Bankrupt US auto parts giant seeks $216 million for executive bonuses

Shannon Jones
13 November 2007

After imposing wage cuts of up to 50 percent and other concessions on hourly workers, executives at bankrupt auto parts supplier Delphi, are seeking permission to hand themselves a multi-million dollar payout.

Delphi is seeking court approval to pay 560 of its executives some $216 million in bonuses and incentives after the company comes out of bankruptcy. The auto parts maker, formerly a division of General Motors, filed for bankruptcy in 2005 and demanded massive concessions from its union-represented hourly workers.

On Friday a US Bankruptcy Court agreed to delay a hearing on the proposed reorganization plan until November 29.

Last June Delphi forced through cuts—with the direct assistance of the United Auto Workers union—that reduced wages from $28.75 to as low as $14 an hour, sanctioned huge layoffs and gutted health care and pension benefits. The deal set the stage for similar concessions at GM, Ford and Chrysler, where the United Auto Workers union used the Delphi settlement as a pattern.

Having slashed wages and benefits and eliminated the vast majority of its former workforce, Delphi is seeking to secure a funding deal with private investors that will allow it to emerge from bankruptcy.

As part of a plan recently presented to the bankruptcy court, Delphi wants to reward the very corporate officials responsible for this disaster. According to a report in the November 7 edition of the *Detroit News*, the plan includes $78 million in one-time bonuses; $11.5 million in one-time supplemental grants paid in stock; $46 million in a short-term cash incentive bonus and $80 million in a long-term cash incentive program.

Under terms of the plan, top executives could receive cash bonuses of $7.5 million per year. They could also get up to 1 million shares of stock and 500,000 shares of restricted stock next year. Another round of stock awards could take place in 18 months. The total value of the stock could be more than $250 million.

On top of all this, outgoing executive chairman Robert Miller, who received a $3 million signing bonus when he took over the post in 2005, will get a “discretionary performance payment” after Delphi emerges from bankruptcy. The amount of this payout, which is in addition to the announced $216 million, has not been revealed but will undoubtedly be at least in the seven figures.

Before coming to Delphi, Miller made tens of millions as a “turnaround expert” in the steel and airlines industries, where he followed the same slash and burn model of cutting jobs, wages and pensions, while handing of vast sums to corporate executives and wealthy shareholders. Upon taking over Delphi, he infamously announced that globalization and the availability of cheap labor around the world spelled an end to the days of relatively high pay, steady employment and lifetime retiree and health benefits for US auto workers.

The company’s bankruptcy was not simply the product of bad management, although there was much of that. Instead, Delphi and its former parent company GM used the bankruptcy filing and the court-sanctioned concessions to spearhead an assault on jobs, wages and benefits, not only of Delphi workers, but workers at Detroit’s Big Three automakers—GM, Ford and Chrysler.

The largesse for the company’s top executives could not contrast more with the conditions faced by thousands of Delphi workers who have been transformed into a cheap labor force under the constant threat of losing their jobs.

Since 1999, Delphi employment has fallen from 45,600 to less than 17,000, and most of those jobs are slated to be eliminated under terms of the recent UAW agreement.

The human costs of this downsizing has been devastating, particularly in the Midwestern states. Six years ago, for example, Delphi was Indiana’s No. 3

industrial employer with about 12,000 workers in Kokomo and Anderson. Today, the company employs about 4,000 in Indiana, almost all in Kokomo. The Anderson plant will close this summer.

The *Indianapolis Star* recently profiled one Delphi worker, Edith Buckley, who rented a truck a month ago, packed up her home and moved from Milwaukee—where Delphi is closing its plant next year—to Kokomo, where the UAW claimed production would be continuing for four years.

"Buckley was laid off with 54 other Delphi Kokomo autoworkers Friday," the *Star* reported, along with many others who also relocated in October from Milwaukee. "'What happened to the ethics of companies?' asked Buckley, 52, a single mother who says she has an ailing kidney. 'I took the job because I didn't have health insurance. Now I don't know if I can find work again at my age and get insurance.'"

Last September Milwaukee workers were told they could get a $25,000 relocation bonus if they transferred to Kokomo, the paper reported. "Then she discovered the $25,000 bonus was really $20,000," and even less after taxes. "The final $5,000 was due after one year on the job. Because she is being let go two weeks shy of her anniversary date, she won't get the final payment," the *Star* wrote. "What is it? A dog-eat-dog world?" Buckley said, adding she would soon move back to Wisconsin.

The US Securities and Exchange Commission is pursuing civil charges of accounting fraud and other security violations based on allegations that Delphi executives falsified records between 2000 and 2004 to artificially inflate earnings and thus boost their own performance bonuses and the value of stock options. One finance executive named in the accounting fraud lawsuit, John Sheehan, the chief restructuring officer and former chief accounting officer, is still with Delphi and is one of those in line for performance bonuses.

Six of the nine executives in the SEC probe have agreed to settle civil allegations, paying $687,000 in fines and restitution. The US Justice Department also conducted a criminal probe of former Delphi CEO J.T. Battenberg and other executives, but refused to bring charges.

Among those defrauded by Delphi were large employee pension funds investing money to secure the retirement of teachers and other public workers.

Under terms of the settlement with the SEC, Delphi had to reimburse investors some $322 million.

The planned payouts to Delphi executives expose the claims of the UAW bureaucracy that the massive concessions it forced through earlier this year had anything to do with protecting jobs. In fact the UAW was a willing accomplice in a corporate looting operation in which vast amounts of wealth have been transferred from auto workers into the pockets of executives and wealthy speculators.

The concessions to Delphi by the UAW bureaucracy were bound up with the contract negotiations with General Motors, Delphi's largest customer and creditor. The UAW used the wages and benefits of Delphi workers as bargaining chips to help negotiate a payoff for the union bureaucracy, which won control of a multi-billion dollar retiree health care trust fund in later talks with GM.

It is an open question whether the latest proposal by Delphi will win approval. Delphi has had difficulty financing its emergence from bankruptcy because of the recent turmoil in credit markets due to the crisis in mortgage lending. In the most recent development, private equity firm Appaloosa Management LP said it was pulling out of an agreement to help provide $2.55 billion in financing to Delphi.

Delphi's compensation plan is being criticized by a committee of stockholders, who are opposed not so much to the payout to executives, but to the fact that big investors will receive far less under the new proposal than a plan proposed in September. Delphi is now set to give stockholders just $69 million, down from the $470 million it previously promised.

Under the revised plan, General Motors and unsecured creditors will also receive less in cash to settle outstanding debts. Delphi had agreed to pay GM some $2.7 billion.