Should General Motors split itself in two?
David Welch

Under one bankruptcy scenario, the automaker would create a "good GM" and a "bad GM," with Hummer and Saturn part of the "bad" company.

Hummer, along with Saturn, could be among the assets ditched in bankruptcy court. Kiichiro Sato/AP Photo

General Motors (GM) executives and Treasury Dept. officials have made it abundantly clear in recent weeks that they want to keep the auto giant out of Chapter 11. But behind the scenes, GM and its advisers have been war-gaming various bankruptcy options as a last-ditch way to save the company.

One scenario that's being taken seriously goes like this: The automaker is split in two—a "good GM" consisting of the brands and operations deemed most viable, and a "bad GM" made up of the brands slated for the junk heap, a big chunk of debt, and underperforming operations. The bad GM likely would be liquidated, say several people familiar with the automaker's thinking, and the good GM would emerge fairly quickly from bankruptcy as a going concern.

If GM ends up in bankruptcy court and chooses that strategy, it could solve some big issues. So far the bondholders have shown little willingness to compromise—at least not as much as GM would like. Under the plan, the automaker would convert much of its $60 billion of debt into equity, and creditors would take stock in the "good" company and receive proceeds from the liquidated "bad" company. With the threat of contracts being torn up in bankruptcy, the United Auto Workers might accept scaled-back staffing and benefits.

The two-company strategy offers significant political and marketing advantages, as well. The government, which would likely finance the company while in bankruptcy, could credibly tell taxpayers that the good GM had an excellent chance of prospering and say to consumers: It's safe to buy GM cars.

What would the good GM look like? Much like the company that executives described to the Treasury Dept. in a restructuring plan filed in February. The good GM would keep Cadillac and Chevrolet. Ditto for GMC trucks, which are profitable in economically sound markets, and Buick, which continues to pack brand muscle in China.

GM would load up the bad company with Hummer, Saturn, and any factories or operations that it needs to ditch. Unless GM found a buyer, it would ditch those assets in bankruptcy court, where they would be liquidated. Dealers would have a tough time suing to be made whole while Hummer and Saturn are in Chapter 11. GM could even put its Canadian operations into bankruptcy. GM does good business there, but its pension plan is seriously underfunded. (Such

a move would be less likely if the Canadian government provides GM the financing it has requested.)

Even with federal backing, a Chapter 11 filing would be risky. The creditors could hold up proceedings for a long time. Then, with GM struggling to extricate itself, consumers could balk at buying its cars. "Bankruptcy is like war," says Michael L. Cook, a bankruptcy attorney at the law firm Schulte Roth & Zabel. "You think you know about it until you go through it." GM and the feds seem to agree.

So why is GM war-gaming bankruptcy? Partly over concerns that the auto market could worsen. What's more, even if the union and bondholders were to give the automaker what it wants, GM would still need to borrow $22.5 billion to $30 billion from Treasury to survive. Add $8.4 billion in Energy Dept. loans to help GM make more fuel-efficient vehicles, and GM could end up with more than the $60 billion debt load it has now. If Treasury decides it doesn't want taxpayers paying GM's creditors, a creative bankruptcy might be the only way out.

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