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## GM Bailout Explained



***We cannot, and must not, and we will not let our auto industry simply vanish. This industry is like no other -- it's an emblem of the American spirit; a once and future symbol of America's success. -- Barack Obama***

### What is the Plan?

President Obama has established an Auto Task Force that will assure GM is restructured as the Obama administration wants. As an initial step, Rick Wagoner was asked to step aside as Chairman and CEO and replaced by Fritz Henderson (who was the President of GM). President Obama said that it "*will take new vision and new direction to create the GM of the future.*" Then General Motors declared bankruptcy on June 1, and as part of the company's restructuring.

The Obama team will be working closely with GM to produce a better business plan. President Obama said his Auto Task Force will ask:

- Have they consolidated enough unprofitable brands?
- Have they cleaned up their balance sheets, or are they still saddled with so much debt that they can't make future investments?

- Have they created a credible model for how not only to survive, but to succeed in this competitive global market?

And Obama will insist that the new GM have:

- **Sustainable profitability:** A viable GM should be able to generate meaningful positive free cash flow in a normalized business environment, generate net free cash flow over the course of a business cycle and invest capital in research and development and capital expenditures sufficient to maintain or enhance its competitive position while also earning an adequate return on its capital.
- **A healthy balance sheet:** The restructuring must substantially reduce GM's outstanding debt and existing liabilities to a level where they are consistent with both its normalized cash flow and the cyclical nature of its business. Given the deterioration in the auto market since late last year, this will require substantially greater balance sheet concessions than those called for in the existing loan agreements.
- **More aggressive operational restructuring:** The restructuring plan must rapidly achieve full competitiveness with foreign transplants and more aggressively implement significant manufacturing, headcount, brand, nameplate and retail network restructurings.
- **Technology leadership:** The new GM will have a significant focus on developing high fuel-efficiency cars that have broad consumer appeal because they are cost-effective, have good performance and are reliable, durable and safe.

### How will this affect Warranties?

GM will continue to honor consumer warranties.



Consumers who are considering new car purchases should have the confidence that their warranties will be honored. The Administration is launching a new program that will provide government-funded protection for warrantees issued by participating domestic auto

manufacturers. The program will be available for all new warranties on new vehicles purchased from participating auto manufacturers during the period in which those manufacturers are restructuring. Both General Motors and Chrysler have already indicated their intention to participate. Read all about the New Auto Warranty Commitment Program.

### **How does this affect GM?**

During this process, GM will continue operating in the ordinary course. From an operating perspective, the day after the filing will not be materially different from the day before the filing.

**UAW:** It will require the United Auto Workers to make further cuts in compensation and retiree health care benefits.

**Suppliers:** GM will seek authority to continue to pay suppliers in the ordinary course. In addition, the U.S. Treasury's Supplier Support Program will continue to operate, and GM suppliers benefiting from the program will continue to receive that support.

**Dealers:** GM will seek to continue to honor its dealer incentives for those dealers who are expected to continue to be part of GM's distribution network going forward. There are some dealers that GM has identified that will not continue with GM. It is expected that the terminated dealers will be offered an agreement to orderly wind down their operations over the next 18 months

**GM Shareholders:** It will require GM shareholders to give up the remaining value of their shares -- just as they would have had to do in any private restructuring of this kind.

### **How is it Going?**

Support for the plan is difficult in the current market. Only 26% of voters nationwide support the plan to bail out General Motors to keep GM in business. (Rasmussen, June 6,2009). Company stakeholders are having a difficult time agreeing on the process. Dealerships are upset about closures and GM workers are upset about coming layoffs and UAW concessions. Many

Americans are simply upset that tax dollars are being spent to bail out another corporation.



President Obama knows this is not popular but offered this statement:

*"But I want to be honest with you. Building a leaner GM will come at a cost. It will take a painful toll on many Americans who have relied on General Motors throughout the generations. So I want to say a word directly to all the men and women watching today, wondering what all of this will mean as far as their own lives are concerned.*

*I know you've already seen more than your fair share of hard times. We saw 400,000 jobs lost in the auto industry in the year before this restructuring even began. I will not pretend the hard times are over. Difficult days lie ahead. More jobs will be lost. More plants will close. More dealerships will shut their doors, and so will many parts suppliers.*

*But I want you to know that what you're doing is making a sacrifice for the next generation -- a sacrifice you may not have chose to make, but a sacrifice you were nevertheless called to make so that your children and all of our children can grow up in an America that still makes things; that still builds cars; that still strives for a better future."*

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