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**CEO – Harwinton Capital Corporation**  
**Director – Apple Computer Inc, Exide Technologies Inc, Tyco International Ltd**

**Welcome by Jeffrey Leestma, SAA President, President – Automotive Hall of Fame:**

**MR. LEESTMA:** Ladies and gentlemen, can I have your attention for a minute. I think we're sufficiently done with the entrees and we're working on our deserts, but it is time to get started.

Once again, forks those who weren't with us this morning, I'm Jeff Leestma, President of the Automotive Hall of Fame and also serving as the volunteer President of the Society of Automotive Analysts. Welcome to all of you and thanks for joining us today.

You will see that you have some green question cards on your table, and that's how we'll proceed with the Q and A afterwards. Just write your question on the card, and it will be forwarded to me after Mr. York's speech.

Again, we're very pleased to have Mr. York with us today, but the honor of introducing him doesn't belong to me, it belongs to the person who is the head of one of your sponsors today, Mr. Stephen Polk of R. L. Polk.

It is my pleasure to introduce Stephen, who is the chairman and CEO of R. L. Polk. He's a friend and we've known each other for many, many years. Polk is a leading provider around the world of advanced automotive information, and analytical solutions to help OEMs, dealers, and others make better business decisions. The fact is there's very few people who don't use R. L. Polk data. Throughout his career, Stephen has sharpened the company's focus in order to be the best and most sought after provider of automotive intelligence and supporting technology globally.

Today R. L. Polk & Company is realizing his vision by providing extensive automotive business expertise that can help companies understand their market position, identify trends and build brand loyalty to conquest new business.

So, now, please join me in welcoming Stephen Polk to the podium. Stephen.

(Applause)

**Introduction by Stephen Polk, Chairman & CEO, R.L. Polk & Company:**

**MR. POLK:** Well, thank you, Jeff. I'm glad you didn't go back to high school where we actually graduated with each other. Those stories are for another day.

On behalf of Polk's 1400 employees around the globe, I am very pleased to be here and to be chosen to participate in this annual automotive conference. I want to thank Jeff and Bob Barba for your hospitality and friendship and for allowing us to be part of this very special event.

Listening to today's speakers, I couldn't help but think what an unforgiving automotive marketplace as we come up there. It's an understatement to say there's huge challenges. There's simply no room for error in this highly competitive marketplace. As a leader of R. L. Polk, I appreciate the opportunity to help track the challenges that out there to save the market and to help our customers make better decisions, which is what is we're all about.

Some of the negative challenges faced by the industry are of particular concern. We see an extremely fragmented market. There's over 300 models of cars to choose from for the consumer today. We face the fact that fewer than one out of every two customers will come back to a showroom and repurchase the last make that they had. We see rapidly changing powertrain and safety technologies that are altering the behavior and expectations.

Add to this dealer networks, that continue to evolve and to challenge the OEM management. We see pressures on the component suppliers demanding better quality at the same time reducing cost. And, there's certainly increased shareholder expectations that are driving the pressure on the automotive executives today.

If you think globally for a minute, we heard today that the global marketplace is going to expand 2, 2 1/2, 3 percent annually, but virtually none of this is going to be in the major markets of North America or Europe. It's the emerging markets and China in particular that seem to be capturing everyone's attention today, but China in particular is going to be a very less forgiving marketplace.

Most people probably don't realize China has over 100 cities with a population of more than a million. That compares to nine cities in North America, or in the U.S. rather. Current China ownership rate is 24 vehicles per 1,000 compared to a global average of 135 leaving a lot of room. And if you're late entering that marketplace, a global brand may prove to be irrelevant.

Our Beijing office talks about the interesting challenge that's faced there. We have General Motors as the Number 1 market share last year for China as a whole. Yet, we see Honda as the Number 1 seller in gon share profits. It's only Number 8 in Beijing. Number 8 in Beijing, but only Number 5 in Shanghai. The variances speak to a world of competition just within China. There's opportunities and failures that will drive the impact on North America for the future. Our next speaker, Jerry York, is uniquely qualified to share his perspectives. It's going to take -- his perspective on what it's going to take to succeed in today's reality. His career includes hands-on experience at General Motors, Ford and Chrysler. He's currently a director at Exide Technologies, Tyco International and Apple Computer, which I think would make a very good role model for a lot of companies around Detroit today.

Ellen referred to him this morning as one of the rock stars in the automotive industry. I think that's a great way of summing it up. And I think it's particularly interesting to note that 10 years ago Jerry was a speaker right here at this event. And maybe the last time the walls were lined with the press media as we see today.

So, I would welcome Jerry to speak on General Motors at a fork in the road and a possible solution for robust resurgency.

Jerry, welcome to Detroit.

(Applause)



**MR. YORK:** Thank you, Stephen.

Well, it's really terrific to be back with you all. As Stephen indicated, I was here 10 years ago, by coincidence, and, of course, the subject at the time was Chrysler. At that point in time, Tracinda Corporation owned something like 14 percent of Chrysler shares, and Chrysler was a very, very highly successful company. They were a cash machine. Because of the mix of their products, they had margins that were greatly superior to competition, and we wanted Chrysler to share more of its cash with the shareholders.

And subsequently, about a month after that presentation 10 years ago, we entered into an agreement with Chrysler. They agreed to do that, and if you look at the numbers, so to speak, after that agreement was reached, between the time of that agreement and the acquisition of Chrysler by Daimler Benz, Chrysler repurchased some 20 percent of its stock, and those share repurchases fully accounted for the appreciation of Chrysler stock during that period.

