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UNRAVELED DREAM

On this same day 10 years ago, John Z. DeLorean was arrested in L.A. and his car company collapsed; the echoes still reverberate in the courts

By Edward Lapham



John Z. DeLorean probably deserves a testimonial dinner and a lifetime achievement award from the American Bar Association. Exactly 10 years ago—on Oct. 19, 1982—the dream of creating a new sports car company collapsed into infamy when dream-weaver DeLorean was arrested on drug charges in Los Angeles. The ensuing decade is a bitter memory for all involved except lawyers.

Some 125 law firms have rung up an estimated \$25 million in fees from litigation directly related to the project, including \$8 million in billings on DeLorean's personal defense in cases relating to the defunct car company and in two mega-media federal criminal prosecutions in the 1980s. He's even been sued by some of his own attorneys (he countersued) and by his own brother, Charles, a Cadillac-DeLorean dealer in Cleveland.

And though DeLorean is not personally involved, the biggest lawsuit is still pend-

ing. The trustee and some creditors of the long-dead DeLorean Motor Co., including the British government, are pursuing a \$450 million lawsuit against Arthur Andersen, the accounting firm that audited DeLorean's operations. It's accused of allowing more than \$17.65 million to disappear.

The drug bust was a quirk, a chance snag that unravels an entire sweater. To followers of DeLorean's adventures, the charges were oddly unsurprising; just another twist at the end of a strange tale that involved celebrity investors, foreign governments, international intrigue and some of the best minds in the auto industry. Most prominent among the latter was Lotus-founder and engineering genius Colin Chapman.

Himself a bright engineer, but never satisfied with what he had, DeLorean gave up a promising career at General Motors to pursue what he described as a personal dream of building an "ethical sports car."

Ever fond of the limelight, he'd stood out as an eccentric at GM by wearing long hair,

double-breasted blazers and bell bottom trousers. Such non-conformity rapidly became something more, as DeLorean quite literally went Hollywood, even taking starlets as his second and third wives. He bought shares in the New York Yankees and San Diego Chargers, invested in real estate and pursued myriad get-rich-quick schemes.

Ten years later, Colin Chapman is dead, his successor Fred Bushell is in prison, General Motors owns Group Lotus. And John DeLorean is skidding uncontrollably toward Preston Tucker-like obscurity.

DeLorean's whole life was tied to the auto industry. Born Jan. 6, 1925 in a working class neighborhood on Detroit's east side, he was the son of a Ford worker. He began his own automotive career in 1952 with a short stint at Chrysler, then went to Packard Motor Co., and in 1956 joined Pontiac as director of advance engineering.

He happened into Pontiac at just the right time. General Manager Semon E. "Bun-

kie'' Knudsen took DeLorean under his wing. Knudsen was resuscitating the division, throwing off its image as a little old lady's car—his young, lively engineering protege practically embodied the new Pontiac. For the rest of his GM career, DeLorean tended to follow one step behind fellow Pontiac team member Pete Estes, who eventually became GM president.

