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PERSPECTIVE

Airbag recall puts consumers in a bind

By Jonathan Michaels

By now, most understand that our nation faces an epidemic of automotive recalls, igniting both fear and confusion in the hearts and minds of consumers. Spurred on by General Motors' shocking admission that it had known of a deadly ignition switch defect in its vehicles for 13 years, but failed to issue a recall, all sorts of automaker misdeeds have come to light, leading manufacturers to issue recalls at alarming rates.

Gone are the days of the occasional repair, replaced by confessions of highly compensated executives who sat idly by as scores of consumers lost their lives. In all too many instances, top brass knew of the devastation their products were creating, but chose profit over human life as their navigating light.

If GM's ignition switch fraud started the calamity, Japanese airbag supplier Takata is perfecting it. The tier one supplier who was once best known for building the world's first crash-test plant for testing seat-belts under real world conditions, has had its reputation hammed under the scandalous admission that it knew about deadly defects with its airbags, but did nothing to recall them.

At issue is the metal airbag inflator, which has been prone to rupture during airbag deployment, sending metal shrapnel into the occupant's face. The problem has been traced to the use of an ammonium nitrate-based propellant without a chemical drying agent. When the airbags are exposed to environmental moisture and high temperatures, the propellant can become so explosive that it bursts through the metal inflator. To date, Takata airbags are responsible for 10 deaths and 139 injuries.

Takata began installing the ammonium nitrate airbags in vehicles in 2002, and according to one whistleblower, the company knew of the defect back in the 1990s, when the airbags were being designed. It was not until April 2013, however, that the first recall was issued; and it would be another 18 months before it became publicly known that Takata had been concealing its knowledge of the defect.

Takata's refusal to disclose critical information cost it dearly. In February 2015, the National Highway Traffic Safety Administration (NHTSA) fined Takata \$14,000 per day for not cooperating with its airbag investigation, and in November 2015 it imposed a \$200 million fine against the airbag manufacturer — the largest in the governmental agency's 46-year history.



New York Times

A Takata airbag manufacturing facility in Moses Lake, Wash.

The faulty inflator resulted in a recall of 28.8 million airbags, dubbed by NHTSA as "the largest and most complex safety recall in U.S. history." And until last month, we thought the nightmare ended there. In May, however, NHTSA stated that it was requiring more than doubling the size of the Takata recall, to include an additional 40 million airbags.

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Some manufacturers are offering to disengage passenger airbags (driver airbags are a federal requirement, even if they contain a defect), and are issuing "do not sit" warnings for seating positions where disengagement is not possible, such as the driver's seat.

What's worse, according to the U.S. Senate Committee on Commerce, Science and Transportation, four manufacturers — Toyota, Fiat Chrysler, Volkswagen and Mitsubishi — are still selling new vehicles with defective airbags that will even-

tually need to be replaced. Because NHTSA is issuing a rolling recall, the vehicles are legal to sell, even if they could subject the purchaser to death or disfigurement.

Perhaps most concerning is that NHTSA's plan to replace these 70 million airbags is contingent on the tenuous notion that Takata actually remain in business. Takata, who is battling a bevy of class actions and a Department of Justice investigation (which could result in billions in fines), puts its worst case scenario at a whopping \$24 billion.

Does Takata have the armor to withstand that kind of blast? Not even close. The company, whose shares are traded on the Tokyo Stock Exchange, has taken a beating since the scandal broke. Once touted as the godfather of automotive safety, Takata currently has a market cap (the aggregate value of all outstanding shares) of \$308 million.

Its balance sheet is better, reflecting a book value of \$1.2 billion, but is still concerning given the gravity of the situation at hand. And there is little reason to believe the company will have much earning power in the future. All but shunned from the automotive industry, when the company is done building replacement airbags, it will be required to reinvent itself in a manner few have ever done.

It appears that the market agrees. Since the scandal broke, Takata shares have lost 87 percent of their value, leaving investors who have ridden the stock down wondering when they should jump ship. In terms of U.S. dollar comparisons, Takata stock is trading at 434 yen, or about \$4 per share. While it has yet to become a penny stock, the forecast is not promising.

It is reported that there are some 120 million Takata airbag containing ammonium nitrate installed in U.S. vehicles (many vehicles contain multiple airbags), leaving open the question of whether the recalls will stop at the current 70 million, or if the calamity will continue to grow. For consumers who are left with the Hobson's choice of abandoning their vehicles or continue to drive them, one can only hope that the end is near — and that Takata will remain viable long enough to do something about it.



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