Now, there's been some speculation in the press to the effect that the Tracinda agenda, if you will, for General Motors is very much like our agenda for Chrysler was. And nothing could be farther from the truth. As I indicated, Chrysler was just an unbelievable cash machine 10 years ago and now, frankly, the converse is true at General Motors. They are a voracious consumer of cash at the current time, and they've got a huge restructuring plan to go through and they need to husband every possible penny of cash that they can to fund their way through that restructuring. So, that's our outlook on GM, if you will.

Now, my wife and I -- when we moved back to Michigan about a year and a half ago, of course, I didn't have a clue that I was once again going to become immersed in the auto industry. But about a year ago at this time -- I've always watched General Motors stock, by the way, because in 1963 to '67 when I worked there, I had GM shares in my employee stock savings plan that on a split adjusted basis were \$56 a share. And the stock never exceeded that high point until 1994.

But, in any event, I'm sitting there in my home office a year ago, and I see General Motors starting to head south below 40 bucks a share, and so I started doing a little digging. And, then, subsequently in the march time frame I'm sitting in that same home office one day and the phone rings. And I pick it up and Kirk Kerkorian is on the line. He says, Jerry, have you seen what's going on with GM stock. And I said, Kirk, I almost called you yesterday.

So, in any event, we agreed that I would take a deep dive on General Motors, which I did, over about the next five or six weeks, and then I sent Mr. Kerkorian a report, which was about 14 pages long in summary form, and I told him that GM, based on all the stuff available -- there were two points I wanted to make to him.

Number 1, GM was rolling in cash. And, so, it had plenty of liquidity whether it was cash on the balance sheet or nonautomotive assets that could be sold. It had plenty of cash to fix itself.

And the second point I made was that I felt that the Board of Directors and the management of GM needed to do five things. And, remember, this is April a year ago when I sent him this report. I said GM had to be realistic about its market share and revenue outlook, and to reduce its cost and expense structure to fit the realities of its revenue and market share input.

I said it had to call out its product offerings. It had a lot of brands, something approaching 90 model offerings, if you just go to their web site and see what they have, and they had to really cut that down and try to make fewer but much, much more attractive products. And we said that each of their brands needed a somewhat more focused image.

Third, I indicated in the report that GM needed to take a clean sheet of paper approach to the business. And no sacred cows allowed, so to speak.

Fourth, they had to make the tough decisions. If something isn't part of the core business, or can't make money, either sell it or shut it down.

And, finally, I said time is of the essence here. You never know what's going to happen in the economy. The foreign competitors are tough. So they need to adopt a very urgent time is of the essence attitude and to make sure that they are galvanizing that same sense of urgency down through all levels of the organization.

So, we obviously have views on these things a year later, and I'm going to go into those in a lot more detail later on, but let me just give you the summary version right now. And in terms of being realistic about market share and revenue expectations, we believe that General Motors deserves a lot more credit than it's received for the recent capacity reduction that they announced. Now, look, I have to admit, none of us know for sure whether it is or is not going to be enough, but notwithstanding that, it's a very, very significant first step.

In terms of product offerings, model offerings, divisional images and so forth, I think it's pretty clear to all that General Motors is making some pretty darn good progress in that area. In fact, even Jerry Forbes, the long-time automotive writer for Forbes Magazine and who has been a very severe critic of the companies, acknowledges that their products are getting better and better. We do, however, have some questions which I'll talk about later concerning model complexity and brand complexity.

Now, the next two items, taking a clean sheet of paper approach to the business and appropriately dealing with noncore pieces of the business, we think there's more General Motors needs to do in this area and more that they can do.

And, finally, in terms of generating a sense of purpose, galvanizing the organization, we think that GM needs to put some definitive financial objectives on the table and a timetable for the accomplishment of same. Much like what Nissan did in 1999, a very simple 3-year plan for everybody to track.

So, as I said, I'll go into these things in more detail later on, but I'd like to shift gears for a moment. I want to talk about what we did at Chrysler in 1990, and I also want to talk a little bit about the turnaround at IBM.

At Chrysler, by mid/late 1989, it became apparent to all of us that Chrysler was in trouble. Our new model programs weren't generating the kind of volumes that we expected, and our profitability was headed downward pretty rapidly. So we started conducting a series of meetings, roughly the top 20 officers of the company, to figure out what we were going to do to fix the company. And I'm sure as many of you in this room recall, that fix it program had a number of elements which I'll just cover briefly.

First, we went through the 5-year product plan of the company, and we culled out spending that didn't seem to make sense or wasn't critical for success, and we said we were going to focus our engineering resources on the four main new model programs being rolled out over the next few years.

And, of course, those were, as many of you may recall, the so-called cab-forward design LH sedans, the Jeep Grand Cherokee, the minivan renewal and the Dodge Ram pickup, called a renewal, but arguably pretty much an all new vehicle.

And, conversely, we eliminated some stuff like the JJ program. That was a product that was intended to compete with the Suzuki Samurai, but as we looked at the numbers, it just didn't seem to have enough volume or profit potential to make a difference at the end of the day.

And, very importantly, our product development processes were reorganized into the so-called platform team approach, which has the advantage of getting the organization focused on the goodness of the new model programs rather than the typical food fights that take place among the various functional areas that in the previous approaches participated in new model programs.

And we embarked on selling our nonautomotive assets as a way to fund the company through its restructuring and get it more focused, selling most of our noncore assets along the way. And we initiated a very systematic and all encompassing cost reduction program. Again, a big step in our liquidity. And the key elements of that program were taking out product content that didn't seem to be of any value to the customer. Over time stuff had crept into subcompacts that we had on our luxury vehicles.

