

GM Bankruptcy Said Almost Inevitable

TOM KRISHER, AP Auto Writer

DETROIT (AP) – For General Motors Corp., the task at hand is so difficult that experts say a Chapter 11 bankruptcy filing is all but inevitable. To remake itself outside of court, GM must persuade bondholders to swap \$27 billion in debt for 10 percent of its risky stock. On top of that, the automaker must work out deals with its union, announce factory closures, cut or sell brands and force hundreds of dealers out of business — all in three weeks. "I just don't see how it's possible, given all of the pieces," said Stephen J. Lubben, a professor at Seton Hall University School of Law who specializes in bankruptcy.

GM, which is living on \$15.4 billion in federal aid, faces a June 1 government deadline to complete its restructuring plan. If it can't finish in time, the company will follow Detroit competitor Chrysler LLC into bankruptcy protection. Although company executives said last week they would still prefer to restructure out of court, experts say all GM is doing now is lining up majorities of stakeholders to make its court-supervised reorganization move more quickly. "If we need to pursue bankruptcy, we will make sure that we do it in an expeditious fashion. The exact strategies I'm not getting into today, but we'll be ready to go if that's required," CEO Fritz Henderson said last week.

The threat of bankruptcy, however, may be just a negotiating ploy to pull reluctant bondholders into the equity swap deal. In Chrysler's case, some secured debtholders resisted taking roughly 30 cents on the dollar for what they were owed, but most gave in after they were

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identified in court documents. Henderson, who took over in March when the government ousted Rick Wagoner, said last week there's still time to get everything done by the deadline, although he conceded it will be difficult to meet a government requirement that 90 percent of its thousands of bondholders agree to the stock swap.

The biggest obstacle to GM restructuring out of court appears to be its bondholders, who have been reluctant to sign on to the stock swap when the government and United Auto Workers union would get far more stock in exchange for debts owed by GM. GM has proposed issuing 62 billion new shares, 100 times more than the 611 million now offered publicly.

Even though the U.S. government has agreed to back up GM and Chrysler new-car warranties, potential car buyers already view GM as if it's in bankruptcy, reflected by the company's steep revenue drop in the latest quarter, Lubben said. On Thursday, GM posted a \$6 billion first-quarter loss and said its revenue dropped plunged by nearly half, largely because bankruptcy fears scared customers away from showrooms. "I don't think anyone is buying cars from a company who is wringing their hands about a potential bankruptcy for the past year or so," he said.

Under Chapter 11, a company can stay in operation under court protection while sheds debts and unprofitable assets to emerge in a stronger financial position. At this point, GM needs to resolve the uncertainty and get in and out of bankruptcy as quickly as possible, Lubben said. The company is talking with the UAW and Canadian auto workers unions about concessions, including getting the UAW to take roughly 39 percent of its stock in exchange for half of the \$20

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billion GM must pay into a union-run trust that will take over retiree health care payments next year.

About 50 percent of the stock would go to the government for its loans. GM said last week it would need another \$2.6 billion in May and \$9 billion more for the rest of the year, bringing the total to \$27 billion. One percent would go to current shareholders, with bondholders getting the other 10 percent. Bondholders are reluctant to take the deal because the government and UAW are getting far bigger stakes in the company, said Kevin Tynan, an industry analyst for Argus Research in New York. "When you look across at what the union is getting and what the government is getting, to expect them to take 10 percent is just unrealistic," he said.

Cutting dealers also remains a huge hurdle, with GM hoping to shed 2,600 of its 6,246 dealerships by 2010. But dealers are protected by state franchise laws, and trying to shed them outside of bankruptcy would result in either millions of dollars in payments or multiple lengthy lawsuits, Lubben said. "That means you've got to negotiate with each one of those dealers individually."

Also, GM on Friday told its major parts suppliers that it would move up payments due on June 2 to May 28. Company spokesman Dan Flores said it was being done to help the suppliers at a critical time, but he denied that the payments were pulled ahead of a potential June 1 bankruptcy filing. GM has begun to temporarily close 13 assembly plants for up to 11 weeks through mid-July in an effort to control inventory. With Chrysler plants also shut down during its bankruptcy proceedings, parts suppliers will soon have no income and could go under.

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It would help speed up GM's stay in bankruptcy court if it could pull together big blocks of stakeholders to agree on reducing debt or changing other stakes, said Robert Gordon, head of the corporate restructuring and bankruptcy group at the Clark Hill PLC law firm in Detroit. During its quest for government aid, GM executives said bankruptcy would severely cut their sales, with research showing that people would shy away from GM vehicles for fear that warranties would not be backed and parts would not be available.

Tynan said the executives now can't change their story, even though they likely know that bankruptcy is inevitable. "They're sort of morally obligated to say we're intent on doing this outside of bankruptcy," he said. "But at the end of the day, they just want the magnitude of the restructuring to get done."

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