GM shares hit 60-year low on worries of collapse

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DETROIT – Bad news kept piling up for General Motors on Monday as its shares plunged to their lowest point in 60 years and some industry analysts predicted the automaker would collapse without a government bailout.

In addition, GM said it would cut 1,900 factory jobs on top of the 3,600 cuts announced on Friday.

"Without government assistance, we believe that GM's collapse would be inevitable, and that it would precipitate systemic risk that would be difficult to overcome for automakers, suppliers, retailers and sectors of the U.S. economy," Deutsche Bank (nyse: DB – news – people)'s Rod Lache wrote in a note to investors.

He essentially said GM's common stock is worthless by cutting his price target to $0.

GM shares dropped $1, or 23 percent, to close at $3.36. Shares slipped at one point to $3.02, the lowest level since Dec. 2, 1946, according to the Center for Research in Security Prices at the University of Chicago. The price is adjusted for splits and other changes.

The weakening economy and tight credit markets have worsened conditions for the Detroit-based automaker, which has been reporting steep sales declines from foreign competition and changing consumer preferences.

On Friday, the automaker reported a $2.5 billion loss in the third quarter and warned that its cash levels could fall below what's needed to run its business by the end of the year if the U.S. economy doesn't turn around and it doesn't get government aid.

Also Monday, GM said in a regulatory filing that Delphi (other-otc: DPHI.PK – news – people) Corp., its former parts operation that was spun off as a separate company in 1999, may never emerge from Chapter 11 bankruptcy protection. It also echoed statements from last week that the mortgage unit of its finance arm may not survive.

Lache said Monday that GM, whose cash burn accelerated to $6.9 billion during the third quarter, would be unable to fund its operations past December without a government bailout. That's assuming suppliers don't tighten commercial payment terms.

The three U.S.-based automakers have been pressing for an additional $50 billion in loans from Congress to help them survive the tough economy and pay for health care obligations for retirees. That's on top of a previously approved $25 billion government loan package for new technology.

Lache estimated that the government will need to provide GM with $10 billion in loans to keep it going through 2010 and as much as $25 billion to fund its cash burn and recovery.

The 1,900 additional layoffs will come in the first quarter of next year at parts stamping, engine and transmission factories in North America as GM cuts expenses to deal with a worsening cash crisis.

Spokesman Tony Sapienza said the cuts are in addition to 3,600 factory layoffs announced on Friday, bringing the total announced in the past week to 5,500.

Sapienza would not say which plants would be affected by the new round of layoffs. GM has 26 powertrain and 22 stamping plants in North America.

The layoffs will be indefinite, he said, but there will be no plant closures.

GM also filed a notice with the state of Michigan saying it would lay off 650 factory workers and another 52 salaried employees at its Orion Township, Mich., assembly plant starting Jan. 23. Sapienza said those layoffs are part of the 3,600 announced Friday.

The Orion plant makes the Chevrolet Malibu and Pontiac G6 sedans, which Sapienza said are selling well but have fallen victim to the overall U.S. market decline.

At Delphi, if the struggling parts maker can't find new investors and can't escape from bankruptcy, it may be forced to sell its assets, and that could cost GM more money, the automaker said in its filing.

"As a result, we may be required to pay additional amounts to secure the parts we need until alternative suppliers are secured or new contracts are executed with the buyers of Delphi's assets," GM's filing said.

Out of necessity, GM took a greater role in Delphi's reorganization this fall after a group of equity investors pulled out of a deal to invest up to $2.55 billion in April. Delphi has been operating under court protection since Oct. 8, 2005.

GM's finance arm, GMAC LLC (nyse: GJM – news – people), said last week that auditors had raised doubts about the viability of its mortgage business, Residential Capital LLC. GM repeated that warning in a regulatory filing Monday, saying the value of ResCap's mortgage loans have deteriorated due to weak housing prices, delinquencies and defaults, while the company also is having trouble raising capital.

GMAC is 51 percent owned by the New York-based private equity firm Cerberus Capital Management LP, while GM holds the rest.

Before the markets opened Monday, Brian A. Johnson of Barclays (nyse: BCS – news – people) Capital cut his price target for the Detroit-based automaker to $1 from $4. The analyst also said that while additional government assistance could decrease the likelihood of a bankruptcy protection filing at the nation's largest automaker, it also would likely significantly dilute its equity.

If the government steps in, shareholders may be shut out because, similar to bankruptcy rules, the automaker's secured and unsecured credit holders are better protected than equity holders.

Also Monday, the entire Michigan congressional delegation in a letter urged Treasury Secretary Henry Paulson "in the strongest possible terms" to use authority given him under the $700 billion Wall Street bailout legislation to provide emergency help to domestic automakers. They said the struggles of the auto companies were "well within the broad mandate of the Treasury Department to promote stable economic growth."

Over the weekend, Democratic leaders in Congress urged the Bush administration in a letter to consider expanding the $700 billion financial bailout to include the U.S. auto industry.

White House spokeswoman Dana Perino said Monday that protecting the financial markets "is what Congress had in mind when it passed that rescue package. There was not discussion of specific help to auto companies during that debate, and so Congress' intent was to help financial institutions."

Perino said "that doesn't mean that Congress wasn't also thinking about the auto industry," since Congress approved $25 billion in loans for the companies to retool plants to build more fuel-efficient cars. If Congress chose to provide more help to the auto industry, Perino said the White House would listen.

A Treasury Department spokeswoman said Monday they were reviewing the letter from the Democratic leaders.

Bree Fowler reported from New York. Associated Press Writer Ken Thomas and AP Real Estate Writer Alan Zibel in Washington contributed to this report.

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