We had initiated a supplier cost reduction program which in that program the cost benefits of ideas generated by the suppliers were shared with the suppliers, and that was believed at the time to be a first in the industry.

And we looked at the obvious things like healthcare costs. And, just as one example, we found a few really dumb things we were doing. For example, if somebody had 10 years of service or more, they would have healthcare for life. So we changed that.

Surplus capacity, we didn't have much based on the product plan we had in place, but what we did have, we negotiated buyouts with the UAW and eliminated.

And, finally, we looked at every element of G & A spending with a target of taking 1.5 billion out of not only G & A but the whole thing as quickly as we could. The G & A, we looked at things -- one thing we found, for example, there were a number of executives that had totalled as many as three cars driving them home overnight, and you might say that doesn't sound like a lot of money, but when you root around in the financials of a company and really start digging, you can find hundreds of things like that, and when you add them all up, they add to serious money.

So, this 1.5 billion cost reduction program as it started out initially seemed like plenty, but as time progressed through the Persian Gulf War period, we had to ramp that thing up a number of times, and it ultimately took over \$3 billion out of the cost and expense structure of the business.

And, we communicated, communicated, communicated. You know, even though Chrysler had been through a lot of difficult times, there were still a lot of people that didn't understand why we were doing what we had to do. So, we communicated that. We had quarterly meetings with the top 300 people in the company. We had countless town hall meetings with the objective of telling everybody in the company what we were doing, why we had to do it, and getting the word down to the troops at the lowest levels.

And for those of you that believe the stock market pretty much gets it right, Chrysler share prices as a result of this program appreciated from about its low of \$10 a share in 1990 to \$42 a share when I left the company in May of 1993 to join IBM. So it all paid off.

Let me switch gears to IBM for a few minutes. There are, frankly, some amazing similarities regarding what took place at IBM compared to Chrysler. And the one similarity that has nothing to do with fixing the company is an interesting one, and that is that both companies had dominated their industry for decades. Both companies had been positioned to do that by two great captains of industry, Tom Watson, Sr., in the case of IBM and, of course, Alfred Sloan in the case of General Motors. And, just as GM faced a number of new competitors, IBM was facing the same thing. The only thing was they weren't foreign, for the most part, they were domestic, they were companies like Hewlett-Packard, Sun, Compaq, Dell and Microsoft to name a few, and it was no longer just a mainframe game. Mainframe applications were slowly but surely starting to move to the new UNIX and PC platforms.

And IBM's margins were being absolutely gutted in the process, again not by foreign competition, but nevertheless by competition. And, just to give you an example, one talking number in the 1990 to '92 period, IBM, which is about half the size at the time that GM is today, had 10.6 billion of negative cash flow during that 3-year period, which would be roughly like General Motors having double that negative cash flow today.

And IBM's early responses to addressing the situation had been, quote-unquote, incremental. They weren't really doing

enough to get ahead of the curve. And when we did the benchmarking in mid '93, we found out that for IBM to regain its financial footing, it had to take \$7 billion or 25 percent out of its annual spending for SG&A and R & D, which was 28 billion in total. And, of course, IBM had been an icon of the computer industry much like General Motors had been an icon of the auto industry, and IBM fell out of that role. It had absolutely crushed employee moral. They had been winners for decades and all of a sudden they were just stunned by what had happened to the company in a relatively short period of time.

So, what we did at IBM was very much like what we did at Chrysler. We systematically and significantly reduced the cost structure. We did that with 12 cross-functional, cross-geography, cross-functional teams to attack all of the business processes in the company and reengineer them. And I might add that resulted in taking the \$7 billion out within two and a half years, much faster than perhaps we thought it could come out.

As a result, IBM's worldwide employment declined by 30 percent, and fortunately cash flow was so strong as we fixed the company that it was easily affordable to provide very generous severance packages and bridges to retirement eligibility for the people that had to leave the company.

And the noncore defense business was sold as were some plants that made commodity items, and hundreds of small ventures were either sold or shut down.

And, of course, the strategy work always takes the longest, and in simplest terms, IBM adopted three strategies: Number 1, to grow its services businesses. Ironically, EDS was Number 1 in services at the time, but IBM fairly quickly overtook them. Number 2, redesign the mainframes so that they could be servers in the rapidly unfolding client serving computer environment.

And, Number 3, capitalizing on what Lou Gerstner called at the time the emerging trends in network centric computing.

So, as I think back on IBM, much like Chrysler, they succeeded in taking a clean sheet of paper approach to the business. No sacred cows allowed. Tough decisions were made, and the results came very, very fast. And, also similar to Chrysler, we communicated, communicated, communicated. You know, while the troops were shell-shocked, a lot of them were really not sure they were ready to change, and so we were out there, lots of town hall meetings, explaining to everybody what we had to do, why we had to do it, and all the way down.

Now, did we succeed in creating a sense of purpose in galvanizing the troops? As I said a moment ago, I have to say there was a lot of skepticism at first. Lou Gerstner, behind his back, of course, was derogatorily referred to as the cookie guy, since he came from R. J. Nabisco; and, naturally, I was referred to as the car guy, which I always liked better than cookies, but that began to change after a year or 18 months. I mean, people would come up to us in the hallway and say, thank you very much. The pride is back in the company. And Lou, I think it's a fair statement, succeeded in transforming an old line entitlement-oriented culture into a high performance-oriented culture. And if you worked for him, it didn't matter whether he hired you a year ago or you had 25 years work with IBM, you either produced results or you were out.

And, again, the stock market, if you believe it gets it right, IBM stock on a pre-split basis bottomed at 40 bucks a share in mid '93. Two and a half years later when I left, it was at \$110 a share, and on that same basis today it's 370 bucks a share. So, the turnaround not only worked initially, but it definitely had legs, so to speak.

