DELPHI CORP
Form 10-Q
November 10, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2008
OR
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _______ to _______.

Commission file number: 1-14787

DELPHI CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**38-3430473** (I.R.S. Employer Identification No.)
5725 Delphi Drive, Troy, Michigan (Address of principal executive offices)	**48098** (Zip Code)

(248) 813-2000
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ . No o .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ . Accelerated filer o . Non-Accelerated filer o . Smaller reporting company o .

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o . No þ .

As of September 30, 2008 there were 564,635,299 outstanding shares of the registrant s $0.01 par value common stock.

WEBSITE ACCESS TO COMPANY S REPORTS

Delphi s internet website address is www.delphi.com. Our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission.

DELPHI CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(in millions, except per share amounts)			
Net sales:				
General Motors and affiliates	$ 1,366	$ 2,031	$ 4,490	$ 6,441
Other customers	3,011	3,248	10,373	10,520
Total net sales	4,377	5,279	14,863	16,961
Operating expenses:				
Cost of sales, excluding items listed below	4,117	5,111	13,835	16,071
U.S. employee workforce transition program charges	22	197	76	191
GM settlement (Note 2 MRA)	(254)		(254)	
Depreciation and amortization	206	215	635	672
Long-lived asset impairment charges	5	14	13	54
Goodwill impairment charges			168	
Selling, general and administrative	377	384	1,118	1,142
Securities & ERISA litigation charge		21		353
Total operating expenses	4,473	5,942	15,591	18,483
Operating loss	(96)	(663)	(728)	(1,522)
Interest expense (contractual interest expense for the three and nine months ended September 30, 2008 was $128 million and $407 million, respectively, and for the three and nine months ended September 30, 2007 was $118 million and $360 million, respectively)	(93)	(454)	(312)	(628)
Loss on extinguishment of debt			(49)	(23)
Other income, net	50	23	73	62
Reorganization items, net:				
GM settlement (Notes 2 and 3 GSA)	5,332		5,332	
Professional fees and other, net (Note 3)	(24)	(39)	(162)	(120)

Income (loss) from continuing operations before income taxes, minority interest and equity income	5,169	(1,133)	4,154	(2,231)
Income tax expense	(5)	(15)	(78)	(116)
Income (loss) from continuing operations before minority interest and equity income	5,164	(1,148)	4,076	(2,347)
Minority interest, net of tax	(5)	(11)	(28)	(35)
Equity (loss) income, net of tax	(16)	10	6	34
Income (loss) from continuing operations	5,143	(1,149)	4,054	(2,348)
Income (loss) from discontinued operations, net of tax (Note 2 and 4)	75	(20)	24	(175)
Net income (loss)	$ 5,218	$ (1,169)	$ 4,078	$ (2,523)
Basic and diluted income (loss) per share:				
Continuing operations	$ 9.11	$ (2.04)	$ 7.19	$ (4.18)
Discontinued operations	0.13	(0.04)	0.04	(0.31)
Basic and diluted income (loss) per share	$ 9.24	$ (2.08)	$ 7.23	$ (4.49)

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

CONSOLIDATED BALANCE SHEETS

	September 30, 2008 (Unaudited)	December 31, 2007
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,866	$ 1,036
Restricted cash	111	173
Accounts receivable, net:		
General Motors and affiliates	1,105	1,257
Other	2,378	2,637
Inventories, net (Note 11)	1,646	1,808
Other current assets	575	588
Assets held for sale (Note 4)	617	720
Total current assets	8,298	8,219
Long-term assets:		
Property, net	3,655	3,863
Investments in affiliates	342	387
Goodwill	239	397
Other	535	801
Total long-term assets	4,771	5,448
Total assets	$ 13,069	$ 13,667
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Short-term debt (Note 15)	$ 4,314	$ 3,495
Accounts payable	2,478	2,904
Accrued liabilities (Note 12)	2,350	2,281
Liabilities held for sale (Note 4)	406	412
Total current liabilities	9,548	9,092
Long-Term liabilities:		
Other long-term debt (Note 15)	57	59
Employee benefit plan obligations (Note 17)	442	443
Other (Note 12)	1,055	1,185
Total long-term liabilities	1,554	1,687
Liabilities subject to compromise (Note 14)	11,123	16,197

Total liabilities	22,225	26,976
Commitments and contingencies (Note 22)		
Minority interest	139	163
Stockholders deficit:		
Common stock, $0.01 par value, 1,350 million shares authorized, 565 million shares issued in 2008 and 2007	6	6
Additional paid-in capital	2,747	2,756
Accumulated deficit	(11,023)	(14,976)
Accumulated other comprehensive loss:		
Employee benefit plans (Note 17)	(1,319)	(1,679)
Other	300	446
Total accumulated other comprehensive loss	(1,019)	(1,233)
Treasury stock, at cost (391 thousand and 1.5 million shares in 2008 and 2007, respectively)	(6)	(25)
Total stockholders deficit	(9,295)	(13,472)
Total liabilities and stockholders deficit	$ 13,069	$ 13,667

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30, 2008	2007
	(in millions)	
Cash flows from operating activities:		
Net income (loss)	$ 4,078	$ (2,523)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	635	672
Long-lived asset and goodwill impairment charges and loss on assets held for sale	213	54
Deferred income taxes	(36)	
Pension and other postretirement benefit expenses	561	699
Equity income	(6)	(34)
Reorganization items (Notes 2 and 3 GSA)	(5,170)	120
GM settlement (Note 2 MRA)	(254)	
GM warranty settlement	(107)	
U.S. employee workforce transition program charges	76	191
Loss on extinguishment of debt	49	23
Securities & ERISA litigation charge		353
Loss on liquidation/deconsolidation of investment		79
Gain on sale of investment	(32)	
Changes in operating assets and liabilities:		
Accounts receivable, net	330	(684)
Inventories, net	127	(122)
Other assets	76	(40)
Accounts payable	(324)	337
Accrued and other long-term liabilities	(130)	743
Other, net	(151)	1
U.S. employee workforce transition program payments, net of reimbursement by GM	(122)	(306)
Pension contributions	(344)	(230)
Other postretirement benefit payments	(201)	(149)
Net cash received from reorganization items	1,156	(91)
Dividends from equity investments	10	32
Discontinued operations (Note 4)	55	326
Net cash provided by (used in) operating activities	489	(549)
Cash flows from investing activities:		
Capital expenditures	(624)	(435)
Proceeds from sale of property	69	32
Proceeds from sale of investment	8	
Cost of acquisitions	(15)	

