DELPHI CORP
Form 10-Q
May 11, 2009

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NOTICE TO 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 March 31, 2009
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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o. 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 o. Accelerated filer o. Non-Accelerated filer o. Smaller reporting company þ.

(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 March 31, 2009 there were 564,637,307 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 March 31,	
	2009	2008
	(in millions, except per share amounts)	
Net sales:		
General Motors and affiliates	$ 734	$ 1,641
Other customers	1,791	3,611
Total net sales	2,525	5,252
Operating expenses:		
Cost of sales, excluding items listed below	2,632	4,933
Depreciation and amortization	172	222
Selling, general and administrative	255	364
Total operating expenses	3,059	5,519
Operating loss	(534)	(267)
Interest expense (contractual interest expense for the three months ended March 31, 2009 and 2008 was $168 million and $129 million, respectively)	(137)	(110)
Other income, net	9	19
Reorganization items	1,144	(109)
Income (loss) from continuing operations before income taxes and equity income	482	(467)
Income tax benefit (expense)	51	(63)
Income (loss) from continuing operations before equity income	533	(530)
Equity (loss) income, net of tax	(8)	11
Income (loss) from continuing operations	525	(519)
Income (loss) from discontinued operations, net of tax	31	(58)
Net income (loss)	556	(577)

Net income attributable to noncontrolling interest		4		12
Net income (loss) attributable to Delphi	$	552	$	(589)
Basic and diluted income (loss) per share:				
Continuing operations attributable to Delphi	$	0.92	$	(0.94)
Discontinued operations attributable to Delphi		0.06		(0.10)
Basic and diluted income (loss) per share	$	0.98	$	(1.04)
Amounts attributable to Delphi:				
Income (loss) from continuing operations	$	521	$	(530)
Discontinued operations		31		(59)
Net income (loss) attributable to Delphi	$	552	$	(589)

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

CONSOLIDATED BALANCE SHEETS

	March 31, 2009 (Unaudited)	December 31, 2008
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 650	$ 959
Restricted cash	449	403
Accounts receivable, net:		
General Motors and affiliates	695	822
Other	1,519	1,572
Inventories, net (Note 3)	1,130	1,285
Other current assets (Note 4)	484	613
Assets held for sale (Note 15)	551	497
Total current assets	5,478	6,151
Long-term assets:		
Property, net	3,214	3,397
Investments in affiliates	280	303
Other long-term assets (Note 4)	442	455
Total long-term assets	3,936	4,155
Total assets	$ 9,414	$ 10,306
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Short-term debt (Note 8)	$ 4,244	$ 4,174
Accounts payable	1,567	1,771
Accrued liabilities (Note 5)	2,164	2,171
Liabilities held for sale (Note 15)	328	293
Total current liabilities	8,303	8,409
Long-Term liabilities:		
Employee benefit plan obligations (Note 10)	538	552
Other long-term liabilities (Note 5)	1,014	1,028
Total long-term liabilities	1,552	1,580
Liabilities subject to compromise (Note 2)	13,435	14,583
Total liabilities	23,290	24,572

Commitments and contingencies (Note 11)		
Stockholders deficit:		
Common stock, $0.01 par value, 1,350 million shares authorized, 565 million shares issued in 2009 and 2008	6	6
Additional paid-in capital	2,747	2,747
Accumulated deficit	(11,512)	(12,064)
Accumulated other comprehensive loss:		
Employee benefit plans (Note 10)	(4,894)	(4,867)
Other	(352)	(219)
Total accumulated other comprehensive loss	(5,246)	(5,086)
Treasury stock, at cost (389 thousand and 391 thousand shares in 2009 and 2008, respectively)	(6)	(6)
Total Delphi stockholders deficit	(14,011)	(14,403)
Noncontrolling interest	135	137
Total stockholders deficit	(13,876)	(14,266)
Total liabilities and stockholders deficit	$ 9,414	$ 10,306

