



Ex-Nortel workers lash out at bonuses

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OTTAWA – Former employees of Nortel Networks Corp. are lashing out at the fallen technology giant over the bonuses the restructuring company paid to executives while denying severance pay to laid off workers.

They jammed a Parliament Hill committee room today to tell MPs their stories and ask for help.

While executives were pocketing their extras, fired workers were without a severance cushion, retirees fretted about hits to their pensions and people on Nortel (TSX: [NT](#)) disability payments wondered if they might be cut off cold.

Nortel CEO Mike Zafirovski also appeared before the committee. He defended the \$45 million in bonuses arranged for key executives at the company, which filed for bankruptcy protection from creditors in January and has been trying to restructure ever since.

After testifying, the CEO stayed for another hour, listening to laid-off workers, pensioners and even people on long term disability detail their woes.

Paula Klein, who represents laid-off workers, told the MPs that bonuses for executives and some of the remaining staff are unfair.

"The lack of compromise by the executives and the continuing employees versus what is being imposed on terminated employees and retirees is just plain wrong and unfair," she said.

She said the taxpayers, who are paying the bills for employment insurance claims by the laid-off employees, are essentially subsidizing the bonuses.

"If any bonuses are to be paid out, it should only be done after the company has come out of bankruptcy protection."

Diane Urquhart, a independent financial analyst who has studied the Nortel situation, accused the company of going into protection to avoid paying the severance bill, even though it had US\$2.5 billion in cash on hand.

"Management likely perceived that not paying the severance would lengthen the time period it could operate before exhausting its . . . cash," Urquhart said.

Zafirovski, who joined Nortel as its CEO in late 2005 from U.S. cellphone maker Motorola, defended the controversial bonus decision and the refusal of severance cheques.

The severance decision was "agonizing," he said.

"The decision not to pay severance was not made lightly."

He said the bonuses were an effort to hang on to vital executives to maximize the company's worth as it tried to streamline and sell non-core assets in a bid to survive and become solvent again.

"In this company's situation and in a highly competitive industry, retaining key employees and preventing unwanted levels of attrition is critical to preserve value and to maximize assets for the company's stakeholder's," he said.

The CEO also said Nortel's lawyers told him the bankruptcy court would never have approved millions of dollars in severance payments to laid-off workers.

MPs were skeptical of that.

"You didn't even try to get the money for severance payments," said New Democrat Thomas Mulcair.

Zafirovski, who is paid \$1.2 million a year, said he waived any bonuses for himself. He also pointed out that bonuses in the form of stock options have been scrubbed.

The former Nortel people want changes to Canadian bankruptcy laws which would offer more protection in the event of a corporate collapse.

Many companies – including Air Canada, the former Stelco, Nortel and newsprint giant AbitibiBowater – have tried to restructure under the federal Companies' Creditors Arrangement Act.

Under that law, a bankruptcy judge must approve any financial decisions by the restructuring company, including debt relief, asset sales and any pension and severance payments.

"Nortel's pension deficits and severance do not have preferential status relative to the creditors," said Don Sprouted, chairman of a Nortel pensioner's committee.

"Nortel has yet to file a restructuring plan and the executives seem to be attempting to sell off the company in a piecemeal fashion."

Sprouted said the pensioners were caught flat-footed by the bankruptcy. They had trusted the company and the pension plan.

"We are not a sophisticated bunch of money managers," he said.

The retirees also asked for changes to pension rules, to allow companies to beef up their plans in good times.

Ken Lyons, another pensioner, said retired workers are angry.

"I feel that I was just dumped aside," he said. "It really hurts because the Nortel I knew was a fabulous company to work for."

He said he believes things started to go downhill in 1999 after Nortel went on a buying spree and acquired companies with billions of dollars of inflated stock. Later, it had to write off the value of those acquisitions, producing massive losses on its books that destroyed confidence in the former stock market high-flyer.

"Managers seemed to be set upon creating wealth for themselves."

Zafirovski told the MPs that Nortel had gone to the federal government for help last fall, but meetings with Industry Minister Tony Clement and Finance Minister Jim Flaherty went nowhere.

The Toronto-headquartered telecom equipment vendor, once by far Canada's most valuable company during the high-tech boom early in the decade, filed for bankruptcy protection in January after mounting losses and the prospects of continued red ink.

Zafirovski wouldn't say how much financial help Nortel wanted from the federal government.

He was reluctant to go into details of the meetings and wouldn't say exactly why the government refused to help. He did say there were concerns about the viability of the company and its industry as a whole.

He also said he was so sure last year that Nortel was on the recovery track that he invested heavily in its stock.

Zafirovski says his family invested about \$500,000 in Nortel shares, including some money for his three sons' college tuitions, because he was certain Nortel was on the rebound.

Then the "world turned upside down."

"We, frankly, hit a wall."

The global financial crisis last fall hurt the company's telecom industry customers and the recession and global credit crunch made it difficult for them to finance new equipment purchases.

Nortel's shares are currently worth less than 20 cents each; a year ago they were worth \$10 apiece.