Proceeds from sale of non-U.S. trade bank notes	177	150
Proceeds from divestitures, net	122	71
Decrease (increase) in restricted cash	62	(30)
Other, net	10	(6)
Discontinued operations	(126)	(41)
Net cash used in investing activities	(317)	(259)
Cash flows from financing activities:		
Proceeds from amended and restated debtor-in-possession facility, net of issuance cost of $92 million	3,158	
Proceeds from refinanced debtor-in-possession facility, net of issuance cost of $7 million		2,739
Repayments of borrowings from refinanced debtor-in-possession facility	(2,746)	
Repayments of borrowings under debtor-in-possession facility		(250)
Repayments of borrowings under prepetition term loan facility		(988)
Repayments of borrowings under prepetition revolving credit facility		(1,508)
Net borrowings under amended and restated debtor-in-possession facility	465	
Net borrowings under refinanced debtor-in-possession facility		480
Net (payments) borrowings under other debt agreements	(197)	69
Dividend payments of consolidated affiliates to minority shareholders	(44)	(45)
Discontinued operations	8	8
Net cash provided by financing activities	644	505
Effect of exchange rate fluctuations on cash and cash equivalents	14	76
Increase (decrease) in cash and cash equivalents	830	(227)
Cash and cash equivalents at beginning of period	1,036	1,608
Cash and cash equivalents at end of period	$ 1,866	$ 1,381

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Net income (loss)	$ 5,218	$ (1,169)	$ 4,078	$ (2,523)
Other comprehensive income:				
Currency translation adjustments, net of tax	(210)	71	(120)	217
Net change in unrecognized gain on derivative instruments, net of tax	(106)	9	(26)	62
Employee benefit plans adjustment, net of tax	383	1,191	372	1,186
Other comprehensive income	67	1,271	226	1,465
Comprehensive income (loss)	$ 5,285	$ 102	$ 4,304	$ (1,058)

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION

General Delphi Corporation, together with its subsidiaries and affiliates (Delphi or the Company), is a supplier of vehicle electronics, transportation components, integrated systems and modules, and other electronic technology. Delphi s largest customer is General Motors Corporation (GM) and North America and Europe are its largest markets. Delphi is continuing to diversify its customer base and geographic markets. The consolidated financial statements and notes thereto included in this report should be read in conjunction with Delphi s consolidated financial statements and notes thereto included in Delphi s Annual Report on Form 10-K for the year ended December 31, 2007 filed with the United States (U.S.) Securities and Exchange Commission (SEC).

Consolidation The consolidated financial statements include the accounts of Delphi and domestic and non-U.S. subsidiaries in which Delphi holds a controlling financial or management interest and variable interest entities of which Delphi has determined that it is the primary beneficiary. Delphi s share of the earnings or losses of non-controlled affiliates, over which Delphi exercises significant influence (generally a 20% to 50% ownership interest), is included in the consolidated operating results using the equity method of accounting. All significant intercompany transactions and balances between consolidated Delphi businesses have been eliminated. All adjustments, consisting of only normal recurring items, which are necessary for a fair presentation, have been included. The results for interim periods are not necessarily indicative of results that may be expected from any other interim period or for the full year and may not necessarily reflect the consolidated results of operations, financial position and cash flows of Delphi in the future.

Bankruptcy Filing On October 8, 2005 (the Petition Date), Delphi and certain of its U.S. subsidiaries (the Initial Filers) filed voluntary petitions for reorganization relief under chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Southern District of New York (the Court), and on October 14, 2005, three additional U.S. subsidiaries of Delphi (together with the Initial Filers, collectively, the Debtors) filed voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code (collectively, the Debtors October 8, 2005 and October 14, 2005 filings are referred to herein as the Chapter 11 Filings). The reorganization cases are being jointly administered under the caption In re Delphi Corporation, et al., Case No. 05-44481 (RDD). The Debtors will continue to operate their businesses as debtors-in-possession under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Court. Delphi s non-U.S. subsidiaries were not included in the Chapter 11 Filings, will continue their business operations without supervision from the Court and are not subject to the requirements of the Bankruptcy Code.

American Institute of Certified Public Accountants (AICPA) Statement of Position 90-7 (SOP 90-7), *Financial Reporting by Entities in Reorganization under the Bankruptcy Code*, which is applicable to companies in chapter 11 of the Bankruptcy Code, generally does not change the manner in which financial statements are prepared. However, it does require, among other disclosures, that the financial statements for periods subsequent to the filing of the chapter 11 petition distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Revenues, expenses, realized gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring of the business must be reported separately as reorganization items in the statements of operations. The balance sheet must distinguish prepetition liabilities subject to compromise from both those prepetition liabilities that are not subject to compromise and from postpetition liabilities. Liabilities that may be affected by a plan of reorganization must be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. In addition, reorganization items must be disclosed separately in the statement of cash flows. Delphi has segregated those items as outlined above for all reporting periods subsequent to October 8, 2005.

