



GM pulls off a profit

The U.S. auto maker's delayed results show a profit. Subprime worries are hitting Lowe's and H&R Block. Lehman Bros. reports a jump in profits, but falls on mortgage fears.

GM is back in black.

The No. 1 U.S. auto maker reported a profit today, after delaying its report in January because of accounting troubles. The company reported fourth-quarter profit of \$950 million, or \$1.68 per share.

Excluding special items relating to some GMAC transactions, net income for the fourth quarter was \$180 million, or 32 cents per share. The consensus estimate was for \$1.19 per share, excluding charges.

"Earnings were positive, but the falloff in GMAC combined with continued pressures in GM North America brought GM in well below consensus," Lehman Brothers analyst Brian Johnson wrote in a report today.

GM shares were down 23 cents to \$30.28 this morning, due to concerns about its financing division's exposure in the high-risk subprime mortgage sector.

Stocks opened higher this morning, but pulled back as subprime-lending fears continued to affect the markets. At 10:35 a.m. ET, the **Dow Jones Industrial Average** was up 1 point to 12,077 after shedding 243 points yesterday. The **Nasdaq Composite** had gained 5 points to 2,355, and the **Standard & Poor's 500** had added 3 points to 1,381.

GM's revenue fell 1% to \$51.2 billion, partly because of the sale of a stake in GMAC, its mortgage unit.

The auto maker's cost-cutting measures have produced \$9 billion in annual savings, and GM "is the furthest along in the turnaround," fixed-income analyst Pete Hastings at Morgan Keegan told Bloomberg News.

Still, said CEO Rick Wagoner, "nobody at GM is declaring victory, because we all know there is still a lot more work to do." For the full year, GM lost \$2 billion, an improvement from the adjusted \$10.4 billion it lost in 2005.

Yesterday, GM's mortgage unit GMAC reported that operating income fell 26% to \$2 billion. And Residential Capital, GM's home mortgage business, reported a \$651 million loss, after reporting profit of \$118 million last year.

A private-equity consortium led by Cerberus Capital bought a 51% stake in GMAC last year, but the value of GMAC has fallen so much that GM said today it has to put \$1 billion back into the company to make up the difference.

Global markets drop

Asian markets fell in today's session after yesterday's losses in U.S. markets. Japan's benchmark **Nikkei 225** fell 2.9%, erasing three days of gains, and London's **FTSE 100** had fallen 1.5% by late morning.

This is "a continuation of the correction that never really ended," AMP Capital Investors money manager Shane Oliver told Bloomberg News. "There's concern if the U.S. slows it will affect the rest of the world," he said.

And U.S. subprime-lending woes could snowball and start to affect the broader markets, Richard Hoyt, portfolio manager at KDV Wealth Management, told CNNMoney.com: "The market is a combination of fundamentals and psychology and right now, psychology has the upper hand."

Market strategists were mixed on the subprime-lending sector's impact on the larger economic picture. "There are now risks to economic growth and therefore risks to earnings growth," Barry Hyman, market strategist at EKN Financial, told MarketWatch.com.

But Mark Vitner, senior economist at Wachovia, told CNBC this morning that he doesn't see the problems in subprime spilling over into the prime category.

Subprime concerns trickle into Lowe's . . .

One company that faces those risks head-on is home improvement retailer **Lowe's** (LOW, news, msgs). CEO Robert Niblock tried to ease concerns about how the lending crisis could spill over into its business late yesterday, telling a consumer conference, "I don't think it's going to totally derail us in 2007 but I think it could have an impact in some markets."

Niblock said the company is "seeing signs that the worst (of the housing market) is behind us," which will help the company's comparisons going forward. He also said sales at stores open at least one year would likely improve slowly this year.

... And into H&R Block

Meanwhile, income tax preparer **H&R Block** (HRB, news, msgs) said late yesterday it would delay filing its quarterly results because it had to write down \$29 million of assets at its subprime mortgage unit, Option One Mortgage. The write-down will affect its earnings, which the company said it would file by March 19.

Shares of the company were down \$1.17, or nearly 6%, to \$18.88 in morning trading.

On Feb. 22, H&R Block said it had a net loss of \$44.7 million for the third quarter, mostly due to a \$111 million charge to cover losses in its Option One business.

The company put Option One on the block in November and is still expecting to get bids, but the price tag will likely depend on whether the subprime catastrophe continues and, if so, how much worse it gets.

CEO Mark Ernst told CNBC that while the subprime market will definitely be changing, "the demand for this kind of opportunity to be homeowners in this country isn't going away. While there may have been in some pockets people stretching to get into homes that they maybe shouldn't have stretched in," there are billions of homeowners out there who may not otherwise have been able to own homes.

Goldman jumping into the game

Just one day after reporting record earnings (again), investment bank **Goldman Sachs** (GS, news, msgs) said today it is poking around in the subprime market, to snatch up any good deals.

CFO David Viniar hinted that the banking giant is looking to profit on what has been one huge mess for most of Wall Street, The Wall Street Journal reported.

That's no big surprise, Merrill Lynch analyst Guy Moszkowski told the paper: The chaos is "exactly the kind of dislocation" brokers scout for.

Goldman hasn't been heavily exposed to the subprime market like rivals **Lehman Bros.** (LEH, news, msgs) and **Bear Stearns** (BSC, news, msgs).

Lehman Bros. profit jumps

Apparently Lehman's subprime exposure hasn't been too painful, however. The investment bank is following in Goldman's footsteps, reporting strong fiscal first-quarter earnings today.

The investment bank reported a 14% rise in profit, with net income coming in at \$1.15 billion, or \$1.96 per share, a penny above analysts' estimates.

The bank said revenue from fixed-income trading rose 3%, helping offset weakness in the U.S. residential mortgage sector. Lehman Bros. is one of the top underwriters of mortgage-backed bonds.

Still, shares fell \$2.85, or nearly 4%, to \$69.15 in morning trading, mostly because of investors' ongoing worries about the mortgage market.

By Elizabeth Strott