

Booth Newspapers turn to McTevia for analysis of GM annual report

GM audit report's 'very scary language' may spur action by President Obama's automotive task force

By Rick Haglund | Detroit Bureau

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DETROIT -- An ominous statement by General Motors Corp's auditor about the automaker's future and a gloomy jobs report suggest Michigan's chronically ill economy is headed for the critical list.

Deloitte & Touche LLP said Thursday in GM's annual report there is "substantial doubt" the Detroit-based automaker can continue operations because of massive financial losses, an inability to generate enough cash to fund operations and other problems.

GM has been a primary driver of Michigan's auto-based economy for a century and provides jobs and retirement benefits for hundreds of thousands of people.

"This language used in the auditor's report is very scary language, but it doesn't change anything about GM's strategy," said William Holstein, who authored the new book, "Why GM Matters: Inside the Race to Transform an American Icon."

"They are still fighting tooth and nail to avoid bankruptcy."

Just hours after GM released its report, state officials reported Michigan's unemployment rate jumped from 10.2 percent in December to 11.6 percent in January. That is the state's highest unemployment since May 1984, when the jobless rate also stood at 11.6 percent.

The state lost 36,000 auto jobs last month, primarily because of widespread temporary plant shutdowns by automakers and suppliers.

"In January, job reductions in manufacturing were substantial," said Rick Waclawek, director of the state Department of Energy, Labor and Economic Growth.

Payroll jobs fell below the 4 million mark last month for the first time since August 1993.

GM warned last week its auditor was likely to issue an opinion questioning whether the automaker could survive another year.

While Thursday's statement wasn't surprising, analysts said the dire GM warning could prompt President Obama's automotive task force to speed up efforts to restructure GM, Chrysler LLC and their troubled suppliers.

GM is being kept alive by \$13.4 billion in federal loans and is seeking as much as \$16.6 billion more in federal money.

The company has until March 31 to reach a deal with the United Auto Workers and bondholders to cut retiree health-care costs and unsecured debt. Some analysts expect that deadline will be extended.

"We know things are bad here, but the task force needs to have a strong signal that the situation is critical," said Jim Gillette, a supplier analyst in the Grand Rapids office of CSM Worldwide. "I think (GM's auditor opinion) is going to trigger a sense of urgency."

Federal auto task force leaders will be in Detroit next week to meet with automakers, according to published reports Thursday.

Major tier-one suppliers that do business directly with GM and Chrysler are seeking as much as \$25.5 billion in federal loans to help navigate the severe downturn in auto sales and production.

"They have to get money to survive," said Van Conway, senior manager director at Conway Mackenzie & Dunleavy, a corporate turnaround consulting firm in Birmingham.

"The supplier tiers can bring down the entire industry."

In its viability plan filed with the Obama administration last month, GM said many of its suppliers are likely to also receive "going concern" opinions from their auditors because of GM's uncertain future.

That could cause suppliers to default on their bank loans and make it impossible for them to get new financing, "placing the survival of affected supplier(s) in jeopardy," GM said.

Analysts and corporate turnaround specialists said GM's precarious financial position and the collapse of global auto sales will make it difficult for the automaker and many suppliers to avoid bankruptcy.

But one corporate turnaround specialist said a Chapter 11 bankruptcy reorganization is the best way for GM to restructure labor contracts, dealer franchise agreements and its vehicle line-up.

"For Michigan, that's going to mean pain and the loss of more jobs," said James McTevia, managing partner of McTevia & Associates in Bingham Farms. "But it also means the survivability of the auto industry."