Going Concern The Debtors are operating pursuant to chapter 11 of the Bankruptcy Code and continuation of the Company as a going concern is contingent upon, among other things, the Debtors ability to (i) comply with the terms and conditions of their debtor-in-possession (DIP) financing agreement; (ii) reduce wage and benefit costs and liabilities during the bankruptcy process; (iii) return to profitability; (iv) generate sufficient cash flow from operations; and (v) obtain financing sources to meet the Company s future obligations, including an accommodation agreement allowing the Debtors to retain the proceeds of, or an extension or replacement of their DIP financing agreement, which otherwise matures on December 31, 2008. Although Delphi considered seeking an extension of its existing DIP financing agreement (the Amended and Restated DIP Credit Facility), due to the ongoing, unprecedented turbulence in the capital markets and automotive industry, Delphi does not believe it would have been able to obtain the necessary consent of 100% of its lenders to such an extension at this time, though it may consider seeking an extension in the future. Instead, on November 7, 2008, Delphi filed a motion with the Court seeking authority to enter into an Accommodation Agreement (the Accommodation Agreement) whereby the administrative agent under the facility and the requisite majority of holders of Tranche A and Tranche B commitments and exposure by amount as defined in the facility (the Required Lenders) would agree to, among other things, allow Delphi to continue using the proceeds of the Amended and Restated DIP Credit Facility, to the extent already drawn prior to December 31, 2008, notwithstanding the passing of the maturity date or the failure to comply with certain mandatory prepayment provisions until the earlier to occur of (i) June 30, 2009 (or May 5, 2009 if Delphi does not achieve certain milestones in its reorganization cases), (ii) the date on which a plan of reorganization becomes effective, (iii) Delphi s failure to comply with its covenants under the Accommodation Agreement or (iv) an event of default under the Amended and Restated DIP Credit Facility (other than the failure to repay the loans under the facility on the maturity date or comply with certain mandatory prepayment provisions). Although the Accommodation Agreement will not be entered into by each lender under the Amended and Restated DIP Credit Facility, it is expected to be entered into by the Required Lenders. The Company has been informed that the administrative agent supports the Accommodation Agreement. Delphi has begun seeking the necessary consents to consummate an accommodation agreement, which would enable the Accommodation Agreement and anticipates receiving consents from the Required Lenders prior to November 24, 2008, the scheduled hearing date of the motion, though there can be no assurances it will obtain the required consents or Court approval. Absent receipt of the necessary consents and Court approval of the Accommodation Agreement or the ability to obtain an extension or other amendment to the Amended and Restated DIP Credit Facility, Delphi does not anticipate having sufficient cash to pay the outstanding balances upon expiration on December 31, 2008 and still continue to fund its operations. These matters create substantial uncertainty relating to the Company s ability to continue as a going concern. The accompanying consolidated financial statements do not reflect any adjustments relating to the recoverability of assets and classification of liabilities that might result from the outcome of these uncertainties. In addition, the Company filed its proposed plan of reorganization with the Court in September 2007. The Court confirmed Delphi s plan of reorganization, as amended, on January 25, 2008, but Delphi was unable to consummate the plan because certain investors under the plan refused to participate in the closing, which was commenced but not completed on April 4, 2008. Delphi subsequently filed complaints seeking redress for the breach of the investment agreement and damages related to the consequent delay of Delphi s emergence from chapter 11. On July 23, 2008, Delphi s Official Committee of Unsecured Creditors (the Creditors Committee) and Wilmington Trust Company (WTC), as Indenture Trustee and a member of the Creditors Committee, filed separate complaints in the Court seeking revocation of the Court order entered on January 25, 2008 confirming Delphi s plan of reorganization. The Creditors Committee had earlier advised Delphi that it intended to file the complaint to preserve its interests with regard to a 180-day statutory period that would have otherwise expired on July 23, 2008. The Creditors Committee and WTC also advised Delphi that they do not intend to prosecute such complaints pending developments on (i) the continuation of stakeholder discussions concerning potential modifications to the previously confirmed plan of reorganization, which would permit Delphi to emerge from chapter 11 as soon as practicable, and (ii) Delphi s litigation against Appaloosa Management L.P. and the other investors who were party to the Equity Purchase and Commitment Agreement dated as of August 3, 2007. Pending confirmation and consummation of the plan of reorganization (as amended) or an alternative plan of reorganization, Delphi and certain of its U.S. subsidiaries will continue as debtors-in-possession in chapter 11. On October 3, 2008, Delphi filed a motion seeking Court approval of

proposed modifications to its confirmed plan of reorganization. There can be no assurances as to when Delphi will confirm or consummate a modified plan. Consummation of a confirmed plan of reorganization often materially changes the amounts reported in a company s consolidated financial statements, which do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might be necessary as a consequence of consummation of a confirmed plan of reorganization (as amended).

Contractual Interest Expense and Interest Expense on Unsecured Claims Contractual interest expense represents amounts due under the contractual terms of outstanding debt, including debt subject to compromise for which interest expense is not recognized in accordance with the provisions of SOP 90-7. Delphi did not record contractual interest expense on certain unsecured prepetition debt during the six months ended June 30, 2007. In September 2007, Delphi began recording prior contractual interest expense related to certain prepetition debt because it became probable that the interest would become an allowed claim based on the provisions of the plan of reorganization filed with the Court in September 2007 and confirmed, as amended, on January 25, 2008. The confirmed plan of reorganization also provided that certain holders of allowed unsecured claims against Delphi will be paid postpetition interest on their claims, calculated at the contractual non-default rate from the petition date through January 25, 2008, when the Company ceased accruing interest on these claims. At September 30, 2008, Delphi had accrued interest of $415 million in accrued liabilities in the accompanying balance sheet for prepetition claims. As discussed in Note 2. Transformation Plan and Chapter 11 Bankruptcy, on October 3, 2008, Delphi filed modifications to its confirmed plan of reorganization that, if approved by the Court, would eliminate postpetition interest on prepetition debt and allowed unsecured claims. Accordingly, Delphi anticipates that it will be relieved of this liability if and when the plan modifications are approved.

Use of Estimates Preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) requires Delphi to make estimates and assumptions that affect amounts reported therein. During the third quarter of 2008, there were no material changes in the methods or policies used to establish accounting estimates. Generally, matters subject to Delphi s estimation and judgment include amounts related to accounts receivable realization, inventory obsolescence, asset impairments, useful lives of intangible and fixed assets, deferred tax asset valuation allowances, income taxes, pension and other postretirement benefit plan assumptions, accruals related to litigation, warranty costs, environmental remediation costs, workers compensation accruals and healthcare accruals. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be based upon amounts that differ from those estimates.

Valuation of Long-Lived Assets Delphi periodically evaluates the carrying value of long-lived assets held for use, including intangible assets, when events or circumstances warrant such a review. The carrying value of a long-lived asset held for use is considered impaired when the anticipated separately identifiable undiscounted cash flows from the asset are less than the carrying value of the asset. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved or Delphi s review of appraisals. Impairment losses on long-lived assets held for sale are determined in a similar manner, except that fair values are reduced for the cost to dispose of the assets. Refer to Note 4. Discontinued Operations and Note 7. Long-Lived Asset Impairment for more information.

Discontinued Operations In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, (SFAS 144), a business component that is disposed of or classified as held for sale is reported as discontinued operations if the cash flows of the component have been or will be eliminated from the ongoing operations of the Company and the Company will no longer have any significant continuing involvement in the business component. The results of discontinued operations are aggregated and presented separately in the consolidated statements of operations and consolidated statements of cash flows. Assets and liabilities of the discontinued operations are aggregated and reported separately as assets and liabilities held for sale in the consolidated balance sheet. SFAS 144 requires the reclassification of amounts presented for prior years to effect their classification as discontinued operations.

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Amounts have been derived from the consolidated financial statements and accounting records of Delphi using the historical basis of assets and liabilities held for sale and historical results of operations related to Delphi s global steering and halfshaft businesses (the Steering Business) and its interiors and closures product line (the Interiors and Closures Business). The sale of the U.S. operation and certain of the non-U.S. operations of the Steering Business will be sales of assets and will include (i) all assets, except for cash, deferred tax assets, and intercompany accounts, and (ii) all liabilities, except for debt, deferred tax liabilities, intercompany accounts, U.S. pension and other postretirement benefit liabilities, accrued payroll, and certain employee benefit accounts. The sale of certain non-U.S. operations of the Steering Business are stock sales and will include all assets and liabilities for the sites with purchase price adjustments for cash, debt, and certain other accounts. The sale of the Interiors and Closures Business closed on February 29, 2008. The majority of the Interiors and Closures Business sale was primarily accomplished through asset sales and the buyer assumed inventory, fixed assets, non-U.S. pension liabilities and an investment in a joint venture in Korea.

