# Bankruptcy court approves Delphi executive bonuses

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A federal bankruptcy judge last week approved a plan proposed by Delphi Corporation that will provide its top executives with tens of millions of dollars in bonuses while hourly workers face a wage cut of up to 60 percent and the loss of 24,000 jobs.

US Bankruptcy Judge Robert Drain acknowledged it would be difficult for union workers to accept lucrative executive bonuses while they were facing severe wage cuts. But, he said, the lavish handouts for the bosses and brutal wage cuts for the workers were both needed to make Delphi "competitive."

Drain said, "Looked at on its own, objectively, it's clear to me that this plan would pass muster as an appropriate form of compensation."

The six-month incentive plan will award up to $38 million to Delphi's executives, including several officials who presided over the company's loss of $5.5 billion in 2004-2005 and its plunge into bankruptcy. Some of those to be rewarded are under investigation by the Securities and Exchange Commission and FBI for false financial reporting and other dubious business practices.

In a hearing to be scheduled later, Delphi will try to get court approval for other parts of its "Key Employee Compensation Plan," including a lump sum payment of $87.9 million for 486 executives the day Delphi is sold or emerges from bankruptcy, and the setting aside of $400 million in equity of the reorganized company for executives.

Last November Judge Drain approved enhanced severance packages for Delphi's top 21 executives, guaranteeing them millions in compensation if the company removes them or they leave. The compensation includes 18 months of salary and 18 months of bonuses, up from 12 months, once the executives sign a document barring them from immediately joining a competitor.

According to the *Detroit Free Press,* several Delphi executives stand to make millions if the entire compensation program is approved. Delphi President and Chief Operating Officer Rodney O'Neal, with an average annual salary of $1.2 million, could receive more than $20.3 million; Vice Chairman David B. Whoolen, with an average annual salary of $890,000, could receive more than $16.2 million; Chief Financial Officer Robert J. Dellinger, with a $750,000 average annual salary, could receive more than $12.5 million.

Delphi, like Northwest Airlines and Delta, timed its bankruptcy filing just ahead of the new bankruptcy law that places certain limits on compensation packages and makes it harder for executives to retain their jobs if fraud is suspected. While setting aside hundreds of millions for executives, Delphi CEO Robert Miller—who received a multi-million-dollar signing bonus when he hired in just months before declaring bankruptcy—has repeatedly suggested that auto workers are overpaid and under-worked, and argued that US auto companies cannot afford to pay current wages, health care benefits or pensions. The company's demands include a reduction of hourly wages from $27 to $12.50.

In its objection to the executive compensation plan, Delphi's nine-member creditors committee, which includes major financial institutions as well as the United Auto Workers union (UAW), argued that the compensation package should not be approved on the eve of a possible court decision to nullify Delphi's labor agreements and allow it to impose its demands for sweeping wage cuts and other concessions.

"The decision to seek approval of executive bonuses within one week of seeking historic and life-changing sacrifices from rank-and-file employees is simply not a reasonable or justifiable exercise of business judgment," the committee said in its filing.

Last November, lawyers for the UAW argued that the bonuses were making it difficult to get their members to swallow the company's draconian demands. In an objection filed November 22, they wrote: "It is unlikely that the UAW will be able to garner the necessary support among its membership for a negotiated agreement if the employees view the process as tainted by large awards for a select few while they bear the brunt of the cost-cutting." (See: "Auto union's complaint: Exec bonuses make it tough to sell wage cuts")

The judge shrugged off complaints by the UAW and other unions, saying it may be "very hard to ask someone to make a substantial give-up when you yourself have just received the right to obtain a bonus," but the "unions, their advisors and the rank-and-file are smart enough" to realize the bonuses would improve Delphi's competitive standing, he said.

Following Delphi's lead, the board of directors of Visteon Corporation, the nation's second largest auto parts supplier, approved large executive bonuses, even as the company announced a $270 million loss for 2005. Visteon, which is slashing thousands of jobs and spinning off two dozen plants to its former parent company Ford, gave its executives bonuses between 50 and 130 percent of their base salaries. In addition, the board approved larger long-term incentive awards that range between 120 and 475 percent of executive base salaries.

Three Visteon executives last year were listed among the top 50 in the *Detroit Free Press* Executive Compensation Report: Former chairman Peter Pestillo had a total compensation of $4.28 million; Chairman and CEO Michael Johnston, $4.16 million; and Executive Vice President and Chief Financial Officer James Palmer, $3.44 million.