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Lear lines up key loan and agreements in advance of bankruptcy

BY JEWEL GOPWANI • FREE PRESS BUSINESS WRITER • July 2, 2009

As Lear Corp. prepares to file for bankruptcy protection, the Southfield-based maker of automotive seats has designed a filing that could lead to a quicker trip through reorganization than those of the company's peers.

Lear has negotiated agreements with many of its lenders and bondholders, but still needs to secure agreements with others. It also has lined up a crucial \$500-million bankruptcy loan that could become an exit loan when Lear emerges from bankruptcy.

"This restructuring is being undertaken to maximize the long-term value of the company," said Lear CEO and Chairman Bob Rossiter, who was part of a leveraged buyout of the company in 1988.

Lear announced Wednesday that it plans to file for bankruptcy soon, but Lear spokesman Mel Stephens declined to say exactly when the filing will occur.

Lear, the state's eighth-largest Fortune 500 company, based on revenue, will follow Visteon Corp. and at least a dozen other suppliers into bankruptcy this year.

All have been suffering from plummeting automotive sales that have made their debt load too burdensome to support.

Chance for a fresh start

Lear posted steep losses during three of the last five years, including a \$690-million loss in 2008. The company's sales last year fell 15% compared with 2007 to \$13.6 billion, and are down 24% compared with 2006.

Faced with these tough business conditions, the company has been working to cut costs and reorganize its debt.

The company's workforce in the last year contracted by 21% to 71,742 employees worldwide. In Michigan, Lear's employment dropped 42% to 1,582 people, in job reductions that the company said were "painful but unavoidable given the severe downturn in the economy and the auto industry."

Ahead of its bankruptcy filing, Lear also has been in talks with its banks and bondholders to cut its debt.

At the end of the year, Lear drew down a \$1.2-billion credit line and decided not to pay back parts of that loan. That move meant that Lear's borrowing rate was too high, leading it to default on its loan.

Lear received two waivers from its lenders. On Tuesday, the last one expired. Tuesday also was Lear's deadline to pay a \$38-million interest payment to bondholders. Those bank waivers would have expired if Lear made that payment.

In the meantime, Lear's suppliers, worried about not being paid, have been demanding quicker payment terms. During its reorganization, Lear said it plans to pay most of its suppliers in full.

"Now is the time for companies like Lear to clean up their balance sheets and get that one fresh start," said Mike Boudreau, a director at restructuring firm O'Keefe & Associates in Bloomfield Hills.

Exit financing in place

The loan Lear has lined up puts it in a position to emerge from bankruptcy quickly, said Richard Kruger, bankruptcy attorney at Jaffe Raitt Heuer & Weiss in Southfield.

"In these cases, it is exit financing that slows you down," Kruger said.

That loan is backed by a group of investors led by JPMorgan Chase & Co. and Citigroup. It will be converted into a 3-year loan after Lear emerges from bankruptcy.

Baring unforeseen issues, Van Conway, restructuring expert at Conway Mackenzie in Birmingham, expects Lear's case to take about two months. So it likely won't rival Chrysler's fast-paced bankruptcy proceedings.

"Bankruptcy has been considered a spot where you waffle along, you deteriorate," Conway said. "If it's 90 days, that's quick."

Even if this is a short filing, bankruptcy still poses risks to stakeholders, including shareholders and retirees.

Visteon Corp., one month into its filing, asked a judge last week to let the company eliminate health care and life insurance subsidies for its current and future retirees.

Delphi Corp., whose bankruptcy has lasted almost four years, won permission this year to cut those benefits for salaried retirees.