While the historical results of operations of the Steering Business and the Interiors and Closures Business include general corporate allocations of certain functions historically provided by Delphi, such as accounting, treasury, tax, human resources, facility maintenance, and other services, no amounts for these general corporate retained functions have been allocated to discontinued operations in the statements of operations. Delphi expects to retain certain employee pension and other postretirement benefit liabilities for the Steering Business and these liabilities were not allocated to liabilities held for sale in the balance sheets. Expenses related to the service cost of employee pension and other postretirement benefit plans, however, were allocated to discontinued operations in the statements of operations, because Delphi will not continue to incur such related expense subsequent to the divestiture of these businesses. Allocations have been made based upon a reasonable allocation method. Refer to Note 4. Discontinued Operations.

Recently Issued Accounting Pronouncements In September 2006, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements.* SFAS 157 defines fair value, establishes a framework for measuring fair value in U.S. GAAP, and expands the disclosure requirements regarding fair value measurements. The rule does not introduce new requirements mandating the use of fair value. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The definition is based on an exit price rather than an entry price, regardless of whether the entity plans to hold or sell the asset. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company utilized the fair value measures of SFAS 157 in accounting for its marketable securities and derivative net assets. The adoption of the new definition of fair value pursuant to SFAS 157 did not have a significant impact on Delphi s financial statements. Refer to Note 19. Fair Value Measurements for the disclosures required by SFAS 157.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 (SFAS 158), *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS 158 requires, among other things, an employer to measure the funded status of its defined benefit pension and other postretirement benefits plans as of the date of its year-end statement of financial position, with limited exceptions, effective for fiscal years ending after December 15, 2008. Historically, Delphi has measured the funded status of its U.S. retiree health care benefit plans and certain international pension plans as of September 30 of each year. Delphi adopted the measurement date provisions of SFAS 158 as of January 1, 2008, which resulted in adjustments that increased pension and other postretirement benefit liabilities by $139 million, the accumulated deficit by $129 million and accumulated other comprehensive loss by $10 million.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115.* SFAS 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected would be reported in earnings at each subsequent reporting date. SFAS 159 also establishes presentation and disclosure requirements in order to facilitate comparisons between entities choosing different measurement attributes for similar types of assets and liabilities. SFAS 159 does not affect existing accounting requirements for certain assets and liabilities to be carried at fair value. SFAS 159 is effective as of the beginning of a reporting entity s first fiscal year that begins after November 15, 2007. Delphi adopted SFAS 159 as of January 1, 2008 and did not elect the fair value option for any financial instruments upon adoption of SFAS 159.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (Revised 2007) (SFAS 141R), *Business Combinations*. SFAS 141R requires an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. Accordingly, Delphi is required to record and disclose business combinations following existing U.S. GAAP until January 1, 2009. Delphi is currently evaluating the requirements of SFAS 141R, and has not yet determined the impact on its financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 (SFAS 160), *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51*. SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. Delphi is currently evaluating the requirements of SFAS 160, and has not yet determined the impact on its financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 (SFAS 161), *Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement 133*. SFAS 161 enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how: (a) an entity uses derivative instruments; (b) derivative instruments and related hedged items are accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities;* and (c) derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. Earlier adoption is encouraged. Delphi does not expect the adoption of SFAS 161 to have a significant impact on its financial statements other than providing the new disclosures required by SFAS 161.

In April 2008, the FASB issued FASB Staff Position SOP 90-7-1 (FSP SOP 90-7-1), *An Amendment of AICPA Statement of Position 90-7*. FSP SOP 90-7-1 resolves the conflict between the guidance requiring early adoption of new accounting standards for entities required to follow fresh-start reporting under SOP 90-7, and other authoritative accounting standards that expressly prohibit early adoption. Specifically, FSP SOP 90-7-1 will require an entity emerging from bankruptcy that applies fresh-start reporting to follow only the accounting standards in effect at the date fresh-start reporting is adopted, which include those standards eligible for early adoption if an election is made to adopt early.

2. TRANSFORMATION PLAN AND CHAPTER 11 BANKRUPTCY

Plan of Reorganization and Transformation Plan

Elements of Transformation Plan

On February 4, 2008, the Confirmation Order entered by the Court on January 25, 2008 with respect to Delphi s proposed plan of reorganization (the Plan) and related disclosure statement (the Disclosure Statement) became final, but Delphi was unable to consummate the Plan because certain investors under the Plan refused to participate in the closing, which was commenced but not completed on April 4, 2008. The Plan and Disclosure Statement outlined Delphi s transformation centering around five core areas, as detailed below, including agreements reached with each of Delphi s principal U.S. labor unions and GM. The Plan incorporates, approves, and is consistent with the terms of each agreement. On October 3, 2008, Delphi filed

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modifications to the Plan and related modifications to the Disclosure Statement with the Court, which as detailed below reflect the substantial progress Delphi has made in implementing each area of its transformation plan.

GM Conclude negotiations with GM to finalize financial support for certain of Delphi s legacy and labor costs and to ascertain GM s business commitment to Delphi going forward.

Delphi and GM have entered into comprehensive settlement agreements consisting of the Global Settlement Agreement, as amended (the GSA) and the Master Restructuring Agreement, as amended (the MRA). The GSA and the MRA, as amended through January 25, 2008, comprised part of the Plan and were approved in the order confirming the Plan on January 25, 2008. The GSA and the MRA as approved provide that such agreements were not effective until and unless Delphi emerges from chapter 11. However, as part of Delphi s overall negotiations with its stakeholders to further amend the Plan and emerge from chapter 11 as soon as practicable, Delphi agreed with GM and filed further amendments to the GSA and MRA (the Amended MRA) with the Court on September 12, 2008 and subsequently entered into an additional amendment to the GSA as of September 25, 2008 (as so amended, the Amended GSA). On September 26, 2008, Delphi received the consent of its labor unions to implement certain aspects of the agreements as described in more detail below. The Court approved such amendments on September 26, 2008 and the Amended GSA and Amended MRA became effective on September 29, 2008. These amended agreements include provisions related to the transfer of certain legacy pension and other postretirement benefit obligations and became effective independent of and in advance of substantial consummation of an amended plan of reorganization. The effectiveness of these agreements resulted in a material reduction in Delphi s liabilities and future expenses related to U.S. hourly workforce benefit programs.

Global Settlement Agreement The Amended GSA resolves outstanding issues between Delphi and GM, including: litigation commenced in March 2006 by Delphi to terminate certain supply agreements with GM; all potential claims and disputes with GM arising out of the separation of Delphi from GM in 1999, including certain post-separation claims and disputes; the proofs of claim filed by GM against Delphi in Delphi s chapter 11 cases; GM s treatment under a Delphi plan of reorganization; and various other legacy U.S. hourly workforce benefit issues. Except for the second step of the transfer of a substantial portion of the assets and liabilities under the Delphi Hourly-Rate Employees Pension Plan (the Hourly Plan) as specifically noted below, the obligations under the Amended GSA are not conditioned on the effectiveness of an amended plan of reorganization.

