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GM Loses $39B in 3Q, Shares Fall

By Tom Krisher
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DETROIT (AP) — General Motors Corp. posted a company record $39 billion loss Wednesday for the third quarter, as a charge involving unused tax credits brought an abrupt end to a string of three profitable quarters for the nation's largest automaker.

The loss was one of the biggest quarterly corporate deficits ever. GM's shares closed more than 6 percent lower. Standard & Poor's downgraded GM shares from hold to sell, and said GM's near-term outlook has worsened significantly in part due to reduced U.S. sales.

GM attributed most of the third-quarter loss to a $38.6 billion noncash charge related to accumulated deferred tax credits in the U.S., Canada and Germany. Accounting rules require companies to write down the value of such credits if they have scant prospects for a return to profitability in the near term.
GM also reported a loss of $757 million from its 49 percent stake in GMAC Financial Services, due largely to losses at ResCap, GMAC's mortgage arm.

It was the second-worst quarterly net loss in U.S. corporate history, exceeded only by AOL Time Warner's $44.9 billion loss in the fourth quarter of 2002 when the value of the AOL operations was marked down, according to Howard Silverblatt, a senior index analyst for Standard & Poor's.

GM Chairman and Chief Executive Rick Wagoner said the accounting shift is not easy to explain but doesn't have a substantial impact on the business.

"I would stress: No impact whatsoever on our cash position, no impact on our ability to use the tax offsets in the future, and from my perspective, really no change whatsoever in our outlook or optimism about the future of getting the business turned around," he said.

What might be considered more troubling for GM is continuing losses in its home market, North America, where it reported a net loss of $247 million without the charge for the latest quarter. That compares with a net loss of $667 million in the year-ago period.

The company reported an overall loss of $1.6 billion, or $2.80 per share, excluding special items. Besides the accounting change, special items included a $3.5 billion after-tax gain on the $5.4 billion sale of Allison Transmission in August.

The net loss contrasts with rival Toyota Motor Corp.'s announcement Wednesday that its profit for the fiscal second quarter rose 11 percent to a company record $4 billion. Toyota and GM are vying for the title of world's largest automaker by sales this year.

GM's chief financial officer, Fritz Henderson, said the company is bullish about its new products and the money it will save from a new four-year contract with the United Auto Workers, which was approved by workers last month and will be reflected in future quarters. An agreement to put GM's retiree health care liability into a union-run trust won't affect GM's books until 2010, but the automaker will see some benefits from the contract starting next year, he said.

But Henderson wouldn't predict when GM will return to profitability. He said the company faced numerous headwinds it didn't forsee at the beginning of 2007, including the strength of the

Canadian dollar, rapid escalation in the price of steel and other metals and a weaker than expected U.S. market.

He also said GMAC has been hit by volatility in the mortgage market. ResCap has tightened its underwriting criteria and has moved away from the business responsible for those losses, he said, but the outlook for the unit is uncertain.

"At this point I think you have to say that the outlook for the mortgage industry in general is challenging," he said.

The company reported record third-quarter automotive revenue of $43.1 billion and record global sales for the quarter of 2.39 million cars and trucks.

Standard & Poor's analyst Efraim Levy said the near-term outlook for GM has worsened significantly due to reduced sales in the United States and Europe and weakness in the U.S. housing market. S&P cut GM's 12-month target price by $7 to $32.

But David Kudla, CEO of Mainstay Capital Management, said in a note to investors that the huge charge overshadows steady improvement at GM, which has reduced its structural costs and produced some recent runaway hits such as the Cadillac CTS and the Buick Enclave. The company posted a profit of $122 million in its global operations on the strength of sales in Asia and Latin America.

"International and emerging markets expansion has been very positive for the company, as it establishes a dominant position in large growing markets such as China and India," Kudla said.

The charge, announced after the stock market closed on Tuesday, surprised Wall Street analysts who had expected a relatively small loss excluding special items. Seventeen analysts polled by Thomson Financial expected the company to lose 25 cents per share without the charge. The company's overall net loss amounted to $68.85 per share, compared with a net loss of $147 million, or 26 cents per share, in the third quarter of last year.

Henderson said accounting rules required the company to take the noncash charge because its cumulative three-year quarterly earnings worsened despite some recent profitable quarters. GM lost $10.6 billion in 2005 and $2 billion last year. Henderson said GM's accounting team makes the three-year cumulative loss calculation every quarter and determined it would occur in the third quarter as profitable quarters in 2004 fell out of the three-year time period.

"Once you're in a three-year cumulative loss position, that evidence, as it's described in the accounting literature, is difficult to overcome," he said. "When you look at our near-term outlook, it's pretty challenging. Frankly our conclusion was we needed to do this. We didn't have a lot of discretion."

When the company becomes profitable, the tax benefits could still be used, Henderson said.

He said GM was merely following accounting rules, and the charge was not an error. The company has been plagued by accounting problems in recent years. In early 2006, the automaker restated financial results from 2000 through 2004 because of a litany of errors. GM's 2006 earnings also were delayed after it overstated its deferred tax liability.

GMAC formerly was controlled by GM. Cerberus Capital Management LP and other private-equity firms bought a 51 percent stake in GMAC in November 2006, before weakness in the mortgage industry became widely known.

GMAC on Thursday posted a $1.6 billion loss for the third quarter. It included a $2.3 billion loss at ResCap, which offset profits elsewhere.

AP Auto Writer Dee-Ann Durbin contributed to this report.