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GM's 2Q loss rises by \$200M

Automaker revises earnings, says vital GMAC sale could be delayed until 2007.

Brett Clanton / The Detroit News

General Motors Corp. on Tuesday revised its second-quarter earnings to reflect an additional \$200 million loss, and warned that the pending sale of its GMAC financing arm, originally expected to close by year end, may be delayed.

In a late afternoon press release, GM said its previously-stated loss in the April-June period will grow to \$3.4 billion because of a tax provision related to the sale of a 51 percent stake in GMAC to a consortium of private investors.

GM also disclosed that the GMAC sale could be held up by a new six-month federal moratorium on transactions involving industrial loan companies.

A possible delay of the GMAC sale could be a setback for a key piece of GM's turnaround plan. The deal is expected to steer billions to the automaker at a critical time in its restructuring.

But it doesn't appear that the deal is in trouble, only that it faces a technical hang-up, said David Kudla, CEO of Mainstay Capital Management, an investment firm in Grand Blanc.

"If it's just a matter of a few months, I don't think it's significant at all."

The announcements come just days after GM last week reported much-improved quarterly financial results that fueled optimism that the struggling automaker's turnaround is gaining traction.

In its preliminary second quarter results, GM posted a \$3.2 billion loss primarily because of a massive one-time charge related to a sweeping buyout program that will eliminate 34,000 factory jobs by the end of the year.

Excluding charges, however, GM posted a \$1.2 billion operating profit, reflecting progress with its restructuring. The revised results do not change GM's operating profit.

"With the support of our employees, unions, dealers, suppliers and stockholders, we are moving rapidly and aggressively to address our challenges and restructure GM for future success," GM Chairman and CEO Rick Wagoner said when the results were released.

At that time, GM estimated it would take a one-time after-tax charge of \$490 million in the second quarter for an expected loss related to the GMAC sale. On Tuesday, GM said an additional \$200 million will be added to that amount to reflect differences in book value and tax basis at several GMAC facilities.

Though it is not uncommon for companies to revise preliminary earnings, the change comes as GM is facing scrutiny over its accounting practices. In a restatement of its 2005 earnings, GM disclosed federal probes into the company's bookkeeping.

The potential delay in the GMAC deal also comes at a bad time. GM is counting on \$14 billion over three years from the sale of its prized finance arm, a cash infusion that would ease fears about the company's liquidity and also help to improve GMAC's credit rating.

On Friday, the Federal Deposit Insurance Corporation announced a six-month moratorium on final decisions related to transactions under the Change in Bank Control Act. Clearance from the FDIC is one of many approvals the massive GMAC deal needs before moving forward.

The FDIC said last week the moratorium, which extends until Jan. 31, will give the regulators time to decide whether changes in law or regulation are needed.

Brenda Rios, a GM spokeswoman, said GM is still committed to closing the deal before the end of the year, but that it is too early to say on where the process goes from here.

"We've just started to assess our options," she said, "so we're not ready to comment at this point."

GM shares closed Tuesday at \$31.30, down 93 cents.

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