, and continues to violate, Business and Professions Code section
11 17200 through its unlawful, unfair, fraudulent, and/or deceptive business acts and/or practices.
12 GM uniformly concealed, failed to disclose, and omitted important safety-related material
13 information that was known only to GM and that could not reasonably have been discovered by
14 California consumers. Based on GM's concealment, half-truths, and omissions, California
15 consumers agreed to purchase or lease one or more (i) new or used GM vehicles sold on or after
16 July 10, 2009; (ii) "GM certified" Defective Vehicles sold on or after July 10, 2009; (iii) and/or to
17 have their vehicles repaired using GM's defective ignition switches. GM also repeatedly and
18 knowingly made untrue and misleading statements in California regarding the purported reliability
19 and safety of its vehicles, and the importance of safety to the Company. The true information
20 about the many serious defects in GM-branded vehicles, and GM's disdain for safety, was known
21 only to GM and could not reasonably have been discovered by California consumers.

22 256. As a direct and proximate result of GM's concealment and failure to disclose the
23 many defects and the Company's institutionalized devaluation of safety, GM intended that
24 consumers would be misled into believing that that GM was a reputable manufacturer of reliable
25 and safe vehicles when in fact GM was an irresponsible manufacture of unsafe, unreliable and
26 often dangerously defective vehicles.

UNLAWFUL

1
2 257. The unlawful acts and practices of GM alleged above constitute unlawful business
3 acts and/or practices within the meaning of California Business and Professions Code section
4 17200. GM’s unlawful business acts and/or practices as alleged herein have violated numerous
5 federal, state, statutory, and/or common laws – and said predicate acts are therefore per se
6 violations of section 17200. These predicate unlawful business acts and/or practices include, but
7 are not limited to, the following: California Business and Professions Code section 17500 (False
8 Advertising), California Civil Code section 1572 (Actual Fraud – Omissions), California Civil
9 Code section 1573 (Constructive Fraud by Omission), California Civil Code section 1710 (Deceit),
10 California Civil Code section 1770 (the Consumers Legal Remedies Act – Deceptive Practices),
11 California Civil Code section 1793.2 *et seq.* (the Consumer Warranties Act), and other California
12 statutory and common law; the National Traffic and Motor Vehicle Safety Act (49 U.S.C. § 30101
13 *et. seq.*), as amended by the Transportation Recall Enhancement, Accountability and
14 Documentation TREAD Act, (49 U.S.C. §§ 30101-30170) including, but not limited to 49 U.S.C.
15 §§ 30112, 30115, 30118 and 30166, Federal Motor Vehicle Safety Standard 124 (49 C.F.R. §
16 571.124), and 49 CFR §§ 573.6, 579.11, 579.12, and 579.21.

UNFAIR

17
18 258. GM’s concealment, omissions, and misconduct as alleged in this action constitute
19 negligence and other tortious conduct and gave GM an unfair competitive advantage over its
20 competitors who did not engage in such practices. Said misconduct, as alleged herein, also
21 violated established law and/or public policies which seek to promote prompt disclosure of
22 important safety-related information. Concealing and failing to disclose the nature and extent of
23 the numerous safety defects to California consumers, before (on or after July 10, 2009) those
24 consumers (i) purchased one or more GM vehicles; (ii) purchased used “GM certified” Defective
25 Vehicles; or (iii) had their vehicles repaired with defective ignition switches, as alleged herein, was
26 and is directly contrary to established legislative goals and policies promoting safety and the
27 prompt disclosure of such defects, prior to purchase. Therefore GM’s acts and/or practices alleged
28 herein were and are unfair within the meaning of Business and Professions Code section 17200.

1 not value safety, consumers would not have purchased new GM vehicles on or after July 10, 2009
2 and would not have purchased “GM certified” Defective Vehicles on or after July 10, 2009.

3 270. Despite notice of the serious safety defects in so many its vehicles, GM did not
4 disclose to consumers that its vehicles – which GM for years had advertised as “safe” and
5 “reliable” – were in fact not as safe or reliable as a reasonable consumer expected due to the risks
6 created by the many known defects, and GM’s focus on cost-cutting at the expense of safety and
7 the resultant concealment of numerous safety defects. GM never disclosed what it knew about the
8 defects. Rather than disclose the truth, GM concealed the existence of the defects, and claimed to
9 be a reputable manufacturer of safe and reliable vehicles.

10 271. GM, by the acts and misconduct alleged herein, violated Business & Professions
11 Code section 17500, and GM has engaged in, and continues to engage in, acts or practices that
12 constitute false advertising.

13 272. GM has violated, and continues to violate, Business and Professions Code section
14 17500 by disseminating untrue and misleading statements as defined by Business and Professions
15 Code 17500. GM has engaged in acts and practices with intent to induce members of the public to
16 purchase its vehicles by publicly disseminated advertising which contained statements which were
17 untrue or misleading, and which GM knew, or in the exercise of reasonable care should have
18 known, were untrue or misleading, and which concerned the real or personal property or services
19 or their disposition or performance.

20 273. GM repeatedly and knowingly made untrue and misleading statements in California
21 regarding the purported reliability and safety of its vehicles. The true information was known only
22 to GM and could not reasonably have been discovered by California consumers. GM uniformly
23 concealed, failed to disclose and omitted important safety-related material information that was
24 known only to GM and that could not reasonably have been discovered by California consumers.
25 Based on GM’s concealment, half-truths, and omissions, California consumers agreed (on or after
26 July 10, 2009) (i) to purchase GM vehicles; (ii) to purchase used “GM certified” Defective
27 Vehicles; and/or (iii) to have their vehicles repaired using defective ignition switches,
28

1 Dated: July 1, 2014

Respectfully submitted,

2 TONY RACKAUCKAS, DISTRICT ATTORNEY
3 COUNTY OF ORANGE, STATE OF CALIFORNIA

4 By: Tony Rackauckas
5 TONY RACKAUCKAS

6 Joseph D'Agostino, Senior Assistant District Attorney
7 401 Civil Center Drive
8 Santa Ana, CA 92701-4575
9 Tel: (714) 834-3600
10 Fax: (714) 648-3636

11 Dated: July 1, 2014

ROBINSON, CALCAGNIE AND ROBINSON

12 By: Mark P. Robinson, Jr.

13 MARK P. ROBINSON, JR., SBN 05442
14 Kevin F. Calcagnie, SBN. 108994
15 Scot D. Wilson, SBN. 223367
16 ROBINSON CALCAGNIE ROBINSON
17 SHAPIRO DAVIS, INC.
18 19 Corporate Plaza Drive
19 Newport Beach, California 92660
20 Tel.: (949) 720-1288
21 Fax: (949) 720-1292
22 mrobinson@rcrlaw.net

23 Dated: July 1, 2014

24 HAGENS BERMAN SOBOL SHAPIRO LLP
25 Steve W. Berman (Pro Hac Vice Pending)
26 Andrew Volk (Pro Hac Vice Pending)
27 HAGENS BERMAN SOBOL
28 SHAPIRO LLP
1918 Eighth Avenue, Suite 3300
Seattle, WA 98101
Telephone: (206) 623-7292
Facsimile: (206) 623-0594
steve@hbsslaw.com

Attorneys for Plaintiff
THE PEOPLE OF THE STATE OF CALIFORNIA