Well, I think you can see the two turnarounds I just described had a number of common elements, the use of cross-functional team approaches, major cost reduction elements, a major reordering of the revenue and growth initiatives, and finally breaking through past practices in achieving a sense of purpose within the organization that focused on results. And I think it's significant, as I studied the history of this industry to get back up to speed over the past year, one of the things I saw was a paper by Carlos Goehn in the Harvard Business Review talking about the return or the turnaround at Nissan. And he talks very, very much about the same things, particularly the usage of cross-functional teams. So, I'd like to now get into the guts of my presentation and talk about GM. And as the title of this presentation suggests, GM is at a fork in the road. To use Dave Cole's words, as he was quoted in the LA times a week or so ago, when the period of this -- when the history of this period is written, Delphi will be viewed as the tipping point where the auto industry either got its act together or failed. Underscore, where the auto industry either got its act together or failed. And, of course, Dave wasn't only referring to Delphi, he was talking about GM, Ford, the Chrysler division of DCX, a number of the suppliers that are heavily-dependent on the domestic producers and even the UAW itself as an institution.

So, given the domestic industry's current situation, higher cost than its foreign competitors, market share losses to those competitors. We think, obviously, it's crucial that the industry pick the right fork in the road. And what's the definition of the wrong fork? The wrong fork is the one that says, okay, yep, we all need better products and we need some capacity

reduction, but let's leave everything else pretty much as is. And the right fork, the definition of that is, yes, better products are needed, capacity realignments are needed, but every other aspect of the business needs to be scrutinized as well. All of the old ways of doing business need to be put under a microscope because many of them will turn out not to be affordable as they may have been 10 years ago.

So, in that vein I would like to level set the financial performance of GM here for a moment, and making reference to the first nine months of 2005, the last period they reported. On a worldwide basis, a net loss of \$3.8 billion. For automotive operations only, that's excluding GMAC, a net loss on a worldwide basis of 6.0 billion, with the bulk of that coming in North America. But putting aside GAAP income statements for a moment -- you know, it's difficult to interpret them given pension accounting and retiree healthcare accounting. For that same 9-month period, cash flow from automotive operations was a staggering \$6.6 billion negative. And to put that in perspective for you, make it perhaps a more understandable number, there were 273 calendar days in that 9-month period, so that is a negative cash flow or cash burn rate, if you will, of \$24 million per day.

And here's what I conclude looking at that. At the end of the 9-month period, GM had roughly 30 billion of cash availability to its automotive operations. I get there by adding up the balance sheet cash in automotive, the potential proceeds from the sale of half of GMAC of roughly 11 billion, or, alternatively, if half of GMAC can't be sold, they can get about the same amount of money from selling their mortgage and insurance businesses, and of course, I then throw in another 4 billion or so from miscellaneous potential asset sales and some further VEBA trust withdrawals. So, that gets me to 30 billion. If I say that 5 billion of cash is needed just to operate the automotive business, that leaves me with 25 billion that could be burned off.

And taking the 24 million per day, that's obviously 1,000 days of cash burn availability which equates to roughly three years. But, of course, that's if conditions remain the same. If the cash burn rate increases, that 1,000 days could shrink, and if the cash burn rate decreases conversely, that cash period would expand on 1,000 days.

Now, look, I acknowledge there are people in this town that look at GM's financial performance over the last 9-month period and aren't ready to declare that the time has come to go into crisis mode. And I also acknowledge that by nature I'm conservative. But I do believe the time has come to recognize that it is, in fact, time to go into crisis mode, and I think, by the way, that it pays to be in a conservative approach mode given this situation.

And, finally, I would acknowledge some folks might take some comfort in that 1,000-day cash calculation. I don't, when I look at the various factors that could affect it. Let's talk about the upsides and the downside.

First, on the upside is the T-900. You know, they're rolling off the line as we speak. They will start hitting the marketplace real soon, and they are just terrific vehicles. I've seen them on a couple of occasions. They have greatly refined interiors, greatly refined exteriors, passenger car-like fits and finishes. They have better fuel economy and better ride and handling. So, it's pretty clear to all, I think, that the T-900s are going to give GM some material kicker starting this year as compared to '05.

Secondly, GM has got some other good stuff in the pipeline. I know many of you in this room has been exposed to their new model stuff going out 18 months or so, and my two favorites are the Chevrolet Malibu renewal, which I think will move the needle in the marketplace, and also the all new Saturn Aura. Those are really, really nice vehicles.

And, obviously, GM has announced a number of product improvement initiatives: the capacity reduction, things they're doing in procurement to more integrate their worldwide approaches, and, of course, the healthcare deal recently negotiated with the UAW. So, all of those things they've indicated on a run rate basis by the end of 2006 will take out something like \$6 billion of cost, so that will clearly help.

Conversely, on the downside, the economy is starting to look a little ragged around the edges. Housing, which has been one of the strongest sectors of the economy, is no longer strong as interest rates have risen. Consumer confidence isn't where any of us would like to see. And, of course, even though energy costs have come down somewhat from the highs of last summer and fall, they're still pretty high by historic standards.

And, of course, one of the big question marks is, on the downside, so to speak, is what will be the cost of a Delphi labor contract settlement with the UAW. And it's been pretty clear for quite some time that that settlement is only going to take place with GM to at least some extent bellying up to the bar. So that, whatever it is, we don't know what it is, but it's going to burn some cash.