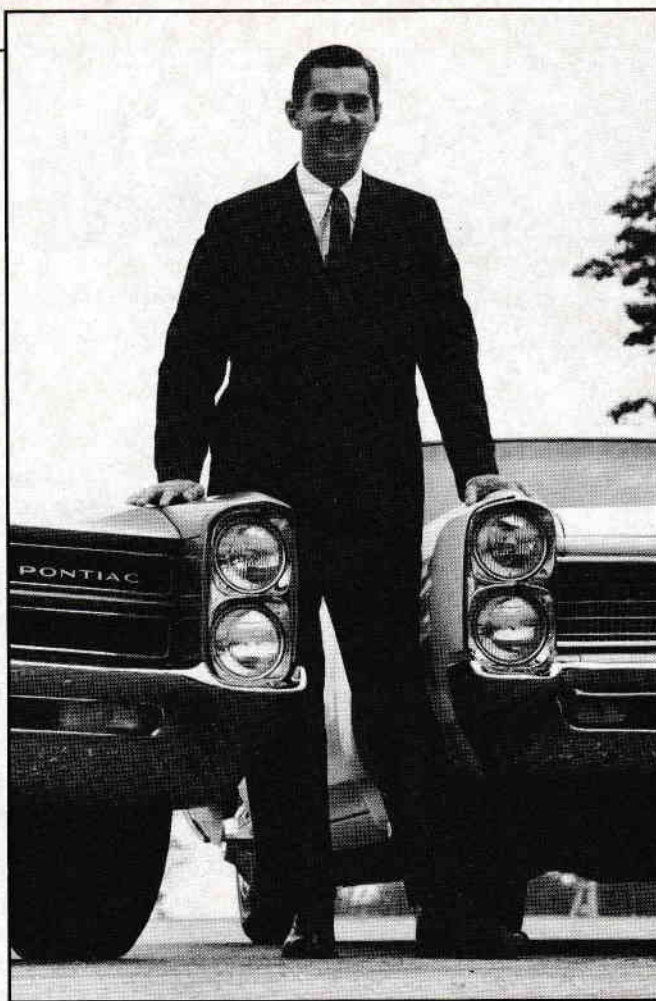
DeLorean worked his way up the engineering ladder at Pontiac, helping build the "wide track" theme that rejuvenated the division. He also laid the foundation for the evolution to Pontiac's performance image that began with the GTO. At age 40, in 1965, DeLorean was elected a GM vice president and named general manager of Pontiac, giving him the post position as a "fast-tracker." Four years later he was youngest-ever general manager of Chevrolet and by '71 Chevy posted record sales, for the first time topping more than 2 million cars and trucks sold in a single year.

But in October 1972, the fun was over. DeLorean was promoted to a staff job as group vice president of car and truck divisions and moved to the stuffy 14th floor of the GM Building in Detroit. Just six months later, in April 1973, DeLorean, then 48, left General Motors amid reports that his lifestyle, personality and behavior clashed with the GM image and his superiors.

The world was DeLorean's playground and he no longer had to worry about GM's rules. Gone were first wife Elizabeth and second wife Kelly Harmon. DeLorean married Cristina Ferrare and began to build his empire, using his "dream" as the building block.

The only thing about GM that DeLorean may have missed was the easy access to mountains of credit. He soon proved more than able to find cash on his own. Funding for his car was a complex financial patchwork quilt, stitched together with little more than the thin thread of one man's reputation.

There was an initial \$600,000 fee Allstate Insurance Co. paid to DeLorean's consulting firm in 1974 to develop a "safety car"—and to publicly tout the value of airbags. Stock in the DeLorean Motor Co. was sold to dealers who signed up to sell the as yet unseen car. And \$15.5 million came from well-heeled investors like DeLorean's Hollywood pals Johnny Carson, country singer Roy Clark and entertainer Sammy Davis Jr., who put money into a research limited partnership that was supposed to develop a revolutionary composite molding process to be used in the car's manufacture.



Young John DeLorean (left) was a hotshot engineer at Pontiac, contributing to the overhead-cam inline six, the Tempest and the GTO

By the time the car got to market in mid-1981, it was over-priced (\$26,600), too heavy (2800 pounds) and under-powered (see sidebar). The press, and prospective buyers, were underwhelmed.

But neither the drug bust nor automotive failings collapsed DeLorean's empire. The company's trouble began in earnest in late 1981, nearly a year before DeLorean's drug arrest, when the company was short about \$20 million in working capital.

"If the company had had the ('missing' \$17.65 million) at the end of 1981, it could have pulled through," says Malcolm Schade, a U.S. bankruptcy attorney who has represented the British government at several stages of the company's demise.

It took a decade for the courts to establish what happened. Ironically, when DeLorean was arrested by federal agents in a motel room at Los Angeles International Airport in the early evening of

Tuesday, Oct. 19, 1982 and charged with trafficking in cocaine, the car project was already dead. Only hours before, the British government—which had put the company in receivership in February—pulled the plug. So legal action began on parallel fronts, simultaneously, against DeLorean the man and DeLorean the car company.

It didn't matter that DeLorean would eventually be acquitted of the drug charges in August 1984. It didn't matter that he would be indicted on federal fraud charges in Detroit in 1985, or that he would again beat the U.S. criminal justice system, winning acquittal of all fraud charges in December 1986 after a 2½-month trial.

