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G.M. Bankruptcy Seen as All But Inevitable

After 100 years in business and 10 months of frenzied but failed restructuring, **General Motors** is weeks from the bankruptcy filing experts say will be required to complete the Obama administration's bid to reshape a fallen icon of American industry.

Facing a government-imposed June 1 deadline to restructure, G.M. is scrambling to slash some \$27 billion of bond debt, win sweeping cost concessions from the United Auto Workers union and eliminate almost 1,600 U.S. dealers.

But with the clock ticking, experts see it as all but certain G.M. will follow its smaller rival **Chrysler** into federal bankruptcy court, Reuters reported.

"I almost think it is inevitable," independent auto industry analyst Erich Merkle told the news service. "I don't know how they are going to escape it."

The battery of problems to have hit G.M. range from plunging sales and declining share to a line-up that has seen more misses than hits over the past decade and that trails engineering leaders like **Toyota Motor** and **Honda Motor** in hybrid technology.

But G.M.'s debt-laden balance sheet is the source of its immediate crisis and the reason restructuring experts, analysts and auto executives do not see a way forward that avoids what could be a complicated and contentious bankruptcy.

"The only way it is not inevitable is if the government accepts whatever percentage of bondholders have tried to exchange, whether it is 40 percent or 50 percent or 60 percent," Peter Kaufman, president and head of restructuring and distressed mergers and acquisitions at the Gordian Group LLC in New York, told Reuters. G.M. has said that it must have 90 percent of the \$27 billion of bonds participate in the exchange or it will be forced to file for bankruptcy.

G.M.'s offer to its bondholders would give them only a 10 percent equity stake in a reorganized company. Representatives of a committee representing major bondholders have called that offer unfair given the payout being offered to the UAW.

In a sign of how far apart the sides remain, bondholders have sought a majority stake in the new G.M., the controlling position in a new and smaller auto company G.M. has offered to the U.S. Treasury.

After extending \$15.4 billion to keep G.M. afloat since the start of the year, the U.S. Treasury would own at least 50 percent of the automaker under G.M.'s proposed terms.

A UAW healthcare trust would hold nearly 40 percent of G.M. in return for allowing G.M. to pay \$10 billion — half of its remaining funding obligation — in stock, instead of cash.

“Trying to get the bondholders, labor and the dealers and other constituents all onboard with an out-of-court plan is a very difficult goal,” Bob Gordon, a restructuring expert at Clark Hill PLC, told Reuters.

Chrysler’s case, the sixth-largest U.S. corporate bankruptcy, has been watched from the start by some analysts and administration officials as a dry run for a G.M. case.

Chrysler, which filed for bankruptcy on April 30, has won court approval to proceed with a rapid sale of most of its assets to a new company led by Italy’s **Fiat**, paving the way for its emergence in as little as 60 days.

G.M. said last week that it would probably follow suit by looking for an equally quick sale of its best assets, but experts caution that its process could be harder.

“G.M. is a case that is much larger in scale and by virtue of its size it’s more complicated on many different levels,” said Scott Stuart, a partner with Donlin Recano, a claims administrator for bankruptcy cases. “It will be a more traditional reorganization.”

Underscoring the divisions between G.M. and stakeholders, the UAW on Monday repeated its opposition to a G.M. restructuring plan that includes closing 16 U.S. plants.

G.M.’s announcement last week that it planned to drop more than a quarter of its nearly 6,000 U.S. dealers has also triggered an outcry from some of those independent businesses.

Chief Executive Fritz Henderson, who took G.M.’s top job when his predecessor was fired by the Obama administration’s autos task force, has said it could be possible for G.M. to complete the bankruptcy process within 60 days.

But Chrysler was helped by having Fiat as a buyer waiting on the other side of its reorganization. It is unclear what entity would buy G.M.’s assets if U.S. officials run its reorganization by the Chrysler play book, analysts said.

“General Motors getting out of bankruptcy in 60 days? That’s impossible,” Van Conway, a turnaround expert at Conway MacKenzie, told Reuters.

“G.M. doesn’t have a third-party suitor so they have to fix themselves in Chapter 11,” Conway said. “That makes it a lot more time-consuming.”

Chrysler’s major secured lenders agreed to cut their claims on \$6.9 billion in debt to 29 cents on the dollar. A similar consensus among G.M.’s major bondholders is seen as unlikely.

“G.M. has more moving parts and it’s not clear whether they will have as broad of a consensus when it enters bankruptcy,” Clark Hill’s Mr. Gordon said.

G.M. has warned that its shares could be worth nothing in a bankruptcy filing or less than two cents on the dollar if it presses ahead with an out of court restructuring that would include the issuance of 60 billion new shares.

Shares have dropped 94 percent over the past year but were up more than 8 percent on Monday to \$1.18. G.M.’s 8.25-percent notes due in 2023 last traded weaker at about 4 cents on the dollar on Friday, when it yielded more than 185 percent. Those notes traded as high as 10.75 cents in late April, according to MarketAxess data.