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From the front page

**Today's Focus**

# GM's $1.15B loss beats post-bankruptcy expectations

## Better than expected results in 3rd quarter indicate firm stabilizing post-bankruptcy

**Robert Snell / The Detroit News**

*Detroit* -- General Motors Co. might be able to repay $6.7 billion in federal aid by next summer, five years earlier than expected, because the automaker's worst pre-bankruptcy financial fears never materialized.

The disclosure came Monday as GM released third-quarter results that provided the first comprehensive look at the automaker's finances since emerging from bankruptcy in July with about $50 billion in federal aid.

GM lost $1.15 billion between July 10 and Sept. 30, better-than-expected results that reflect greater operational stability and progress for a 101-year-old company that nearly went out of business earlier this year.

The encouraging financials follow other positive developments for the automaker. GM sales rose 4 percent in October compared to a year ago, the company's first monthly increase in 21 months. GM said new products such as the Chevrolet Camaro sports car, and the Chevy Equinox and GMC Terrain crossovers helped boost demand.

Additionally, GM took in $3.3 billion more in cash than it spent in the third quarter. By contrast, GM burned through $10.2 billion in the first quarter of the year, the last period for which it reported financial results.

GM could get a public relations boost from paying the money back early after drawing the wrath of some taxpayers and lawmakers who opposed federal aid for the automaker.

There also is a financial incentive for GM because if the company can repay the $6.7 billion by June, it will avoid paying 7 percent interest on unspent federal loan funds, which are sitting in an escrow account.

"They're returning it," said analyst Joe Phillippi of Auto Trends Consulting Inc. in Short Hills, N.J. "They're not really paying back a loan."

The automaker is in position to possibly repay the $6.7 billion because it set aside $17.4 billion in U.S. and Canadian aid to cover worst-case scenarios -- most of which have not become reality.

GM wanted the money so it could provide working capital to cash-strapped suppliers, help dealers finance vehicle orders, offset poor vehicle resale values and cushion against poor sales. While those demands exist,

GM hasn't needed as much money as anticipated.
GM has spent $3 billion, largely to cover obligations to Delphi Corp., its former parts unit, leaving $14.4 billion.

Still, it is too early to say whether GM ultimately will need the money in escrow if sales don't continue to improve, more suppliers file for bankruptcy or dealers are unable to obtain financing to buy inventories, analysts said.

"It makes for a nice PR move," said Brad Coulter, director of O'Keefe & Associates, a Bloomfield Hills financial consultant and turnaround adviser. "They're saying 'We're not going to need everything we've set aside to meet our worst-case situation.' But it's difficult to tell where they are going to be in 2010 or 2011.
Really, a lot of this will be out of their control."

GM's focus on repaying taxpayers first before promising profitability contrasts with the approach taken by rival Chrysler Group LLC, which emerged from bankruptcy in June. Earlier this month, Chrysler reported that it has $5.7 billion in cash after cutting expenses dramatically and is pursuing a profit by 2011. Chrysler said it will repay almost $15 billion in government loans by 2014.

"We felt it was the right thing to do," GM President and CEO Fritz Henderson said of repaying the loans. "Simple as that. No time like the present, if you will."

While GM's quarterly results were better than expected, the automaker still lost money. By contrast, Ford Motor Co. posted a $1 billion third-quarter profit two weeks ago.

But GM was saddled with $505 million in special items associated with restructuring its dealer network, costs related to Delphi and other expenses.

"The lion's share of restructuring charges should be behind us after this year," Henderson said. "You will see far fewer restructuring or special charges in the future than what you have seen from GM historically."

GM said it will begin repaying the $6.7 billion starting with a $1.2 billion payment Dec. 31 and might fully repay the loan by June 2010, depending on the company's financial health. GM is required to repay the loans by July 2015 and will make payments of about $1 billion every quarter, at least until the second half
of next year, the earliest that it plans an initial public stock offering.

The June 2010 date is important because if GM has any money left in escrow at that point, it will go toward repaying the loans. GM also has until then to ask for a one-year extension on the 2015 deadline if executives determine the company still needs the money.

The balance of the $50 billion in federal aid is tied up in equity stakes split among the U.S. and Canadian governments, a union-run trust for retiree health care and creditors.

While GM's $1.15 billion net loss is far less than the $2.5 billion loss in 2008's third quarter, an equal comparison is impossible because GM spent the first 10 days of the period this year in bankruptcy. Another factor complicating a comparison is that GM is not following generally accepted U.S. accounting principles because its shares are not publicly traded now.

Phillippi does not foresee a scenario in which GM would be unable to repay the $6.7 billion.

"Not unless we have a significant second dip in the economy," he said. "Obviously, a lot depends on the competitive landscape -- their whole portfolio of products and its success."

GM still faces challenges to profitability, particularly in North America and Europe, where the automaker lost $651 million and $437 million, respectively.

The automaker's board of directors is pushing executives to stabilize and improve U.S. market share, which remained flat at 19.5 percent during the third-quarter.

Also Monday, Henderson provided an update on GM's restructured work force, which has been slashed through a series of layoffs.

This year, GM has shed 34,000 workers and now employs about 209,000 people worldwide. In the U.S., the automaker has 75,000 salaried and hourly workers, which is down about 16,000 this year.

In all, GM's structural costs were $9.1 billion on Sept. 30, down from $37.8 billion a year earlier.

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