In people's minds, the car company's failure is linked to the sight of popular, one-time wunderkind John DeLorean—visibly tired and shaken—wearing manacles and leg irons and being herded from one federal facility to another. A sobering sight to those who had measured his success in Detroit and monitored his project. Television networks played and replayed a surrealistic federal surveillance tape that seemed to show DeLorean boasting the cocaine was "as good as gold" and had arrived in the nick of time. The man who had thrived on publicity and public acclaim made the cover of *Time* magazine in handcuffs, and became the butt of night club and TV talk show jokes.

Just six days after DeLorean's arrest the

But the biggest pop came from British taxpayers. DeLorean spent nearly three years looking for the right deal; he shopped cities like Detroit and Allentown, Pa., states like Texas, Ohio and Connecticut, and countries like Spain, Ireland and Puerto Rico.

Like most other candidates, Northern Ireland—wracked by sectarian strife and with as many as half the employment-aged males jobless in some areas—was seeking a magic bullet to solve its problems. In 1978, the British Labor government succumbed to the American disease—throwing money at a problem—and agreed to provide most of the working capital for the DeLorean project, initially some \$140 million in grants, loans and equity, to lure the factory to Belfast, hoping to put Ulstermen to work.

With British financing and a Belfast plant, DeLorean chose Lotus to do the production engineering. Lotus, under the auspices of Chapman, immediately scrapped most of the work done in the preceding four years and devised a version of its backbone chassis and vacuum-assisted, resin-injected molded plastic body. Lotus also used a much-touted modified front wishbone suspension.

But Lotus never finished the production engineering, the tech manuals or plans on how to produce 20,000 cars a year. The car finally went into production only after DeLorean retained a super group of retired U.S. engineers to take it from prototype to production in six months.

U.S. distribution arm, DeLorean Motor Co., filed for protection from creditors under Chapter 11 of the bankruptcy code. DeLorean claimed he wanted to reorganize. But the project was dead, and everybody knew it. The British government had placed the factory in receivership in February and the appointed receiver had run out of patience after seven months of promises that DeLorean had some mystery investor or another to save the project.

Just hours before DeLorean was arrested, the receiver chose euthanasia.

It was the threat of foreclosure by the British government's appointed receiver that motivated DeLorean in July 1982, when James Hoffman, a former neighbor in Pauma Valley, Calif., approached him with a scheme to raise \$15 million. DeLorean, desperate to prop up his venture, was an easy mark. He had no way of knowing Hoffman was working for the feds—a convicted felon turned informant whose job was to lure unsuspecting, but willing, participants into federal sting operations.

The cocaine trial was a media circus with DeLorean's attorney Howard Weitzman playing ringmaster, forcing the federal criminal justice system to jump through hoops like trained bears. In the end, the jury accepted the defense contention that the government behaved outrageously. Acquittal came in August 1984.

Against this backdrop were nagging questions about the \$17.65 million that disappeared from the sports car project through a maze of Panamanian corporations and Swiss bank accounts. It came up time and again in court as creditors and investors sought to recover what they could from the estate of the company.

It took more than a year after the acquittal on drug charges before DeLorean was indicted on fraud and racketeering charges in Detroit. It was a busy year. DeLorean and wife Cristina went through a messy divorce. And DeLorean talked up plans for another niche sports car, dubbed Firestar, for which



DeLorean in the spotlight, 1980: Such intense media attention would be less welcome a few years later

ment. With the company wallowing in Chapter 11, the betrayed had their opportunity to ask "why?"

In Chapter 11 proceedings, creditors are allowed to form a committee and get involved. One thing the committee can do is investigate, and the DeLorean creditors committee did. Its chairman was Schade, then a 31-year-old securities and bankruptcy attorney drawn into the affair because his law firm had represented the British government in an earlier, failed bailout proposal.

a lead backer was self-proclaimed businessman Gordon Novel. Novel had federal wiretap and firearms convictions on his record, and was a key figure in the Kennedy assassination investigation of New Orleans district attorney Jim Garrison. He pitched the state of Louisiana for an investment, but failed to secure it.