The Amended GSA addresses commitments by Delphi and GM regarding other U.S. hourly workforce postretirement health care benefits and employer-paid postretirement basic life insurance benefits (OPEB), pension obligations, and other GM contributions with respect to labor matters and releases. In the third quarter of 2008, Delphi recorded a net reorganization gain of $5.3 billion. In addition, under the Amended GSA Delphi received net cash from GM totaling $641 million on September 30, 2008, principally related to reimbursement of hourly OPEB benefit payments since January 1, 2007 and amounts paid by Delphi under special attrition programs.

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The following table provides each component of the net reorganization gain recorded for the elements of the Amended GSA that were implemented during the third quarter of 2008 and which are described in more detail below. The table also reflects the net cash received on September 30, 2008 attributable to each of the elements of the Amended GSA:

	Reorganization Gain (Loss)	Cash Received From GM
	(in millions)	
Hourly Pension Plan Settlement:		
Hourly Plan First Pension Transfer to GM	$ 2,083	$
Recognition of Hourly Plan related OCI amounts	(494)	
Hourly OPEB Settlement:		
GM assumption of OPEB obligation	6,821	
Recognition of OPEB related OCI amounts	266	
Allowed Claims and Other:		
Allowed GM administrative claim	(1,628)	
Allowed GM general unsecured claim	(2,500)	
Allowed IUE-CWA and USW claims	(129)	
OPEB reimbursement from GM	353	350
Special attrition programs	491	230
Other, net	69	61
Total, net	$ 5,332	$ 641

Hourly Pension Plan Settlement First Pension Transfer to GM On September 26, 2008, Delphi received the consent of its labor unions and approval from the Court to transfer certain assets and liabilities of the Hourly Plan to the GM Hourly-Rate Employee Pension Plan pursuant to section 414(l) of the Internal Revenue Code (the 414(l) Net Liability Transfer). The 414(l) Net Liability Transfer is to occur in two separate steps and is sufficient to avoid an Hourly Plan accumulated funding deficiency for the plan year ended September 30, 2008. The first step occurred on September 29, 2008 and Delphi transferred liabilities of approximately $2.6 billion and assets of approximately $486 million from the Delphi Hourly-Rate Employees Pension Plan to the GM Hourly-Rate Employees Pension Plan, representing 30% and 10% of the projected benefit obligation and plan assets, respectively, as of September 29, 2008 (the First Pension Transfer). The $486 million transferred represents 90% of the estimated $540 million of assets to be transferred under the First Pension Transfer. The remaining 10% of the assets will be transferred within six months upon finalization of the related valuations. The transfer was accounted for as a settlement under Statement of Financial Accounting Standards No. 88, *Employer s Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefit* (SFAS 88), and the obligations of the Hourly Plan were remeasured prior to the transfer occurring. Refer to Note 17. Pension and Other Postretirement Benefits for further information. Delphi recognized $494 million of previously unrecognized actuarial losses recorded in other comprehensive income (OCI), which represents the pro rata portion of the projected benefit obligation transferred to GM relative to the total projected benefit obligation of the Hourly Plan.

Hourly Pension Plan Settlement Second Pension Transfer to GM The second step of the 414(l) Net Liability Transfer (the Second Pension Transfer), will occur upon the effectiveness of an amended plan of reorganization that (i) provides for the treatment of GM s claims and releases as set forth in the Amended GSA and (ii) contains interpretive provisions required by the Amended GSA regarding conflicts between such a plan and the Amended GSA. Due to the effectiveness of the Second Pension Transfer being contingent upon Delphi s emergence from chapter 11, it does not meet the criteria for settlement accounting as of September 30, 2008. Delphi will continue to account for the remaining pension liability under Statement of Financial Accounting Standards No. 87, *Employer s Accounting for Pensions,* until such time that it is settled, which is currently anticipated to be upon emergence from chapter 11.

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Hourly Plan Freeze and Triggering of Benefit Guarantees As provided for under the union settlement agreements, Delphi will freeze its Hourly Plan for future benefit accruals as of November 30, 2008. In addition, certain eligible hourly employees will receive up to seven years of credited service under the pension and OPEB plans sponsored by GM.

Hourly OPEB Settlement and OPEB Reimbursement from GM On September 23, 2008, Delphi received approval from the Court and on September 26, 2008 received the consent of its labor unions to cease providing traditional U.S. hourly OPEB. In addition, upon effectiveness of the Amended GSA, GM assumed financial responsibility for all Delphi traditional hourly OPEB liabilities from and after January 1, 2007. GM assumed approximately $6.8 billion of postretirement benefit liabilities for certain of the Company s active and retired hourly employees, which was included in the reorganization gain. The assumption of the traditional hourly OPEB liability by GM and GM s agreement to reimburse postretirement benefit expenses through the transfer date constitute a settlement under Statement of Financial Accounting Standards No. 106, *Employer s Accounting for Postretirement Benefits Other Than Pensions.* Refer to Note 17. Pensions and Other Postretirement Benefits for further information. Delphi recognized $266 million of previously unrecognized actuarial gains recorded in OCI. Additionally, on September 30, 2008, GM reimbursed Delphi approximately $350 million for previous OPEB payments made to the hourly workforce from and after January 1, 2007.

Allowed GM Administrative and General Unsecured Claims In connection with the 414(l) Net Liability Transfer, GM will receive an allowed administrative claim in the amount of up to $2.1 billion, to be provided in two steps. Upon completion of the First Pension Transfer on September 29, 2008, GM received a claim equivalent to 77.5% of the net unfunded liabilities transferred, or $1.6 billion. Upon completion of the Second Pension Transfer, which will occur upon the effectiveness of an amended plan of reorganization that satisfies the requirements of the Amended GSA, GM will receive the balance of the $2.1 billion claim. Of the $2.1 billion administrative claim, $1.6 billion was recognized and included in the reorganization gain in the third quarter of 2008 and $427 million will be granted and recognized by Delphi when the remaining assets and liabilities allocable to certain participants of the Delphi Hourly Plan included in the 414(l) Net Liability Transfer are transferred to the GM Hourly-Rate Employees Pension Plan. The amount of the claim to be granted upon completion of the Second Pension Transfer is not dependent upon the amount of the assets and liabilities at the time of the transfer.

