

McTevia Tells The Detroit News that Delphi Still Faces Rough Terrain

Delphi emerges from bankruptcy smaller, healthier

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Delphi's long and painful stay in bankruptcy court ended Tuesday -- after many false starts and four years of court-supervised restructuring.

The new, privately held Delphi Holdings LLP gets a fresh start as a smaller auto parts supplier -- shedding unprofitable businesses -- with less debt and lower labor costs.

The closing, completed at a law office in New York late Tuesday, was a complex series of transactions involving the transfer of assets around the world. The stage was set July 30, when a bankruptcy judge approved the sale of the bulk of the company to its lenders and a chunk to General Motors.

Troy-based Delphi spent the last two months winning regulatory approvals around the world for the deal.

But the supplier faces a difficult road in the weak U.S. auto market. Its new owners, its bankruptcy lenders, must now guide the one-time parts unit of General Motors.

Delphi's October 2005 bankruptcy, at the time the largest auto sector bankruptcy in history and 11th-largest ever, was prompted when the company said it needed to reduce its hourly labor costs by more than 60 percent.

The filing ushered in a painful era for auto suppliers, with many following Delphi into bankruptcy. As part of an industry-wide upheaval, two of the Detroit Three automakers, GM and Chrysler, also filed for bankruptcy to slim down their operations.

"We are grateful for the support and loyalty of our customers, who have placed their trust in Delphi's ability to provide world-class products and uninterrupted supply, and the support of our suppliers who have contributed broadly to our efforts," said Delphi Holdings LLP President and CEO Rodney O'Neal.

He will stay on as chief executive. But the company's lenders will select a new board of directors that will choose a new chairman to replace Delphi's outspoken executive chairman, Robert S. "Steve" Miller.

GM steps in as part of deal

GM, which spun off Delphi in 1999, is providing financing and buying back Delphi's global steering business and four U.S. plants as part of the deal. In total, GM set aside \$12.5 billion to cover the wind-down costs.

"We're pleased to see a final resolution to the bankruptcy and wish the newly emerged Delphi success," said GM President and CEO Fritz Henderson. "The closing transactions allow Delphi to effectively serve its customers by focusing on its core business."

GM now owns Delphi facilities in Grand Rapids; Kokomo, Ind.; Rochester, N.Y.; and Lockport, N.Y.

Jim McTevia, an auto industry consultant, said Delphi still faces rough terrain.

"The new, smaller Delphi is going to have a difficult time succeeding," McTevia said. "I think domestic auto sales are so weak it is going to take time for Delphi to become a successful company."

Delphi posted a \$603 million net loss in the quarter ending June 30, bringing its operating losses since 2005 to about \$10 billion.

In Saginaw, workers hauled down the Delphi sign from a plant at the complex that employs about 2,900 people. Initially, GM will keep Delphi's global steering business as a separate unit -- a move that could eventually allow the automaker to sell the business with 15 plants worldwide.

GM announced it has named the unit that will run Delphi's steering Nexteer Automotive. It left Delphi's steering president, Robert Remenar, as president of the unit.

Delphi nearly exited bankruptcy in April 2008, but its would-be investors withdrew from the \$2.55 billion deal. Delphi struggled to find a new way out as the credit crunch and last fall's collapse of auto sales nearly pushed the company into liquidation.

The acquisition of the old Delphi's core assets was led by its chief lenders, Elliott Management and Silver Point Capital, which swapped much of what they were owed for Delphi's assets. They beat out a bid from Platinum Equity -- a proposal initially backed by the Obama auto task force.

"As major investors in the new Delphi, we believe this transaction will provide a solid financial foundation for the company's growth and success as a world leader in the global automotive industry. We are extremely pleased to have played a significant role in the creation of the new Delphi," the lenders said in a statement.

The remainder of Delphi, to be called DPH Holdings Co., is expected to exit Chapter 11 and will wind down various noncore assets that were not acquired by the lender group or GM.

Company much leaner

The auto supplier will be a shell of its former self, after closing 21 of its 29 U.S. factories, spending more than \$400 million on restructuring and eliminating most of its salaried and hourly workforce. Delphi said earlier it planned to have about 12,700 workers and four plants by the end of this year.

That compares to 37 U.S. factories and about 80,000 U.S. employees in 1999, when it was spun off by GM. When it filed for bankruptcy in October 2005, Delphi's U.S. employment was down to 50,000 workers.

As of June 30, that workforce had shrunk to about 14,000, with approximately 7,300 hourly workers -- and it has slashed more workers from the payroll since then.

In recent weeks, Delphi laid off another 150 salaried workers. Its remaining salaried employees have been asked to make more sacrifices, including reduced health insurance benefits. Some salaried workers are losing car allowances.

Delphi said it has cut its average labor cost from \$73 to \$27 an hour.

Under the reorganization, stockholders who once stood to get nearly \$500 million have been wiped out. Unsecured creditors will see little of what they were owed. The Pension Benefit Guaranty Corp., the government-owned insurer, will be saddled with a \$6.2 billion liability to assume Delphi's pension plans for 70,000 workers.

The 20,000 workers and retirees covered by Delphi's salaried plan will lose \$400 million in pension benefits. The company also won court permission to terminate retiree health insurance and life insurance for salaried retirees, saving another \$70 million annually.

Additional Facts

The shrinking of Delphi

1999: 37 plants, 80,000 U.S. employees

2005: 29 plants, 50,000 U.S. employees

October 2009: Four U.S. plants, 12,700 employees by the end of the year. (Figures don't include sale of four plants to GM)