

Report on **Business**

In the hot seat, Zafirovski faces pensioners

Speaking before Commons finance committee, Nortel CEO blames credit crunch for filing, subsequent decisions

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The sudden severity of the global credit crunch forced Nortel Networks to file for credit protection, cancel severance pay and slash pension benefits in a desperate bid to survive, a defensive chief executive Mike Zafirovski told hostile MPs yesterday.

Wiping trickles of sweat from his forehead and complaining of the heat in a stuffy House of Commons committee room, the CEO of Nortel Networks Corp. told the story of how his company went from among the most prominent corporations in Canada earlier this decade to a firm begging Ottawa for help to make ends meet.

The decision to file for creditor protection on Jan. 14, and the consequent decision to pay \$45-million in bonuses to executives and remaining employees, "was the most painful and agonizing in my 43 years of business," Mr. Zafirovski said.

"We really did not believe there was any other option."

The chief executive initially turned down an invitation from the House of Commons finance committee to appear before MPs to explain why Nortel could afford to pay bonuses but not severance and pensions. But he relented earlier this week, and spent an hour on the hot seat yesterday.

He said that last year, he had so much faith in the company's future that he had invested his sons' college tuition fund in Nortel shares. But when the credit crunch intensified last fall, "then, we frankly hit a wall," he said.

He went to Ottawa for help, talking frequently with Finance Minister Jim Flaherty and Industry Minister Tony Clement, among others, he said. But no support was granted in time to stave off the filing for protection from creditors.

Mr. Zafirovski would not disclose exactly what he asked the ministers for. As for his own compensation, he said he took home \$1.2-million (U.S.), which was 12 per cent of the \$9.7-million he said he was entitled to.

Still, within weeks of filing for creditor protection and cancelling the severance pay of about 1,100 employees, he asked the court for permission to give \$45-million in retention and performance bonuses to 92 executives and 900 remaining employees.

That money, he said, was necessary to make sure top-notch staff stick with the company and allow it to maintain its customer base, and eventually flourish after it emerges from creditor protection.

The explanation was met with guffaws from the dozens of pensioners and laid-off Nortel employees who crowded into every seat in the committee room to hear their former boss.

“I feel like I was just dumped aside,” said former employee Ken Lyons.

Retention bonuses aside, many of the remaining employees are wary of the company because of the way it has treated its former staff, said Paula Klein, speaking on behalf of recently severed Nortel workers.

“One of their biggest concerns is that if they do lose their jobs, they will receive nothing from Nortel for severance or pay in lieu of reasonable notice,” she said in a submission to the Commons committee. “This is causing low morale at Nortel.”

She estimates the company owes the severed workers about \$125-million in payments – money they can well afford.

The severed workers, as well as committees representing tens of thousands of Nortel pensioners, want Parliament to amend creditor-protection and bankruptcy laws so that former employees take precedence over other creditors.

They also want Ottawa to force Nortel to use the proceeds of the sales of foreign assets to pay their Canadian severance and pension benefits. Failing that, they want Ottawa to top up the pension fund and pay the severance.

Still, pensions are mainly a provincial responsibility.

The MPs' questions frequently focused on how to make sure other companies don't use creditor protection status to avoid paying severance or full pension to former employees – but there was no clear answer to those questions.

The former employees sat quietly in the hearing room but broke committee decorum and applauded when NDP MP Thomas Mulcair defended their causes.

“You didn't even try to get the money for the severance payments,” Mr. Mulcair charged.

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