With respect to GM s claims in the Company s chapter 11 cases, GM has agreed to a general unsecured claim of $2.5 billion, primarily for OPEB and special attrition programs for the U.S. hourly workforce, and to subordinate its recovery on such claim until other general unsecured creditors have achieved a recovery of 20% of the allowed amount of their claims (other than holders of claims arising from Delphi s trust preferred securities). Once Delphi s other general unsecured creditors have received a distribution of 20% of the allowed amount of their claims, if there is any remaining value to be distributed, GM would receive a distribution on its general unsecured claim until it has received a 20% distribution on such claim amount. Once GM has received a 20% distribution on its general unsecured claim, and if there is any remaining value to be distributed, any additional distributions would be shared ratably between GM and Delphi s other general unsecured creditors.

Upon Delphi s emergence from bankruptcy, the plan of reorganization may, subject to certain conditions, satisfy GM s administrative claim through the issuance of non-voting convertible preferred stock, provided that (i) Delphi s exit financing does not exceed $3.0 billion (plus a revolving credit facility), (ii) no equity securities are issued that are senior to or pari passu with GM s preferred stock, (iii) the plan of reorganization provides for the GM releases as described in the Amended GSA, and (iv) the plan of reorganization contains interpretive provisions required by the Amended GSA regarding conflicts between such a plan and the Amended GSA.

If all conditions for the receipt by GM of the preferred stock described above are satisfied, holders of general unsubordinated unsecured claims, other than holders of claims arising from Delphi s trust preferred securities, will receive pro rata distributions of common stock in reorganized Delphi to the extent necessary to permit such holders to receive 20% of their allowed general unsubordinated unsecured claims, which distributions are dependent upon an agreed valuation formulation set forth in the Amended GSA, and the distribution of non-voting convertible preferred stock to GM will be reduced by a corresponding amount. In the event that total enterprise value set forth in the plan of reorganization or disclosure statement (as subsequently modified hereafter) exceeds $7.13 billion, Delphi and GM have agreed to work in good faith with the official committee of unsecured creditors to establish a reasonable allocation of the value in excess of $7.13 billion in light of the actual economic value of a reorganized Delphi.

If any of the conditions to GM s acceptance of preferred stock in satisfaction of its administrative claim is not satisfied or waived by GM, holders of general unsubordinated unsecured claims, other than holders of claims arising from Delphi s trust preferred securities, will receive 50% of all distributions that would otherwise be made to GM on account of its $2.1 billion administrative claim up to the amount necessary for such holders to receive an aggregate distribution of up to $300 million, exclusive of any value received as a result of such holders participation in any rights offering.

GM and certain related parties and Delphi and certain related parties have exchanged broad, global releases, effective as of the effective date of the Amended GSA (which releases do not apply to certain surviving claims as set forth in the Amended GSA). In addition to providing a release to GM, the Company agreed to withdraw with prejudice the sealed complaint (the GM Complaint) filed against GM in the Court on October 5, 2007.

Allowed IUE-CWA and USW Claims General unsecured claims in the amounts of $126 million and $3 million were granted to the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers-Communication Workers of America (IUE-CWA) and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union and its Local Union 87L (the USW), respectively, under the respective labor settlement agreements.

Special Attrition Programs The reorganization gain included $491 million related to the 2006 and 2007 special attrition programs because these programs were directly related to the chapter 11 cases. GM reimbursed Delphi $230 million related to the funding of various 2007 U.S. hourly workforce special attrition programs, consistent with the provisions of the U.S. labor union settlement agreements. Additionally, previously recognized GM general unsecured claims of $333 million primarily related to the 2006 U.S. hourly workforce attrition programs previously reimbursed by GM have been forgiven and subsumed in the overall $2.5 billion allowed general unsecured claim granted to GM, as discussed above. Refer to Note 16. U.S. Employee Workforce Transition Programs for more information.

Other, Net Other, net of $69 million includes a $51 million reimbursement from GM related to the U.S. labor settlement agreement with the IUE-CWA, dated August 5, 2007, of which $25 million is reimbursement of costs and expenses incurred by Delphi in connection with the execution and performance of the IUE-CWA labor agreement and $26 million is reimbursement to Delphi for a portion of the allowed claim under the IUE-CWA labor agreement.

Master Restructuring Agreement The Amended MRA is intended to govern certain aspects of Delphi and GM s commercial relationship since filing for chapter 11 and following Delphi s emergence from chapter 11. The Amended MRA addresses the scope of GM s existing and future business awards to Delphi and related pricing and sourcing arrangements, GM commitments with respect to reimbursement of specified ongoing U.S. hourly workforce labor costs, the disposition of certain Delphi facilities, and the treatment of existing commercial agreements between Delphi and GM. The obligations under the Amended MRA generally are not conditioned on the effectiveness of an amended plan of reorganization. Upon effectiveness of the Amended MRA in the third quarter of 2008, Delphi received net cash from GM totaling $559 million and recognized related pre-tax earnings of $355 million, of which $254 million was recorded in GM settlement in operating expenses and $101 million was recorded in discontinued operations. GM s obligations under the Amended MRA will not be subject to termination until December 31, 2015 (provided that certain obligations of GM with respect to legacy International Union, United Automobile, Aerospace and Agricultural

Implement Workers of America (the UAW) employees would survive any such termination).

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The following table shows each component of the pre-tax earnings recorded upon effectiveness of the Amended MRA in the third quarter of 2008 and the cash received on September 30, 2008:

	GM Settlement Gain in Pre-Tax Earnings	Cash Received From GM
	(in millions)	
Reimbursement of hourly labor costs	$ 272	$ 273
Production cash burn breakeven reimbursement	81	74
Working capital backstop Steering Business		210
Other	2	2
Total, net	$ 355	$ 559
Continuing operations	*$ 254*	
Discontinued operations	*$ 101*	

Existing and Future Business Awards and Related Matters The Amended MRA (1) addresses the scope of existing business awards, related pricing agreements, and extensions of certain existing supply agreements, including GM s ability to move production to alternative suppliers, and reorganized Delphi s rights to bid and qualify for new business awards; (2) eliminates the requirement to implement price-downs with respect to certain businesses since Delphi filed for chapter 11 and restricts GM s ability to re-source products manufactured at core U.S. operations through at least December 31, 2011 and Mexican operations through December 31, 2010; (3) contains a commitment by GM to provide Delphi with a Keep Site Facilitation Fee of $110 million annually in 2009 and 2010 which is not contingent on Delphi s emergence from chapter 11, payable in quarterly installments during these periods, which, consistent with Delphi s policy, will be recognized in earnings over future production periods; and (4) contains commitments by GM concerning the sale of certain of Delphi s non-core businesses and additional commitments by GM if certain of Delphi s businesses and facilities are not sold or wound down by specified future dates.

