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AUTOS

# GM bankruptcy becomes nearly certain as offer to bondholders fails



Seth Wenig / Associated Press

A man with boxes of documents related to the Chrysler bankruptcy case waits to enter Bankruptcy Court in New York. GM may look to Chrysler, which is pursuing a rapid exit from Chapter 11, as a model for its own filing.

**The automaker voids the tender offer after a majority of its bondholders refuse to swap their debt for equity. The company now appears likely to file for Chapter 11 by Monday.**

By Ken Bensinger and Jim Puzanghera  
May 28, 2009

Reporting from Washington and Los Angeles -- General Motors Corp.'s last-ditch, Hail Mary bid to avoid bankruptcy fell with a thud Wednesday as its bondholders overwhelmingly rejected a deal to swap their debt for equity in the company.

That offer was a central element in the automaker's efforts -- guided by the federal government -- to restructure outside of court. Without it the company appears almost certain to file a Chapter 11 petition by Monday.

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With Chrysler already having sought bankruptcy protection, a GM filing would put two of the nation's top three automakers into bankruptcy, a sad testament to the industry's painful decline.

It would also open a dramatically different epoch in GM's century-long history, one that would probably leave the federal government holding a majority position in the company, all but wipe out current shareholders, radically alter relations with GM's biggest union and leave American taxpayers with a substantially larger tab to clean up the mess.

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GM said Wednesday that its board of directors would meet to discuss the company's immediate options. Earlier this month, Chief Executive Fritz Henderson said the company would be forced to file for bankruptcy protection if it was unable to persuade its bondholders to surrender at least 90% of their \$27 billion in debt.

GM offered last month to swap 225 shares for



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every \$1,000 in bonds, a deal many bondholders publicly criticized. In total, bondholders would get 10% equity in a restructured GM in exchange for \$24 billion in bonds, a much less generous deal than that offered to the government and the United Auto Workers union in the restructuring process.

The exchange failed to attract the necessary approval from bondholders before it expired at midnight Tuesday, said GM, which moved to void the tender offer and will not execute any of the swaps.

"The principal amount of notes tendered was substantially less than the amount required by GM to satisfy the debt reduction requirement," the Detroit automaker said in a statement.

A spokesman for a large group of GM bondholders declined to comment, but some individual holders seemed grimly satisfied by the development.

"I bought \$3,000 of GM bonds in 2004, and I was planning to hold them until maturity," said Brendan Monaghan, a commercial real estate executive in Los Angeles who did not accept the tender offer. "I prefer to let the free market, not the government, determine the value of my investments."

GM shares fell 29 cents to \$1.15.

Even as GM withdrew the debt exchange Wednesday, roughly 60,000 UAW members employed by GM began voting on a new contract with the automaker. The vote will conclude tonight.

If approved, the contract would clear the way for the federal government to receive a stake of as much as 70% in GM. In return, the government would provide the company with probably tens of billions of dollars in financing in addition to the \$19.4 billion already lent.

The UAW would get a 17.5% share in the company, plus warrants for an additional 2.5%, in exchange for forgiving more than half of GM's \$20-billion cash obligation to a retiree healthcare trust fund run by the union.

Bondholders would get about 10%. The Canadian government, which reportedly could lend GM as much as \$9 billion to help it through the bankruptcy, would receive a smaller, as yet undetermined stake in the reformed company.

The exact percentages were still in flux, said a person familiar with the government's negotiations with GM and its stakeholders. Regardless, Washington and the UAW together would control as much as 90% of General Motors.

The Treasury Department was expected to be GM's primary backer in a bankruptcy, a process that could require as much as \$50 billion in additional loans, according to reports. That could place GM among the largest recipients of government bailout funding to date.

When Chrysler filed for bankruptcy last month, it did so at the urging of the government, which has lent it \$7.8 billion and pushed for a rapid conclusion to the case.

On Wednesday, lawyers for Chrysler argued that the bankruptcy judge should overrule objections from creditors and other parties and allow most of its assets to be sold to Italian automaker Fiat.

Chrysler has argued that a merger with Fiat is its best hope for survival, as it would be able to produce the kinds of small, fuel-efficient cars consumers are turning to while also taking its current offerings to foreign markets.

But more than 300 dealers, investors, suppliers and other groups have filed objections to the merger, saying that the accelerated bankruptcy would cost them billions of dollars.

A ruling is expected as soon as today and could pave the way to Chrysler's rapid exit from Chapter 11.

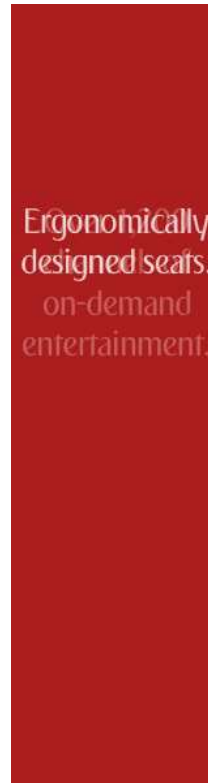
GM, which has said a prolonged bankruptcy could cost more than \$100 billion, may look to the Chrysler case as a model for its own filing.

Like Chrysler before it, GM is likely to enter the courtroom with a new union deal in hand.

In addition to reducing GM's costs to fund retiree healthcare, the proposed UAW deal allows for new buyout offers to GM's hourly workers and significant reductions in vacation pay and other workplace benefits. In exchange, GM would take back operations of five plants owned by troubled parts supplier Delphi Corp. and would commit to producing small cars in at least one idled factory.

If that contract passes, as is widely expected, it could smooth what would otherwise be a complicated, drawn-out bankruptcy process.

Also on Wednesday, GM moved to consolidate its European operations, including



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Vauxhall and Opel, under its Adam Opel unit in Germany. That would simplify the ongoing sale of those divisions and could also protect them in a bankruptcy filing by GM.

Opel has attracted three serious bidders -- Fiat, Canadian supplier Magna and Brussels buyout firm RHJ International. A decision on a preferred purchaser by the German government, which would lend Opel \$2.1 billion to restructure under new ownership, is expected this week.

[ken.bensinger@latimes.com](mailto:ken.bensinger@latimes.com)

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