And, of course, the big Delphi item also, General Motors disclosed a couple of months ago that it's longer term liabilities to

Delphi employees and retirees are something they said probably in the range of 5 to \$6 billion. And, of course, there's the issue of the 30,000 personnel that will come out of the company as a result of the capacity realignment, and pretty clearly that's going to take some of GM's cash as well.

And, by definition, sale of half of GMAC is a downside, because that means that the dividend that GMAC has been paying to the parent company will be cut in half.

And, finally, there's the issue of GM's ultimate market share in North America, what level will it stabilize. And, of course, as I indicated previously, no one knows for sure, but it reminds me of a conversation in mid '93 I had with the more cynical technology analysts. You know, we announced that \$7 billion cost reduction program, and certainly I didn't think it was chopped liver. The more cynical analyst said to me, Jerry, you know what, your gross margins have been cratering over the last three years. And, so, 7 billion is terrific, as long as your gross margins stay at 40 percent, but what are you going to do if they go to 30. And I said, well, we're not going to address that right now. We're going to address what we know; and if they go to 30 percent, we'll address that. And, by the way, if they go to 30 percent, there's going to be a couple of other companies around this space that are hurting, too.

So, in that same vein, I want to get back to those five things that we said GM had to do, the first being to be realistic about its market share and revenue outlook, and I think that that conversation I had with the tech analyst in mid '93 is the same situation GM finds itself in with this recently announced capacity reduction program.

Will it be enough? None of us know for sure. Is it a really big start? Yes. I mean, when you take a million units out of capacity in North America, that's a very big first step. And we think the company deserves a lot of credit for that.

Next, the product offerings, offer fewer better products, get the divisions more in focus. Well, we're not entirely clear what's going on in this area, but as I indicated earlier, we feel the products are getting better and better, and that's the most key thing. And given the state franchise law restrictions, we like very much GM's plan to consolidate Pontiac, Buick and GMC. Our hope in this consolidation is that both Buick and Pontiac will offer significantly fewer models but, more importantly, that there will be no overlap. They won't offer, for example, large four- door sedans.

And while Mark LaNave has articulated his vision for the positioning of each of the brands, I'd have to say that the jury is out on this one. He's got a daunting task on his hands: all of these brands and models to manage. And, frankly, it's questionable in a lot of people's minds whether or not it can be done. I feel somewhat the same way, and I would only observe that Mark may well have the toughest job at General Motors, perhaps even tougher than Rick Wagoner's.

The next couple of things I'd like to lump together, take a clean sheet of paper approach to the business and make the tough decisions, get the company down to its core.

And GM is probably not going to appreciate me saying this, but virtually all of the GM watchers that I talk to think GM is not doing enough in these areas, and I agree with that. Experience shows, for example, that in large enterprises there is a strong propensity to perpetuate initiatives started in the past, at least until meltdown occurs. And, so, here's a few of the questions we have, and, frankly, most of them aren't original, they've been written about by more than one writer and more than one auto analyst.

But let me start with Saab. Why does GM still own Saab. It's less than 40,000 units a year in the United States; less than 140,000 units a year on a worldwide basis. By all reports, it's been pretty consistently a money loser, so why not just get rid of it.

And Hummer, this product line is most probably profitable, but is a core. GM indicates, and I'm sure they're correct in this, that Hummer generates a lot of first-time buyers for General Motors, but that's not the question in my mind. The question is: Do these Hummer buyers go on to buy other GM products, Cadillacs and Suburbans. And if they do that, maybe the right answer is to keep Hummer, but, then, again I'm not sure. It has an awful lot of brand complexity.

Foreign alliances. We know that Fiat was a two-plus billion dollar debacle. And more recently, the company took a multi-hundred million dollar write-off on its sale of Fuji heavy industries. And what about the other alliances? Well, I don't think any of us really know because GM doesn't have to, and they don't disclose much information about them individually. But, frankly, a lot of the people I talked to who seem to have expertise in this area, feel that perhaps only the Daewoo alliance of General Motors may really be making some significant money for GM. And they asked, by the way, what is the rationale for selling 15,000 Isuzu vehicles in the United States per year.

And just on this same general topic, I would just observe: I think General Motors could do a lot for its credibility with

shareholders if it disclosed a little more information. And in all candor, there's been a couple of really bad last-minute surprises, and I think it would be good if General Motors could give some more forewarning on these things even if technical accounting rules don't require them to do so.

But if I can get back to restructuring, part of a successful restructuring plan in my experience and the experience of a lot of people I talked to is to simplify the business. There are only so many hours in the day for the organization and management to focus on fixing key problems. And that focus needs to be on the important levers that can really move the needle. And in that vein, we think it's arguably correct that what GM needs to focus on to fix North America and, therefore, to fix GM in total is four healthy, vibrant channels of distribution in North America: Chevrolet, which does about 2.7 million units a year; Pontiac-Buick-GMC, about 1.3 million units a year; Cadillac, a quarter of a million units a year; and Saturn about the same. When you add those all up, they fully account for the capacity that GM plans to have done when they get through their capacity reduction program. And, we think what will return GM to financial health will be excellent, excellent results out of those four channels. And we're simply concerned that the other brands, they don't have the mass, the oomph to really materially contribute to a turnaround, and we think the risk is that they divert attention from the management and the organization away from working on those four crucial challenges of distribution. Okay. The final thing we talked about is the need to recognize time is of the essence, a sense of purpose needs to be generated to galvanize the organization. And, as I pointed out earlier, the cash burn rate is 24 million a day, and there is some huge negative cash flow overhangs out in front of GM for the Delphi issues and the capacity reduction. And, as I said earlier, there is some people in this town that aren't yet of the mind-set that we should be in crisis mode, or maybe a nicer way to state that is a hope for the best but plan for the worst mode.