Reimbursement of Hourly Labor Costs GM has agreed to reimburse the Company for hourly workforce labor costs in excess of $26 per hour, excluding certain costs, including hourly pension and OPEB contributions provided under the supplemental wage agreement, at specified UAW manufacturing facilities retained by Delphi. On September 30, 2008, Delphi received payment from GM of $273 million for retroactive labor costs from October 1, 2006 through September 30, 2008. Of the total received, $239 million was included in GM settlement as a reduction of operating expenses and $33 million was included in discontinued operations as it related to the Steering Business and the Interiors and Closures Business. Delphi will refund $1 million of the payment to GM based on agreed upon revisions to the estimates paid. The economic substance of this provision of the Amended MRA is to lower Delphi s labor costs at specified UAW-represented manufacturing facilities to $26 per hour, excluding certain costs, in order to maintain competitive operations in the U.S. Consistent with the economic substance of this provision, Delphi recorded the labor subsidy amounts received as a reduction of cost of sales. Future labor subsidy amounts will be recognized in the period receivable from GM, and will be treated as a reduction to cost of sales or discontinued operations, as appropriate.

Production Cash Burn Breakeven Reimbursement Delphi has agreed to continue manufacturing at certain non-core sites to meet GM s production requirements and GM will provide operating cash flow breakeven support, or production cash burn breakeven (PCBB) from January 1, 2008 through site-specified time periods to compensate

Delphi for keeping these sites in production. Additionally, GM has agreed to reimburse capital spending in excess of $500,000 at the PCBB sites from January 1, 2008 through site-specified time periods. GM reimbursed Delphi $74 million on September 30, 2008 for the retroactive portion of the PCBB payments through August 2008. For the three and nine months ended September 30, 2008, Delphi recognized $81 million for the retroactive portion of the PCBB amounts received or receivable through September 2008, of which $15 million was included in GM settlement as a reduction of operating expenses and $66 million was included in discontinued operations. Future PCBB reimbursement, including capital spending, received from GM will be recognized contemporaneously as incurred, and will be treated as a reduction to cost of sales, fixed assets or discontinued operations, as appropriate.

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Working Capital Backstop Steering Business GM has agreed to provide payments to Delphi for the Steering Business if the sales value is less than defined estimated working capital amounts of the businesses. In addition, GM agreed to provide payments to Delphi related to the Steering Business if it is not sold prior to the effectiveness of the MRA. GM provided a $210 million advance on working capital recovery to Delphi related to the Steering Business on September 30, 2008. This payment was recorded as a deferred liability as of September 30, 2008. GM has agreed that ownership of the Steering Business will transfer to GM if it is not sold to a third party by August 31, 2010. In the event of a sale to a third party, Delphi will reimburse GM for the amount of the advance, and GM will pay Delphi an amount equal to the lesser of (a) $210 million and (b) two thirds of the amount, if any, by which the net working capital associated with the business exceeds the sales proceeds. In the event the Steering Business is not sold to a third party and is purchased by GM, the $210 million deferred liability will be retained by Delphi to the extent it meets the working capital criteria as defined in the Amended MRA at the time of the transfer. The Steering Business is reported as discontinued operations, refer to Note 4. Discontinued Operations for further information.

Reimbursement of Hourly Workers Compensation and Other Benefits GM will reimburse Delphi for all current and future workers compensation, disability, supplemental unemployment benefits, and severance obligations paid by Delphi after January 1, 2009 in relation to all current and former UAW-represented hourly active, inactive, and retired employees. Consistent with the substance of the provision, Delphi will recognize future anticipated reimbursements from GM contemporaneously with Delphi s incurrence of related cash payments in future periods. There is no financial impact related to this matter in the third quarter of 2008.

Accelerated GM North American Payment Terms The Amended MRA accelerates GM s North American payment terms through 2011 upon (a) the effectiveness of an agreement giving GM certain access rights to four of the Company s U.S plants in the event that the reorganized Company experiences extreme financial distress that would prevent Delphi from delivering parts at some point in the future and (b) the consummation of a revised chapter 11 plan of reorganization pursuant to which Delphi emerges with substantially all of its core businesses. There is no financial impact for this matter in the third quarter of 2008. The accelerated payments will result in an increase in cash and a reduction in accounts receivable and will have no impact on the statement of operations.

Pensions Devise a workable solution to the current pension funding situation, whether by deferring contributions to the pension trusts or otherwise.

Since entering chapter 11, Delphi has limited its contributions to the Hourly Plan, the Delphi Retirement Program for Salaried Employees (the Salaried Plan), the ASEC Manufacturing Retirement Program, the Delphi Mechatronics Retirement Program, the PHI Bargaining Retirement Plan and the PHI Non-Bargaining Retirement Plan (together, the Pension Plans) to amounts necessary to fund benefits accrued on account of postpetition service.

Pursuant to the pertinent terms of certain pension funding waivers secured from the Internal Revenue Service (IRS) in 2006 and 2007, Delphi provided to the Pension Benefit Guaranty Corporation (PBGC) letters of credit in favor of the Hourly and Salaried Plans in the amount of $122.5 million to support funding obligations under the Hourly Plan and $50 million to support funding obligations under the Salaried Plan. Due to the expiration of the waivers earlier this year, the PBGC drew against the $172.5 million of letters of credit in favor of the Hourly and Salaried Plans on May 16, 2008. The cash proceeds from the letters of credit were deposited into the Hourly and Salaried Plans and recognized as Delphi funding contributions to the respective plans for the plan year ended September 30, 2008. The proceeds funded all postpetition benefits accrued under the Hourly Plan for the third quarter of 2008 and all but approximately $7 million of the postpetition benefits accrued under the Salaried Plan during the third quarter of 2008. Approximately $395,000 of postpetition benefits were accrued but unpaid during the third quarter of 2008 for the Delphi Mechatronics Retirement Program, the PHI Bargaining Retirement Plan and the PHI Non-Bargaining Retirement Plan. No contribution for postpetition or prepetition service was due for the ASEC Manufacturing Retirement Program. As permitted under the Employee Retirement Income Security Act (ERISA) and the

U.S. Internal Revenue Code (the Code), Delphi elected to defer quarterly contributions necessary to satisfy these remaining obligations until no later than the due date for minimum contributions, which is June 15, 2009 for the Salaried Plan and

September 15, 2009 for the subsidiary plans. Delphi may continue to defer quarterly contributions in this manner until emergence from chapter 11 and will periodically consider whether or not to make future quarterly payments; however due to the freeze of the Pension Plans and pending freeze of the Hourly Plan discussed below, Delphi does not expect future accruals for postpetition benefits to be material.