Now, at 41, Schade is a top investigative attorney and still involved in the DeLorean case against accounting firm Arthur Andersen, which creditors claim should have uncovered and prevented many of the things that killed the project.

Under Schade, the committee and its attorneys used subpoena power to trace \$17.65 million that DeLorean's car company supposedly paid to Lotus for early development work. The money actually was paid to GPD Services Inc., a Panamanian corporation controlled by a business associate of Colin Chapman and Fred Bushell. The money never made it to Lotus; it never went into the car project.

When the DeLorean project collapsed, many people felt betrayed: the 2600 who'd been promised jobs in Belfast, the 365 dealers who'd signed up to sell the car, the celebrity investors, the employees who had forfeited good jobs to work for DeLorean, the creditors and the British govern-

DeLorean's car had surface appeal

DMC-12 put a good face on not-much performance

The hoopla surrounding the formation (and dismemberment) of John DeLorean's car company often overshadows its only product, the DeLorean DMC-12, an innovative and interesting, if not wholly successful, automobile.

Although DeLorean had spoken of ground-breaking chassis technology in the seven years since founding the company, his 1981 gullwing coupe employed a Lotus-like steel backbone chassis, the balance of the structure being an underbody of fiberglass-reinforced plastic. Atop this



DeLorean DMC-12 was an interesting grand touring coupe, but was no world-beater

was affixed the trademark stainless steel skin, which, on the plus side, was unique, easy to care for, and didn't rot. One negative was a lack of color choice, though

Instead, it flowed into Swiss bank accounts controlled by Chapman, Bushell and Swiss attorneys. About half of the missing funds found their way back into the United States in 1979 in the form of a "loan" that John DeLorean used to buy a Logan, Utah company that made snow grooming equipment for ski slopes.

Schade's committee also discovered a number of other DeLorean projects having nothing to do with the sports car and suggested that DeLorean had spent the company's money and time pursuing a variety of grandiose schemes.

While John DeLorean was supposedly focusing his talents on starting a new automaking venture, there were plans to buy Jeep from American Motors; acquire American Motors; buy Lotus; buy Lancia; buy Alfa Romeo; buy Lamborghini; merge with Chrysler Corp.; merge with Ford Motor Co.; do joint ventures with Mitsubishi, Hyundai and Suzuki; sell toiletries; sell sunglasses; build a bus; acquire a Mexican oil transport business; explore for coal and oil; import diesel engines; acquire the rights to the Stirling engine; develop the Hot Vapor Cycle engine with stock car legend Henry "Smokey" Yunick; build four-wheel-drive vehicles in Poland; build vehicles in Romania; sell CB radios; sell sunroof kits; and even buy a bank.

DeLorean's defense in Detroit was that the \$17.65 million, supposedly paid to Lotus for development work, had been siphoned by Chapman alone, and that Chapman had loaned DeLorean (the person, not the company) about half the money.

Chapman, who died in December 1982 just months after the drug bust, was not around to defend himself. He was replaced as chairman by his long-time friend and financial man, Fred Bushell. The U.S. government was unable to penetrate DeLorean's defense that the dead man did it, and he was acquitted in December 1986.

Just weeks later, on John DeLorean's 62nd birthday, ex-wife Cristina, by then re-

married to TV executive Tony Thomopoulos, said in a sworn deposition that she'd seen DeLorean practicing other people's signatures, and aging documents with a big Westinghouse light bulb in a bedroom closet of her mother's Los Angeles home.

He was off the hook in America already, but bankruptcy attorneys and criminal officials in Britain continued their investigations. Eventually, they uncovered incriminating documents in Bushell's home—Chapman's finance man was still holding the paper trail. He was charged with fraud and earlier this year pleaded guilty to conspiring with Chapman and DeLorean to take the \$17.65 million. In June, Bushell was sentenced to three years in prison and fined more than \$4 million for his part in the fraud.

It was a conspiracy conviction. The Belfast judge who sentenced Bushell made it clear that he thought all three men—Bushell, Chapman and DeLorean—had taken the money and suggested DeLorean would have received a 10-year sentence had he stood in the dock with Bushell. There remains an open arrest warrant for DeLorean in Britain and its territories.

