

GM all but certain to file for Chapter 11

By TOM KRISHER and JOHN PORRETTO – 12 hours ago

DETROIT (AP) — General Motors, the company that put tail fins on a Cadillac and was once the nation's largest employer, moved to the edge of bankruptcy protection Wednesday as debtholders refused a last-ditch deal. Crosstown rival Chrysler hoped to pull off a quick exit from Chapter 11 and prove there is hope yet for a leaner Detroit.

Investors who are owed billions of dollars by GM rebelled against a plan to accept a sliver stake in the company in exchange for their bonds, one of the government-imposed conditions for restructuring out of court.

A bankruptcy protection filing could come within days — perhaps around Monday, which had been the government deadline for GM to reorganize.

Meanwhile, Chrysler began a marathon session in federal court in New York, trying to persuade a judge to sign off on its plan to sell most of its assets to Italian automaker Fiat. After nine hours of testimony, the judge adjourned the hearing until Thursday morning and said a decision may not come until Friday.

Since Chrysler entered bankruptcy protection four weeks ago, its sales have fallen but not tanked, raising hopes that both automakers might be able to shed debts and modify contracts under court protection and emerge leaner, stronger and more competitive.

The U.S. government has pledged to back both companies' warranties to reassure consumers their purchases will be protected no matter what happens. Analysts say that seems to be helping Chrysler, where sales during the first two weeks of May fell at about the same rate as the whole U.S. market.

At the Jack Maxton Chevrolet dealership in the Columbus, Ohio, suburb of Worthington, it appeared to be business as usual Wednesday even as GM contemplated Chapter 11.

One salesman took a family on a test drive, a man put on his glasses to take a closer look at the sticker for a new Camaro, a car was being cleaned by the service department's automatic car wash and the receptionist was busy routing phone calls.

Owner Jeff Mauk said President Barack Obama's pledge to back warranties seems to have erased some of the fear for potential buyers. As for a potential filing for bankruptcy protection, Mauk's sentiment is the sooner the better.

"If they are going to do it," he said, "let's do it and get through it."

Dana Johnson, chief economist at Comerica Inc., the financial services company, said Americans are more accustomed to the bankruptcy process than many people think.

"Banks fail and reopen under new names and that doesn't seem to be much of a problem," Johnson said. "It seems to happen all the time with the airlines and they keep flying."

GM, the century-old American icon that put a V-8 engine in the Chevrolet, was once the symbol of American industry. In 1979, it employed 618,000 Americans, more than any other company. By early this year that figure was just 88,000.

The U.S. government late last year began pouring billions into both troubled automakers, fearing that their failure could push the struggling economy into a full-blown depression.

In the years after World War II, no one would have imagined the collapse of either, but since then there have been so many corporate crises and economic black eyes that people have had time to get used to it, said Robert Thompson, a Syracuse University professor who studies American popular culture.

"It really takes optimistic thinking to think that this country is going to ever get back to that place in its manufacturing history," he said. "It's not just automobiles. You look at manufacturing across the country, it's really grim."

At GM, which has received \$19.4 billion in government loans and will need billions more to get through the bankruptcy court process, the bond offer's failure kicks a leg from under its out-of-court restructuring effort.

Together GM and Chrysler employ more than 126,000 people in the U.S., and hundreds of thousands of others rely on the companies working for parts suppliers, dealerships and other associated companies.

Some feared that if either company were forced into liquidation, parts makers would go under, too, pulling down Ford Motor Co., the only one of the Detroit Three that hasn't taken government aid.

From the perspective of GM workers, Comerica's Johnson said they probably don't care whether a reorganization takes place in bankruptcy court or not, as long as the company remains viable.

GM has already announced plans to end its relationship with about 1,100 dealers. Chrysler has a similar plan to sever ties with about 800.

"Whether inside or outside of bankruptcy, it seems to be pretty much getting to the same point: fewer brands, fewer jobs, fewer models, but not something that would lead to liquidation."

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Under normal circumstances, bankruptcy protection would be the best avenue for both GM and Chrysler to try to fix their problems, said Daniel Mitchell, an economist at the libertarian Cato Institute in Washington, D.C.

But politics has become key in negotiations, and Mitchell said the Obama administration appears to be trying to appease the United Auto Workers union with little regard to making sure the automakers emerge leaner and more efficient.

"It's a rather sad thing because at the end of the day there's no way GM or Chrysler come out of this as successful companies," he said. "You're going to wind up with basically hollow shells that are going to slowly die."

Associated Press writer Mark Williams in Columbus, Ohio, contributed to this report.

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