We think that that frame of mind is extremely important, one that is very conservative and says if things don't break right, the unthinkable could happen, that time is of the essence. And we think that's the mind-set that, in fact, exists in the company. But what would really lend a lot of credence to it would be for GM to do what I mentioned earlier, and that's to put some financial objectives out there for, say, three years, like Nissan did. And we all recognize that GM has some imponderables in front of it: the Delphi matters and the cost of capacity reduction. But everybody understands one-time items or nonrecurring items. In fact, it's very common in this day and age for companies to give earnings guidance to Wall Street excluding so-called extraordinary items.

So we think GM should do that, that this would be very, very powerful in terms of galvanizing the organization. In fact, we feel it's a very crucial ingredient for that, and just don't know how they can do it without doing something like that. You know, it can be high level stuff. It doesn't have to be EPS or anything like that. It can be like Nissan did, get profitable by year X; achieve a margin of Y percent by year Z kind of thing.

Nothing motivates the organization when it's in a really difficult situation than putting a few stakes in the ground out there and having the organization kick those stakes over.

All right. So with all that potential bad news, you might ask, and I frankly frequently get asked, why did you guys pick General Motors. Aren't there better ways to make money. And how do you know the UAW is going to be cooperative in any of these things that GM needs to do. And the answer to that is pretty straightforward: we think GM is operationally a very sound company. If you look at the J.D. Powers and Harbor Report numbers, GM has made huge progress in quality and productivity over the last decade. And we think GM is making very steady and important progress in its new model offerings, and this will show up in results as time goes on.

And, of course, we think the recently announced cost reduction initiatives will be an important factor as time goes forward. And we like the fact that GM has a worldwide portfolio of businesses, with the one caveat that, and I saw Rick Wagoner was quoted on this yesterday, that some work remains to be done in Europe. They've achieved a major reduction in the losses in Europe, but they're not yet profitable.

And, as I mentioned, we think there's a lot of things within GM's sole control, meaning they don't have to talk to the UAW about it to help improve the company.

And, finally, we believe that the equality of sacrifice approach taken at Chrysler in 1980 and as referred to a number of times this past summer and fall by Mr. Gettlefinger of the UAW could play a very important role.

But I want to make it clear that we are very optimistic that a path exists for GM to return to prosperity and that Mr. Kerkorian is interested at the appropriate point in time in reacquiring the 12 million shares that he sold for tax purposes in December. And he is willing, under the right circumstances, to acquire an additional 12 million shares on top of that 12 million, which would require certain regulatory approvals ahead of time.

The considerations regarding those additional share purchases would be mainly that GM continues to take aggressive and effective actions to improve the performance of the company and that GM and the UAW work together to build a stronger partnership leading to constructive solutions to the enormous challenges facing all of the domestic auto companies.

And, we all know that relations between the UAW and the companies have gotten better over the last 10 or 15 years, but what you might ask makes us think they could get even materially better than that.

Well, first, it's just the sheer realities. When you look at all of the statistical data, just severe competition the domestic industry is facing, the shrinking in share. It just -- at least as we view it, anyone looking at those and understanding them enough would reach the same conclusion we have.

And the era and other bankruptcies that's shown us all what the worst alternative is, and that's the deal you get in a bankruptcy court. Only two parties in a bankruptcy do all right, the secured creditors and the advisors. They come out with 100 cents on the dollar. And maybe even a few of the management people do okay. But if you look at a lot of bankruptcies, a lot of the management either gets replaced or they get downsized out of jobs. And the reality is that everyone else takes a haircut, and that's usually in wages and benefits including pensions. And a couple of the auto analysts have published some estimates of what would happen to salaries, wages, healthcare and pensions in the event of a GM bankruptcy, and, frankly, it's very ugly. So, we feel it stands to reason that most if not all will ultimately see that the equality of sacrifice solution is substantially better for all.

So, let's consider what that equality of sacrifice plan, how it worked at Chrysler a quarter of a century ago and how it might work at GM and some of the other domestic companies today.

If you go back to 1980, Chrysler had gone to the federal government and said we need loan guaranties or we're going to go broke, and the federal government basically said, well, you know, we believe in helping those that help themselves first, and, so, all of Chrysler's constituencies are going to have to do their part and kick in.

And, as I mentioned a moment ago, Mr. Gettlefinger has talked about this same thing. Let me quote from his December 2nd article in The Detroit News: "Suppose your employer was in serious financial trouble. Would you be willing to make sacrifices to keep the company going? If you are confident the sacrifices would be shared equitably from top to bottom and that everyone would be rewarded fairly when the company got back on its feet, you probably would."

And here's what I remember happening at Chrysler that quarter of a century ago. I believe that the entire salaried work force, all levels, took reductions in salary, not just no bonuses but reductions in salary, and it was a sliding scale. The higher your salary, the bigger percentage of reduction, and vice-versa. At the time I was making about 60,000 a year, and I had to take a 10 percent cut. And, was it painful? Yeah, I had a couple of kids in college at the time. But was I glad to do it? Yes, because the alternative was probably lengthy unemployment for me if Chrysler had gone bankrupt.

As I recall, the UAW folks took about a dollar per hour pay cut at the time, or roughly 5 percent in terms of the industry economics at that time. I remember Lee Iacocca saying on television night after night, we have lots of jobs at 19 bucks an hour. We don't have any jobs at 20 bucks an hour. I mean, that was a requirement of the federal government.

