



GM in "intense" preparations for bankruptcy: source

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By Chelsea Emery and Soyoung Kim

NEW YORK/DETROIT (Reuters) - General Motors Corp is in "intense" and "earnest" preparations for a possible bankruptcy filing, a source familiar with the company's plans told Reuters on Tuesday.

A plan to split the corporation into a "new" company made up of the most successful units, and an "old" one of its less-profitable units, is gaining momentum and is seen as the most sensible configuration, said another source familiar with the talks.

If the plan goes through, the new GM would be expected to assume some previous creditor debt from bankruptcy proceedings, such as secured debt, said the second source, adding that GM bondholders were likely to lose substantial value in bankruptcy.

Certain GM dealer and litigation claims would also be hurt if the new company structure is used as part of a company bankruptcy, said the second source.

The sources requested anonymity because they were not authorized to speak on the record.

GM declined to comment.

Shares of GM fell almost 12 percent on the New York Stock Exchange to end at \$2.00.

GM bonds were mixed in afternoon trading, with GM's benchmark 8.375 percent note up less than 1 cent on the dollar to 11.75 cents, yielding more than 70 percent, versus about 11 cents with a 75 percent yield on Monday, according to MarketAxess data. The bond had slipped in earlier trading.

Two other GM notes were slightly lower in late afternoon trading.

OPTIONS FOR GM

GM, operating on \$13.4 billion of government loans since the start of the year, has until June 1 to complete a reorganization plan. The government has warned that the alternative would be bankruptcy.

The company is under pressure to cut unsecured debt by two-thirds, turn half its remaining payments into a union healthcare trust in the form of equity rather than cash, and reduce hourly wages and benefits to match those paid by foreign automakers.

Chrysler, owned by Cerberus Capital Management LP, is also facing possible bankruptcy. The automaker has until April 30 to complete an alliance with Italian automaker Fiat.

Moody's Investor Service said in a note dated Monday that it maintains its view for a 70 percent risk of bankruptcy for Detroit's three automakers given the difficulty of restructuring out of court.

GM Chief Executive Fritz Henderson has said the company prefers to restructure out of court but that it could go to court if needed.

"If a company of this size files for bankruptcy, they have to be preparing for it now as time is running out and bankruptcy becomes more real," said Van Conway, a turnaround expert at Conway MacKenzie.

"But I think they should attempt to avoid it because emerging out of bankruptcy would be very difficult. Given its very large, global operations and various stakeholders, the process will take a lot longer than what people think," Conway said.

BANKRUPTCY NOT EASY

Canadian Industry Minister Tony Clement said on Tuesday that the Canadian government must be prepared for GM or Chrysler to enter bankruptcy protection.

Some bankruptcy experts say a Chapter 11 bankruptcy filing could help GM reorganize by allowing it to restructure its debt and force changes to contracts with dealers, unions and suppliers. But the process could be disruptive, or derailed, said Patrick Carothers, a partner at Thorp, Reed & Armstrong LLP.

For example, if auto-parts makers lose the ability to collect money owed, the industry as a whole could suffer. In addition, GM could lose control over its restructuring as the formation of a new company would be in the hands of a bankruptcy judge, not corporate executives or their advisers.

"The dangers of a bankruptcy are significant," said Carothers, who has parts suppliers and car dealers as clients. "I don't believe a bankruptcy is inevitable. There's still a lot of political pressure to save it."

Last month, GM offered bondholders 8 cents on the dollar in cash, 16 cents on the dollar in new unsecured debt, and a 90 percent stake in the automaker, one person with knowledge of the term sheet told Reuters.

(Reporting by Chelsea Emery in New York and Soyoung Kim in Detroit; Additional reporting by Dena Aubin, Walden Siew in New York; Editing by Derek Caney, Matthew Lewis and Toni Reinhold)