GM Bankruptcy Looms Imminent

John Crawley and Kevin Krolicki

WASHINGTON/DETROIT (Reuters) – General Motors Corp said on Wednesday that a crucial bond exchange proposal failed to gain enough support and that its board of directors would meet to review the automaker's options, clearing the path for what would be the largest U.S. industrial bankruptcy ever.

GM said in a statement that an offer to exchange $27 billion in bond debt for a 10 percent stake in a reorganized company by a midnight deadline had fallen far short of its debt reduction target set in consultation with the Obama administration.

The company said in a release that "substantially less" than the 90 percent threshold had been tendered and none of the exchange offers would be accepted.

The exchange had been seen as GM's last hope to cut debt outside the kind of government-financed bankruptcy that has been underway for its smaller rival Chrysler since the end of April.

The automaker's board could meet as soon as Wednesday to review options for the automaker, which has been kept in operation since the start of the year with $19.4 billion in emergency federal loans, representatives said.

GM's bond exchange offer had been dogged by criticism since it was launched a month ago that it was an unfairly low payout made at the direction of U.S. officials more sympathetic to the competing claims of GM's unionized workers and retirees.

GM shares, which could be worthless if the automaker files for bankruptcy, were down 10 percent at $1.29 in premarket trading. The shares have traded in a 52-week range of $18.18 to $1.00.

BLAME THE BONDHOLDERS?

Analysts said GM's bondholders had tipped the company toward a near-certain bankruptcy that would rank as one of the largest and most complex reorganizations in U.S. history.

"I think the exchange offer was really a transparent attempt to blame bondholders for the bankruptcy rather than to accept responsibility for years of mismanagement and failure to anticipate things that should have been understood," said Richard Tilton, a restructuring analyst at Covenant Review.

"I think the task force made that hurdle so high, they wanted them to go into bankruptcy. They see that as the solution," independent auto industry analyst Erich

Merkle said on Tuesday.

GM is widely expected to file for bankruptcy by June 1, the deadline set by President Barack Obama for the company to demonstrate its viability or seek refuge in bankruptcy court.

"GM today stands at the very brink of bankruptcy," the United Auto Workers said in a document released on Tuesday that detailed terms for the sweeping concession agreement now before rank-and-file members for votes Wednesday and Thursday.

Ratification, which is widely expected, is a priority of the Obama administration's autos task force, which wants GM to sew up big-ticket cost-cutting and other deals and demonstrate stakeholder unity ahead of any Chapter 11 filing.

Any major changes in the ownership structure of a new GM appeared unlikely as the government is ready to increase its planned stake -- and its risk -- from 50 percent to as much as 70 percent in order to further cut the company's debt, the Wall Street Journal said on Tuesday.

The U.S. government has provided a combined $36.6 billion to GM, bankrupt Chrysler and their financing units since December and has said it stands ready to finance a GM bankruptcy proceeding.

The Journal reported that the Treasury was prepared to sink another $50 billion into GM through various financings, most of which would take the form of company equity.

The key for GM's negotiations with the UAW was how the two restructured payment terms on $20 billion the automaker still owes to a trust fund for retiree health care.

The union has agreed to take 17.5 percent of common stock in a restructured GM. The union would also be paid $6.5 billion in preferred stock and would be granted a $2.5 billion note.

The union would also have a warrant for another 2.5 percent of the stock in a new GM that would be majority held by the U.S. government.

(Reporting by Jui Chakravorty and Kevin Krolicki; Additional reporting by John Crawley, Walden Siew, David Lawder, Emily Chasan and Nick Carey; Editing by Patrick Fitzgibbons and Brian Moss)