And I recall the suppliers had to kick in with price reductions. That probably wouldn't be possible this time around because the supply base is in such deplorably bad shape. And, Frankly, the Chrysler shareholders had nothing left to give. There had been no dividend for a long, long time, and the stock was trading at about two bucks a share, which arguably was more of a lottery ticket than a stock certificate, if you will.

And there was a lot of gnashing of teeth to get the job done, but it did get done and Chrysler survived, went on very quickly to introduce the K car, which was one of the keys to its turnaround, and, of course, invented the minivan many people would say, and ultimately bought the Jeep franchise along with American Motors.

And by 1985, compensation had basically been normalized so the sacrifices that were made by all, they resulted in everybody being rewarded at the end of the day, importantly part of which was keeping the jobs.

Now, how might the same approach work at General Motors? And although I have some numbers in mind, I'm reluctant to toss them out because it would be inappropriate, I think, except for what might happen to the dividend. So let's start at the top of the pyramid with the shareholders. Whack the \$2 dividend by 50 percent and, yes, Tracinda Corporation would support that, and we believe most of the other shareholders would, particularly if it were part of an even better plan to fix the company than has been articulated to date. And it's worth pointing out it would save the company 566 million a year in cash.

And moving down the pyramid, next is the Board of Directors. The GM Board members make a bit over 200,000 a year each. So ask them to work for significantly less. Now, this wouldn't be serious money because there's only ten outside directors, but it would be very important in that it would set the tone that we're all in this together.

And next, of course, the most senior manager, the proxy five, top five officers of the corporation, their most recent SEC filing on this matter indicates the five of them make 7 million a year collectively in salary. So, ask each of them to take a significant salary reduction. Again, not huge dollars in the scheme of things, but a very important tone setter that everybody is in this together.

Then moving down from the top of the pyramid, there would be a percentage reduction that became smaller and smaller as you got to the bottom, the folks down there in the offices and plants where the percentage number would hopefully like in 1980 with Chrysler only be a single digit number.

But why you ask would anyone do this? If you're a shareholder, why not just unload your GM stock and buy something else. If you're on the Board, why not just resign. If you're a salary worker, why not just go somewhere else. And if you're in the UAW, why not just slug it out using the usual tactics to shut down the plants, thereby attempting to preserve the status quo. And to address each of these in turn, in terms of the shareholders, I don't believe there are many that think the current dividend is cast in stone. And certainly, for the most part, I believe the shareholders will support reducing the dividend as part of an equality of sacrifice plan that can increase the value of their shares over time.

As to Board members, I'd be surprised if any of them resigned. You know, Board members serve for many different reasons, and it's gotten a lot tougher to serve on boards in the so-called Sarbanes-Oxley environment. But in my experience income is not high on the list of reasons that board members serve.

In terms of the salaried work force, I go back to my days at Chrysler. And remarkably few people left. It was nowhere near what senior management had feared. I can only remember one person at the VP level leaving, and that's not to say that some of the salaried folks at GM wouldn't leave, but the salaried ranks in total have a lot of tenure and arguably more to gain by staying than by leaving even if they had to give up a bit.

In terms of the UAW rank and file, again, like the salaried work force, they have a lot of tenure. And could they strike to maintain the status quo? The answer is yes. But at some point strikes do no good. A strike can lead to an agreement being imposed on a company despite its economic circumstances, but at the end of the day, no strike can overcome the laws of economics. And that's why pilots and other airline employees today are working for less than they were a few years ago. The laws of economics are simply irrefutable.

And while that may, in fact, seem unfair given the history of things, it's an unfortunate reality that the auto industry is just one piece of a landscape that will become increasingly littered with those broken promises that some people talk about. And the railroads, the airlines, the steel industry, all got there before the auto industry did, but I'm sure you've seen the articles in the press. There are a lot of state governments and big municipalities that where this same issue is unfolding, and even in the federal government, a dirty little secret, so to speak.

If you're a military retiree, you were promised lifetime free medical care when you enlisted, and then, you may have gone off someplace and got shot out, or like my dad, stopped a couple of bullets in World War II. But these guys and gals just like their civilian counterparts are being required to chip in with co-pays and deductibles today. Get this, the retirees in the military are second priority when they go to a military clinic or hospital. The active military people get first priority. And if you were a GM retiree, how would you like that if you showed up at Beaumont Hospital. Sorry, fellow, you have to wait.

Okay. What are the pitfalls to an equality of sacrifice approach? Well, the first one is what elements of compensation would be included in the pool, if you will, that would be subjected to reductions. Should the pool include salaries, wages, healthcare, and pensions, or would it simply be some subset of those elements? Well, no doubt the discussion would be lively, but at the end of the day it doesn't matter what pot they come from, it just matters that they be there. They've got to come from somewhere.

And the next issue is the reality that one man's sacrifice, or equality of sacrifice, I should say, is another man's inequality. And that's what I was referring to. I think I said earlier there was a lot of gnashing of teeth at Chrysler to get that deal done in 1980.

And another issue is the government structure of the UAW. Mr. Gettlefinger has pointed out on a number of occasions that he runs or leads a democracy. And it was some great statesman or politician, I can't remember who it was, I think it was 50 or 75 years ago said something to the effect that while democracy is the greatest form of government, one of its weaknesses

is its inability to come to grips with a crisis until the crisis gets extremely close at hand.

Now, the other thing I'd like to point out before wrapping up here, for all have us in this room that are interested in the welfare of GM and the other domestic producers, I think we got a couple of things going for us. First of all, as I said, bankruptcies have been pretty much front page news over the last couple of years, and anybody that's a realist has to recognize that the worst deal you get is in the courtroom, and there's a better deal like we did at Chrysler in 1980.

