GM Posts $6B 1Q Loss

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DETROIT (AP) — General Motors Corp. lost $6 billion in the first quarter and its revenue was cut nearly in half as car buyers feared the wounded auto giant would enter bankruptcy and no longer honor its warranties.

The Detroit-based company also said it spent $10.2 billion more cash than it took in from January through March, mainly because revenue dropped by a staggering $20 billion, or 47 percent.

Chief Financial Officer Ray Young said talk of the company going into Chapter 11 bankruptcy protection appeared to have scared some consumers away from buying GM vehicles. GM faces a June 1 government deadline to finish a restructuring plan or go into bankruptcy protection.

"The concern about bankruptcy is having an impact on our sales," Young told reporters Thursday morning.

He said a U.S. government guarantee of GM and Chrysler warranties was not revealed by the Obama administration until March 30. So, for most of the quarter, consumers were unsure about warranty protection. Chrysler last week filed for bankruptcy protection.

Young said people should be reassured by the warranty guarantee, but it might take time for word to spread.

GM's loss for the quarter amounted to $9.78 per share, compared with a loss of $3.3 billion, or $5.80 per share in the year-ago period.

Revenue dropped from $42.4 billion to $22.4 billion because of declining sales worldwide, mainly in North America and Europe, the company said.

Although the company cut structural costs by $3 billion, Young said that wasn't enough to offset plunging revenue.

"We cannot cut costs fast enough to offset that revenue loss," he said. "People are concerned about bankruptcy, and that's the reason why we want to avoid it if at all possible."

GM's cash burn for the quarter was offset by $9.4 billion in U.S. government loans GM received in the first quarter. GM got another $2 billion in April, bringing total government loans to $15.4 billion.

As bad as the results look, analysts were expecting worse. Excluding special items, GM's fourth-quarter adjusted loss was $9.66 per share, beating Wall Street's expectations. Analysts surveyed by Thomson Reuters predicted a loss of $11.05 per share on revenue of $20.2 billion.

The company reported an operating loss of $3.2 billion from its North American operations alone.

GM posted an operating loss of $2 billion in Europe while it squeezed out a small profit in Latin America. Sergio Marchionne, the chief executive of Italy's Fiat SpA, is in talks to take over GM's operations in Europe — Germany's Opel, Britain's Vauxhall and Sweden's Saab. Fiat confirmed Thursday it is interested in the Latin American operations.

Young would not comment on Fiat's interest in GM's European or Latin America units. Fiat will have a 20 percent stake in Chrysler when that automaker emerges from bankruptcy protection.

GM faces an almost impossible list of restructuring tasks to complete before the June 1 deadline. It must get new cost-cutting agreement with its unions, complete a debt-for-stock swap with 90 percent of its bondholders, close factories and cut jobs to prove to the government it can repay the loans.

The largest U.S.-based automaker also is trying to cut 2,600 dealerships and is in the process of selling or phasing out the Saturn, Saab and Hummer brands. GM has already decided to get rid of Pontiac.

GM shares were up 8 cents, or 4.8 percent, to $1.74 in premarket activity.

Young said quarterly production dropped 40 percent year over year to 900,000 vehicles. GM temporarily shuttered factories to stop its inventory from burgeoning.

"That's why we saw the revenue implosion, a combination of weakness and global volumes," he said.

The company intentionally cut low-profit sales to fleet buyers such as rental car companies, Young said.

The CFO said GM is continuing to simultaneously prepare for bankruptcy as well as its preferred option of restructuring out of court.

GM has made an offer to the holders of roughly $27 billion in debt to swap 225 shares of stock for every $1,000 GM owes. The deadline for the swap is May 26, and Young would not comment when asked if the offer might change.

CEO Fritz Henderson said Monday that the Treasury Department will not allow GM to offer more than 10 percent of the company's stock to the debtholders.

GM ended the quarter with $11.6 billion in cash, down from $14.2 billion on Dec. 31.

"Results were awful, as expected, however, GM's cash burn was even worse than we were expecting," said Kip Penniman, a corporate bonds analyst with KDP Investment Advisors in Montpelier, Vt., wrote in a note to investors.

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