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THE AUTO INDUSTRY BAILOUT

General Motors' assets: The good, bad and ugly

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WASHINGTON -- General Motors could move in and out of U.S. Bankruptcy Court in a month or two if it were to divide itself into good and bad assets, some bankruptcy lawyers say.

A new GM that retains only its valuable assets could emerge from Chapter 11 as a viable enterprise, the experts said in interviews.

Previously, GM executives had warned that a bankruptcy proceeding could kill the automaker. But company CEO Fritz Henderson said Tuesday that a Chapter 11 reorganization might work, should creditors refuse to reduce GM's debt.

A "prearranged" or "prenegotiated" agreement could move relatively quickly through U.S. Bankruptcy Court if stakeholders cooperate. GM could pursue these concessions at the same time it tries to meet President Barack Obama's June 1 deadline for a turnaround plan.

The key to a speedy proceeding would be for GM to start laying the groundwork now by negotiating tentative agreements for concessions from bondholders and the union, lawyers said.

'Good' and 'bad' assets

One option under consideration is dividing GM into its good and bad assets. While the valuable assets would become part of a new GM, unprofitable assets would be left behind in Bankruptcy Court to be sold or reorganized.

On Thursday, GM Chairman Kent Kresa called the concept "a wonderful idea." Kresa said GM is studying it closely but cautioned that the company sees some problems.

But he added that it could allow GM a speedy exit from reorganization if a Chapter 11 filing becomes necessary.

Industry analyst Aaron Bragman agreed. "This may be GM's best shot at creating something that's viable and leaner without debt," said Bragman, a Detroit-based analyst for the consulting firm IHS Global Insight.

The idea would have a particularly good chance in bankruptcy because the court could reduce the company's debt and override dealer contracts, Bragman said.

To be sure, there are no guarantees in bankruptcy. Experts agree that dividing assets could take more time than expected because of the complexity of GM's operations.

"It could be longer than anyone bargained for," said Gregg Lemos Stein, a Standard & Poor's credit analyst.

Sharing parts

Likewise, turnaround expert John Groustra questions whether GM assets can be successfully divided into "good" and "bad" companies because of the automaker's overlapping platforms, technology and production.

Valuable Cadillac and Chevrolet brands share parts with expendable brands, said Groustra, a partner in the suburban Detroit turnaround firm Conway MacKenzie & Dunleavy.

The bottom line: A GM bankruptcy could cause considerable damage if it's mishandled, says Dave Cole, chairman of the nonprofit Center for Automotive Research.

"The risk is a cascading failure that takes out a few key suppliers who are already on the brink," Cole said. "With these suppliers down, it would take the entire industry down."