And, secondly, in the case of GM specifically, both Rick Wagoner and Ron Gettlefinger have really been statesmanlike in their dealings towards each other, and that is vitally important because it's going to take a turn of statesmanship to get any deal done. So, that bodes well for us even though we're all staring at that 24 million per day cash burn rate.

So, let me get on and wrap up here if I may. We think, when you look at the brutal realities of the North American, and I should add European automotive markets, that the time to face the reality in the domestic industry is already here. That notwithstanding, that admittedly I have to say there are some people that aren't there yet. And we believe that not only the domestic companies but the UAW itself as well needs to recognize these realities, and time is of the essence. That incremental approaches that worked in the past are no longer going to work in the future. That every single day that the companies are headline news concerning their financial stress is one day closer to the time when consumers walk into the showroom and say, well, I better not take a chance on this. I don't think we're there yet, but, I can tell you we got there at Chrysler in 1979 and 1980.

And, the sooner this is recognized and acted upon, the better off everyone is going to be, because the sooner it's done, then the smaller the kick-in, so to speak, is going to have to be.

And communication obviously is very vital here for everybody to understand what and why this has to be done all the way down. And I think we've all seen the media reports that indicate over the last few days there's still a lot of mistrust here.

And let me close that section by just saying I was talking to an individual last week whose name you would all immediately recognize. He was very close to GM's brush with disaster in the early 1990s, and what he said to me was that both the companies and the UAW owe it to the American people to work on this.

Okay. I recognize that I'm going to be criticized in some quarters for mucking around in other people's compensation when I talk about the equality of sacrifice approach, but I thought about this long and hard over the last 10 months as I've become engaged in this thing, and that brutal, relentless competition, the loss of share, the legacy cost of overhang, and I just don't see any other alternative to those factors and the irrefutable laws of economics. And, of course, I personally witnessed it work at Chrysler.

But, I would be the first to acknowledge I don't have a monopoly on thoughts or information, and if there are other approaches that can work, they should be put on the table because they're important issues here to be thrashed out.

And I should acknowledge that the cynics, of course, will say it can't be done, that there is no constructive solution here given a 70-year history of a lot of mistrust in management/labor relations. But for my part, I believe we can prove them wrong and, I would just challenge everybody here, referring back to that fork in the road, can't all of us that are involved in this just grab hold of that steering wheel and get this industry headed down that right path in the road. And, obviously, from my part, I believe we can or I wouldn't be standing up here today.

That's it.

### **Q & A Session that followed Mr. York's address ...**

**(moderated by Jeffrey Leestma, SAA President, President – Automotive Hall of Fame)**

**MR. LEESTMA:** Thank you.

We're going to take a few questions. We have a few questions. A lot of the questions that came in early have been answered subsequently by Mr. York. So we'll take a couple of questions.

You've talked specifically about General Motors primarily, but briefly what is your outlook for the entire auto industry over the next 2- or 3-year period?

**MR. YORK:** Well, I tried to communicate this that I don't think GM is the Lone Ranger here. I think Ford, the Chrysler

division of Daimler, the automotive suppliers like American Axle that are heavily dependent on the domestics and the UAW itself are in this and, other than that, I don't have a specific outlook. I tried to enumerate what I thought the upsides and downsides were, but I'm surprised somebody would ask me that question since we got the three corporate economists sitting right here at the front table.

**MR. LEESTMA:** Okay. How far would General Motors market share have to fall before you say to yourself that you were wrong about their product, new product?

**MR. YORK:** That's a trick question. Right?

**MR. LEESTMA:** By the way, you reserve the right to refuse to not answer any question.

**MR. YORK:** You know, frankly, I haven't sort of gotten into that kind of analysis. My own instinct, rightly or wrongly, with this latest capacity takeout and all of the efforts they've mobilized on their future models, I think that will be pretty close to the bottom and will be a survival point for them for sure.

**MR. LEESTMA:** What does GM's just announced MSRP adjustments mean to your three years of cash equation?

**MR. YORK:** I don't have a clue. When they made those announcement this morning, I was practicing my speech, so I haven't seen them yet.

**MR. LEESTMA:** Do you and Mr. Kerkorian still seek a board seat at General Motors?

**MR. YORK:** You know, there's no new news to announce there. As we indicated on our joint press release of December 9th, we had very cordial discussions between us. We were not able to reach a mutually satisfactory agreement; but, on the other hand, neither side has ruled out that there could be additional talks down the road.

**MR. LEESTMA:** Have investors overestimated or the UAW underestimated the magnitude of cost problems at the Big Three, and how can this gap be narrowed?

**MR. YORK:** You know, that's a very good question, and I don't think any of us really know the answer to that right now, because in a highly competitive situation, you don't know what the ultimate net pricing is going to be, which will be one determinate. But, part of that in the case of some of the internal moving parts of the industry, putting the analysts aside, there are some cards that get played close to the chest and you never know for sure that the real thought process is out there.

**MR. LEESTMA:** One final question, and we'll wrap up.

Of the things that you mentioned in your talk, which of those actions do you believe Wall Street will value most? Or all of them?

**MR. YORK:** What would be what?

**MR. LEESTMA:** Which of those actions that you mentioned will Wall Street value most? You talked about the pyramid and --

**MR. YORK:** You know, Jeff, I have to say I'm just not sure about that. But, we'll all see the press articles and reports coming out of this. But what I've tried to articulate here is a holistic solution, an integrated solution, where everybody gets in the right frame of mind and really works more or less collectively on this. But recognizing that that's not always easy.

**MR. LEESTMA:** Ladies and gentlemen, Mr. Jerry York.

(Applause.)

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