



GM may take some Delphi plants back

Move could aid both firms, analysts contend

BY JEWEL GOPWANI
FREE PRESS BUSINESS WRITER
February 10, 2009

General Motors Corp. and its former parts division, Delphi Corp., are negotiating to give some Delphi plants back to GM, a move that could benefit both companies, analysts say.

Delphi, which has been struggling to emerge from bankruptcy, might find it easier to attract the financing it needs to leave bankruptcy if it sheds unprofitable factories and its dependence on the struggling GM.

Meanwhile, GM, which is racing to meet a deadline to submit a restructuring plan to the U.S. Treasury by Feb. 17, could be assured that production would not be disrupted from its largest supplier.

The talks highlight how the deteriorating global economy -- rife with declining sales, dwindling cash reserves and a frozen credit market -- have made more traditional options, such as borrowing and selling operations to a third party, all but possible.

"It's difficult for Delphi to raise the exit financing they need to emerge for a lot of different reasons, but one of them is its dependence on General Motors and the uncertainties surrounding GM," said Kirk Ludtke, an analyst with CRT Capital Group LLC in Stamford, Conn.

Delphi filed for Chapter 11 bankruptcy protection in October 2005, to shed the costs it inherited from GM, which spun off the parts subsidiary in 1999.

Delphi had planned to leave bankruptcy protection in April. But that was delayed after hedge fund Appaloosa Management LP, which had planned to buy \$2.5 billion in Delphi stock, dropped out of the deal. The supplier is revising its reorganization plan, which is due Feb. 27.

A GM spokeswoman declined to comment on the talks with Delphi.

Delphi spokesman Lindsey Williams said, "Delphi and GM continue to be engaged in dialogue regarding a number of matters related to our restructuring efforts."

However, he declined to elaborate on the details.

Last week, Delphi asked a judge for permission to cancel its salaried retiree health and life insurance benefits in an effort to slash \$1.1 billion from its balance sheet to make it more attractive to investors.

Shedding factories could have a similar impact.

"It could further focus the company, in addition to shrinking it to a more manageable size," said Mike Wall, an analyst with CSM Worldwide.

GM and Chrysler LLC are in talks with their unions and debt holders for concessions tied to the \$17.4 billion as part of the viability plans both companies must present to the Obama administration next week.

GM's viability plan might be stronger if the automaker addresses potential supplier problems that could cripple the automaker's production and derail a recovery, said Van Conway of Conway, MacKenzie & Dunleavy, a company that works with distressed firms in the auto industry.

Meanwhile, the government is working to ensure GM and Chrysler would pay back their federal loans before paying down other debt, which might force the automakers to file for bankruptcy protection. The government has hired a law firm to help establish its place at the front of the line for repayment, Bloomberg News reported, citing unnamed people involved in the work.

Contact **JEWEL GOPWANI** at 313-223-4550 or jgopwani@freepress.com.