In addition to the funding strategy discussed above and the changes to the Hourly Plan discussed in the Labor section, Delphi froze the Salaried Plan, the ASEC Manufacturing Retirement Program, the Delphi Mechatronics Retirement Program and the PHI Non-Bargaining Retirement Plan effective as of September 30, 2008. Delphi reached agreement with its labor unions to allow Delphi to freeze the Hourly Plan effective as of November 30, 2008 for those with traditional benefits. Refer to Note 17. Pension and Other Postretirement Benefits for more information.

Also, Delphi s negotiations with its labor unions and GM regarding the Hourly Plan culminated in agreements that Delphi believes will enable the Company to satisfy its pension funding obligations to the Hourly Plan upon emergence from chapter 11 through a combination of emergence contributions and a transfer of certain unfunded liabilities to a pension plan sponsored by GM to avoid any accumulated funding deficiency in the Delphi Hourly Plan at September 30, 2008. Pursuant to these agreements, Delphi transferred approximately $2.1 billion in net unfunded pension liabilities, including $486 million in assets, of its Hourly Plan to the GM Hourly-Rate Employees Pension Plan on September 29, 2008, and will transfer substantially all of the remaining assets and liabilities of the Hourly Plan upon emergence from chapter 11. With respect to pension liabilities that remain in the Hourly Plan, as well as pension liabilities under the other Delphi Pension Plans, the Company intends to meet the minimum funding standard under section 412 of the Code upon emergence from chapter 11.

Delphi has not made contributions on account of prepetition services and as a result, the IRS has asserted against Delphi excise taxes in the approximate amounts of $17 million and $18 million for plan years ended September 30, 2005 and September 30, 2007, respectively, and may assert additional excise taxes up to an additional $122 million and $226 million for plan years ended September 30, 2006 and September 30, 2007, respectively. If these asserted assessments are not paid, the IRS could increase the assessments that relate to the Salaried Plan to 100% of any Salaried Plan contributions considered by the IRS to be due and unpaid. Assuming Delphi is assessed excise taxes for all plan years through 2007, the total exposure could approximate $383 million. The 414(l) Net Liability Transfer to the GM hourly plan avoided an accumulated funding deficiency in the Delphi Hourly Plan for the plan year ended September 30, 2008. As such, the exposure to the 100% excise tax for the Delphi Hourly Plan has been eliminated.

Although the IRS could assert the excise tax assessments described above, Delphi believes that under the Bankruptcy Code, the Company is not obligated to make contributions for pension benefits while in chapter 11 and that, as a result, the Company would not be liable for any such assessments. Accordingly, management has concluded that an unfavorable outcome is not currently probable and, as of September 30, 2008, no amounts have been recorded for any potential excise tax assessment.

Upon emergence from chapter 11, the Company intends to meet the minimum funding standards under section 412 of the Code applicable to the Pension Plans. The amount of pension contributions due upon emergence from chapter 11 will be dependent upon various factors including, among other things, the date of emergence, and the funded status of the Pension Plans at the date of emergence.

Labor Modify Delphi s labor agreements to create a more competitive arena in which to conduct business.

During the second quarter of 2007, Delphi signed an agreement with the UAW, and during the third quarter of 2007, Delphi signed agreements with the remainder of its principal U.S. labor unions, which were ratified by the respective unions and approved by the Court in the third quarter of 2007. Among other things, as approved and confirmed by the

Court, this series of settlement agreements or memoranda of understanding among Delphi, its unions, and GM settled the Debtors motion under sections 1113 and 1114 of the Bankruptcy Code seeking authority to reject their U.S. labor agreements and to modify retiree benefits (the 1113/1114 Motion). As applicable, these agreements also, among other things, modify, extend or terminate

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provisions of the existing collective bargaining agreements among Delphi and its unions and cover issues such as site plans, workforce transition and legacy pension and other postretirement benefits obligations as well as other comprehensive transformational issues. Portions of these agreements became effective in 2007, and the remaining portions were tied to the effectiveness of the GSA and the MRA, and substantial consummation of the Plan as confirmed by the Court. However, as noted above, Delphi filed amendments to the GSA and the MRA in the Court on September 12, 2008, and subsequently entered into an additional amendment to the GSA as of September 25, 2008. The Court approved such amendments on September 26, 2008. The Amended GSA and the Amended MRA became effective on September 29, 2008.

In addition, these agreements generally provided certain members of the union labor workforce options to either retire, accept a voluntary severance package or accept lump sum payments in return for lower hourly wages. Refer to Note 16. U.S. Employee Workforce Transition Programs for more information.

Portfolio   Streamline Delphi s product portfolio to capitalize on world-class technology and market strengths and make the necessary manufacturing alignment with Delphi s new focus.

In 2006, Delphi identified non-core product lines and manufacturing sites that do not fit into Delphi s future strategic framework, including brake and chassis systems, catalysts, cockpits and instrument panels, door modules and latches, ride dynamics, steering, halfshafts, wheel bearings and power products. In connection with the Company s continuous evaluation of its product portfolio, in the second quarter of 2008, Delphi determined that the global exhaust business no longer fit within the Company s future product portfolio. With the exception of the catalyst product line and the global exhaust business (included in the Powertrain Systems segment), and the steering and halfshaft product lines and interiors and closures product lines (included in discontinued operations), the Company s non-core product lines are included in the Automotive Holdings Group segment, refer to Note 21. Segment Reporting.

Delphi has continued sale and wind-down efforts with respect to non-core product lines and manufacturing sites. The sale and wind-down process is being conducted in consultation with the Company s customers, labor unions and other stakeholders to carefully manage the transition of affected product lines and manufacturing sites. The disposition of any U.S. operation is also being accomplished in accordance with the requirements of the Bankruptcy Code and union labor contracts as applicable. The Company also has consulted with the works councils in accordance with applicable laws regarding any sale or wind-down of affected manufacturing sites in Europe.

During the first nine months of 2008, Delphi obtained Court approval of bidding procedures and sales agreements for the steering and halfshaft product line and closed on the sales of the interiors and closures product line, the North American brake components machining and assembly assets, the global bearings business and the U.S. suspensions business. Additionally, under an order providing Delphi with authority to sell certain assets that do not exceed $10 million without further Court approval, Delphi entered into an agreement to sell its power products business. Refer to Note 4. Discontinued Operations and Note 5. Acquisitions and Divestitures for more information.

Costs recorded in the three and nine months ended September 30, 2008 and 2007 related to the transformation plan for non-core product lines include impairments of long-lived assets, employee termination benefits and other exit costs and U.S. employee workforce transition program charges and are further described in Note 4. Discontinued Operations, Note 7. Long-Lived Asset Impairment, Note 9. Employee Termination Benefits and Other Exit Costs and Note 16. U.S. Employee Workforce Transition Programs.

Cost Structure   Transform the salaried workforce and reduce general and administrative expenses to ensure that the organizational and cost structure is competitive and aligned with Delphi s product portfolio and manufacturing footp