Even after Bushell confessed, DeLorean proclaimed his innocence. He was acquitted of similar charges in the United States, says DeLorean, and would gladly return to Britain to put the matter to rest, if the British government would grant him immunity.

Although DeLoreans still turn up in small-town Fourth of July parades, the car's real visibility—and only commercial success—came in Hollywood where it was cast as a time machine in the *Back to the Future* film trilogy. Schade, who still represents the British government, says it didn't have to end that way, that with the necessary capital the company could have corrected its errors and made a go of it.

"What doomed the project was the systematic looting of substantial portions of the company's capital," says Schade.

The mother lode for the stiffed credi-

tors could be the Arthur Andersen lawsuit, which includes a request for treble damages under the Racketeering Influenced and Corrupt Organizations (RICO) Act. It's been going on for years and the stakes are so high that the accounting firm even subpoenaed and deposed former British prime minister Margaret Thatcher. It could be another year before that case goes to trial or is settled.

For the last 10 years, DeLorean has steadfastly blamed the British government—particularly the conservative Thatcher government—for the collapse of his dream. He has claimed the government wanted him to fail for various social and political reasons. The costs of that failure have been staggering.

Indeed, DeLorean paid a price. He lost a wife, a princely portion of his personal fortune and his standing in the automotive world. The one-time globe trotter also has had his travel restricted by the British government's open arrest warrant, though the U.S. government won't extradite him.

Only two months ago, DeLorean sold his two-story, 20-room Manhattan apartment so he could pay off a \$9.57 million court settlement with the British receivers of his closed factory.

"It's just such a waste," said a one-time friend and colleague of DeLorean earlier this month. "How could such a brilliant mind destroy itself through such self-indulgence?"

His legacy comprises little more than ongoing litigation, books, magazine articles and television documentaries. Northern Ireland has reformed its bureaucracy and the way it recruits industry. The British government formed the Serious Fraud Office to investigate complicated scams. And there are 8000 silver bullets—cars that aren't appreciating for their owners, but will never rust.

Today, John DeLorean talks about other "quite sensational" projects that he's working on, and still enjoys hearing from DeLorean sport car owners.

Would he do it all over again? "Sure," DeLorean said earlier this month, "But not in a place like that (Northern Ireland)." ■

many were painted by owners. The Giugiaro-designed shape was fresh, exotic, and looks advanced even today, if perhaps a little "space age."

Overall length was 168 inches, on a wheelbase of 94.8 inches. All in, the car weighed about 2900 pounds, including standard air conditioning and a host of power assists. The suspension was fully independent, with coil springs and unequal A-arms up front, a semi-trailing arm affair out back, and four-wheel disc brakes.

DeLorean originally conceived a mid-engined car, but his final drivetrain choice—the Peugeot-Renault-Volvo V6—meant a rear-engined one, with the powerplant behind the rear axle and less-than-ideal 38/62 weight distribution.

The 2.8-liter injected, sohc V6 put out a rather non-supercar-like 130 hp and 162 lb ft of torque. Transmission choices were Renault-sourced five-speed manual and three-speed automatic transaxles.

The 6-foot-4 DeLorean demanded that the car have adequate interior room, comfort and luxury. Entry via the gullwing doors is easy, and the leather-lined cabin is a rather friendly spot. Full instrumentation is housed in a binnacle on the dash, and the overall ergonomics are surprisingly good. The tiny "gun slit" windows take a little getting used to.

The DMC-12 is definitely a grand tourer, not a racer. The six is well-mannered, though not muscular; 0-60 mph times are in the 10.0-second range, the

quarter-mile coming up in just under 18.0 seconds. Ride quality is fairly supple yet well controlled. While the handling feels sharp in moderate cornering, the car doesn't like to be pushed hard, with body roll and the effects of the rear-mounted engine setting in at the limit. Build and finish quality are better than one might expect, and the DeLorean is probably one of the more practical and driveable "exotics." List price in '81 was \$26,600 (versus an initial target of \$15,000). Through 1983, an estimated 8000 DeLoreans were built, though the initial annual volume projection was 30,000. A DMC-12 in good condition sold for less than \$9,000 in August at Rick Cole's Monterey auction.

—Matthew L. Stone