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Shifting fortunes

Operating gains take Wall Street by surprise

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DETROIT -- General Motors Corp. took another step toward returning to profitability Wednesday by posting a $115 million third-quarter loss -- better results than Wall Street was expecting.

While its critical North American auto business continues to lose money, GM showed significant progress in reducing labor and health care costs and resolving its portion of the problems confronting bankrupt Delphi Corp.

With both Ford Motor Co. and DaimlerChrysler AG's Chrysler Group dragged down by deep losses in the third quarter, GM now appears to have the healthiest outlook of Detroit's Big Three.

It's a far cry from a year ago when GM, the world's No. 1 automaker, was seemingly mired in a downward spiral that resulted in a huge $10.6 billion loss for 2005.

"From where we've come from in 2005, it's been significant," GM Chief Financial Officer Fritz Henderson told The Detroit News in an interview. "But we're not even close to being finished."

Even with the improved earnings, GM's stock fell $1.48 to close at $34.71 in trading Wednesday on the New York Stock Exchange. Some analysts attributed the drop to the fact that GM's results were bolstered by tax benefits unrelated to its actual performance.

Market share loss a concern

Analysts also expressed concern that GM continues to burn through cash -- $2.5 billion in the third quarter -- and lose U.S. market share.

For the three-month period that ended Sept. 30, GM said it lost $115 million on worldwide revenues of $48.8 billion. That compares to a $1.7 billion loss on revenues of $47.2 billion in the third quarter of 2005.

The $115 million loss, however, included special charges primarily related to GM's liabilities for pensions and other costs associated with Delphi, a former unit of GM and its largest parts supplier.

Excluding the charges, GM reported operating income of $529 million, or 93 cents per share, during the quarter. The results were almost double the estimates of analysts, and taken as a sign that GM's long-awaited turnaround is gaining momentum.

"The results show that the turnaround plan is making progress, specifically the gains in reducing structural costs," said David Kudla, chief investment strategist of Mainstay Capital Management.

Since last year, GM has attacked its costs by negotiating health care concessions from the United Auto Workers and shedding 35,000 hourly workers through buyouts and early retirement.

But the company is still struggling to make money on its automotive operations.

(over, please)

Without special charges, GM lost $116 million on its global auto operations in the third quarter, an improvement of about $1.5 billion over the same period in 2005. Its worldwide market share was 13.9 percent, down from 14.4 percent in the third quarter of 2005.

The biggest challenge remains in GM's core North American market, where the automaker had a net loss of $374 million in the quarter. The performance represented a $1.3 billion improvement over the third quarter of 2005, but showed just how far GM has to go to become competitive on its home turf.

"The automotive business lost money in the third quarter, and that's by no means satisfying," Henderson said. "We're just not generating an adequate level of profitability."

Most of GM's financial improvement in North America came from cutting jobs and closing factories rather than increasing sales of profitable cars and light trucks.

GM's U.S. market share in the quarter fell to 25.1 percent from 26 percent a year earlier, as foreign manufacturers continued to take customers away from the traditional domestic automakers.

"There has been continuous improvement on the cost side in North America, but we need to see an improvement in revenues from new product launches," said David Healy of Burnham Securities.

New models emphasized

Henderson said that 40 percent of GM's product lineup next year will be composed of new models, including a revamped version of its top-selling vehicle, the Chevrolet Silverado pickup, as well as all-new crossover entries from its Saturn and GMC divisions.

"We need to show when we launch a vehicle -- whether it's a car or a truck -- that we can have a smash hit," he said.

While the automaker is betting on its product offensive to generate profits, GM is also hoping that its difficulties with Delphi are drawing closer to a resolution.

Marathon negotiations have continued for months between GM, Delphi and the UAW to downsize the Troy-based parts supplier, which filed for Chapter 11 bankruptcy in October 2005.

GM has agreed to fund buyouts and early retirements for thousands of Delphi's U.S. hourly workers, but no deal has been reached on which factories will close and how the remaining employees will be treated.

UAW President Ron Gettelfinger has said the union will not accept wage cuts demanded by Delphi Chairman Steve Miller.

But in its earnings release, GM said it is prepared to "reimburse Delphi for certain labor expenses" when the supplier emerges from bankruptcy next year. GM estimated its initial payment in 2007 to be $400 million, with subsequent expenses of less than $100 million annually.

GM also said that it had narrowed its estimated liability for Delphi pensions and other obligations from a previous range of $5.5 billion to $12 billion, to a "more likely amount" of $6 billion to $7.5 billion.

The automaker said it increased its reserve for Delphi by $500 million in the third quarter, bringing the total charges taken to date for Delphi to $6 billion.