DELPHI CORPORATION Harvard Case Solution & Analysis

Technical Note "A Managerial Primer on the U.S. Bankruptcy Code"

Chapter 11 - Reorganization

Chapter 7 - Liquidation

Company Background

Why didn't Delphi management negotiate reorganization with the various claimants instead of choosing to go into bankruptcy?

Why did it choose Chapter 11 instead of Chapter 7?

Explanation of DIP financing.

Would you vote for the POR as an equity holder, a secured bondholder?

- For the equity holder they would vote yes because they would get more value settling for less than their full value of the claim through the POR. a new POR would require more time in bankruptcy which is expense and will have a negative effect on the company's value. Therefore, they will get more by voting yes than through liquidation or a new POR.

- The secured bond holder will be paid in full with first priority if the company goes through liquidation, unless the lower priority claim holders get nothing. Then their payment will be reduced from full payment. There will be more value and less risk in voting yes to the POR than no and getting a liquidation for this reason.

Would you vote for the POR as an unsecured creditor, or GM? Explain your reasons.

- An unsecured credit holder is lowest on the priority payments through liquidation. Therefore, they will reduce their risk of not being paid and increase the value of their claim by voting yes to POR rather than voting no for liquidation or a new POR.

- A GM would vote yes because it will kept the company intact unlike liquidation. They will not want to create a new POR because keeping the company in bankruptcy would increase expenses and decrease the value of the firm.

How important is the valuation of Delphi to your vote as an equity holder, a secured bondholder, an unsecured creditor, GM?

- The valuation of Delphi is important to the vote of all types of claim holders.
- The secured bondholder will have the least risk of the credit holders to not be paid and therefore would be the least worried about the valuation of the firm. They will have some risk, as previously stated, if the lower priority claim holders are paid nothing, this will decrease their payment from full.
- The valuation of the firm would be most important to the GM whom during bankruptcy, shifts his concern to the firm's value over the value for shareholders.
- An unsecured creditor and an equity holder will want the highest valuation because this increases their likely hood of being paid rather than liquidation.
- Equity holders have the lowest priority through liquidation, with preferred stock holders over common stock holders. They will want the POR and high valuation.

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Technical Note
"A Managerial Primer on the U.S. Bankruptcy Code"

- **Bankruptcy Reform Act of 1978** (Bankruptcy Code)
- **Chapter 1** -Provisions, Definitions, Rules of Construction
- **Chapter 2** - Case Administration
- **Chapter 5** - Creditors, Debtors and The Estate
- **Chapter 7** - Liquidation
- **Chapter 9** - Adjustment of the Debt of Municipality
- **Chapter 11** - Reorganization
- **Chapter 15** - United States Trustees

Chapter 11 - Reorganization

If management decides firm value is maximized as a going concern, rather than liquidation it will file for Chapter 11

- Incumbent management, not a trustee, retains control of the firm and becomes the debtor in possession (DIP).
- Control is retained for the first 120 days of the bankruptcy proceeding, or the exclusivity period.
- Management has the exclusive right to file a plan of reorganization (POR) during this time. After expiration any interested party may file. Courts usually extend exclusivity.
- Provides sources of relief by making new creditors have the highest claim priority
- "Stay of Execution" legally bars creditors from repossessing or acquiring any company assets
- Stops interest from accruing

Chapter 7 - Liquidation

If management determines the firm should be liquidated, it files for Chapter 7 bankruptcy.

- A U.S. bankruptcy trustee is appointed to supervise the liquidation of the company's assets
- .Value is distributed to creditors according to "absolute priority."
    1. Secured Claims
    2. Administrative Claims
    3. Involuntary Gap Claims
    4. Unsecured Claims
    5. Preferred Stock
    6. Common Stock
- Claims of Higher priority are paid in full first and then claims of lower priority. Unless lower claim holders receive nothing. Then higher claim holders will receive less than the full amount.

Company Background

- Delphi has been in bankruptcy for 2 years (since 2007).
- Company Description - Spin off of GM. They manufacture electronic automotive parts
- Internal Outsourcing Issues - They maintained too many locations abroad with high labor prices and were not profitable
- What brought on Bankruptcy - They were only profitable during their first 2 yrs of operations. After that their expenses began to erode all profits. This was due to legacy claims from GM, high labor costs, and too broad and non profitable product lines.

Why didn't Delphi management negotiate reorganization with the various claimants instead of choosing to go into bankruptcy?

- Delphi Corporation was in stuck in financial turmoil during the financially difficult times preceding the bankruptcy filings.
- Their debt had risen to a point that payments to creditors were increasingly difficult for the company to make.
- Filling for Chapter 11 would protect the company against accruing debt interest, make it more attractive to new creditors there by increasing cash flow, and would allow it time to reorganize and reduce their debt to make the company profitable again

Why did it choose Chapter 11 instead of Chapter 7?

- On October 8th 2005, Delphi filed for the largest Chapter 11 Bankruptcy filling to date.
- Management was able to convince the judge that the firm had more value as a going concern.
- Chapter 11 is preferable to credit holders and share holders because it offers more value than Chapter 7 liquidation.
- Delphi emerged from bankruptcy in 2009 with the selling of all of it's assets.
- Delphi had only 4 of the of the 44 plants it had when it filed for Chapter 11.
- Delphi staying in Chapter 11 instead of Chapter 7 bankruptcy, ended up being worse for the claim holders than if it had liquidated. This is because bankruptcy expenses were so high and it was in bankruptcy for 4 years.