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31, 2009	2008
	(in millions)	
Cash flows from operating activities:		
Net income (loss)	$ 556	$ (577)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	172	222
Pension and other postretirement benefit expenses	126	185
Reorganization items	(1,144)	109
(Gain) loss on assets held for sale	(4)	30
Deferred income taxes	(65)	(4)
Other, net	8	25
Changes in operating assets and liabilities:		
Accounts receivable, net	130	(395)
Inventories, net	152	(50)
Other assets	115	18
Accounts payable	(112)	176
Accrued and other long-term liabilities	(120)	97
Other, net	49	36
U.S. employee workforce transition program payments	(13)	(71)
Pension contributions	(25)	(68)
Other postretirement benefit payments	(19)	(66)
Other, net	(25)	(11)
Discontinued operations (Note 15)		54
Net cash used in operating activities	(219)	(290)
Cash flows from investing activities:		
Capital expenditures	(166)	(255)
Proceeds from sale of property	8	21
Proceeds from sale of non-U.S. trade bank notes	43	62
Proceeds from divestitures, net	4	87
Increase in restricted cash	(46)	(2)
Other, net	1	3
Discontinued operations	(12)	(70)
Net cash used in investing activities	(168)	(154)
Cash flows from financing activities:		
Net repayments of borrowings under amended and restated debtor-in-possession facility	(146)	

Net borrowings under refinanced debtor-in-possession facility		452
Net (repayments) borrowings under other debt agreements	(207)	210
Issuance costs related to the Accommodation Agreement	(16)	
Net borrowings under GM liquidity support agreements	453	
Other, net	(1)	(7)
Discontinued operations	14	11
Net cash provided by financing activities	97	666
Effect of exchange rate fluctuations on cash and cash equivalents	(19)	52
(Decrease) increase in cash and cash equivalents	(309)	274
Cash and cash equivalents at beginning of period	959	1,036
Cash and cash equivalents at end of period	$ 650	$ 1,310

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 March 31, 2009	Three Months Ended March 31, 2008
	(in millions)	
Net income (loss)	$ 556	$ (577)
Other comprehensive income:		
Currency translation adjustments, net of tax(a)	(84)	72
Net change in unrecognized loss on derivative instruments, net of tax(b)	(48)	96
Employee benefit plans adjustment, net of tax(c)	(27)	(30)
Other comprehensive (loss) income	(159)	138
Comprehensive income (loss)	397	(439)
Comprehensive income attributable to noncontrolling interest	5	11
Comprehensive income (loss) attributable to Delphi	$ 392	$ (450)

(a) Currency translation adjustments are net of $2 million and ($1) million tax effect for the three months ended March 31, 2009 and 2008, respectively.

(b) There was no tax effect on the net change in unrecognized gain on derivative instruments for the three months ended March 31, 2009 and 2008, respectively.

(c) Employee benefit plans adjustments includes a loss for pension, postretirement and postemployment liabilities of $(27) million (net of a ($75) million tax effect) and ($30) million (there was no tax effect) for the three months ended March 31, 2009 and 2008, respectively.

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (DEFICIT) (Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interest	Total Stockholders Deficit
				(in millions)				
Balance at December 31, 2008	565	$ 6	$ 2,747	$ (12,064)	$ (5,086)	$ (6)	$ 137	$ (14,266)
Net income				552			4	556
Currency translation adjustments and other, net of tax					(85)		1	(84)
Net change in unrecognized loss on derivative instruments, net of tax					(48)			(48)
Employee benefit plans liability adjustment, net of tax					(27)			(27)
Deconsolidation of noncontrolling interest							(7)	(7)
Balance at March 31, 2009	565	$ 6	$ 2,747	$ (11,512)	$ (5,246)	$ (6)	$ 135	$ (13,876)

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, 2008 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.

Restricted Cash At March 31, 2009 and December 31, 2008, Delphi had $449 million and $403 million in restricted cash, respectively, primarily related to cash collateral as required under its debtor-in-possession credit facility. Refer to Note 8. Debt for additional information. Additionally, restricted cash includes cash for use for the pre-retirement portion of the U.S. employee workforce transition programs, refer to Note 9. U.S. Employee Workforce Transition Programs, and balances on deposit at financial institutions that have issued letters of credit in favor of Delphi.

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 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, continue their business operations without supervision from the Court and are not subject to the requirements of the Bankruptcy Code. However, Delphi s Board of Directors authorized Delphi s indirect wholly-owned Spanish subsidiary, Delphi Automotive Systems España, S.L. (DASE), to file a petition for Concurso, or bankruptcy, under Spanish law, in March 2007 exclusively for that entity.

American Institute of Certified Public Accountants 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 adopted SOP 90-7 effective October 8, 2005 and has segregated those items as outlined above for all reporting periods subsequent to such date.

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 and related accommodation agreement, as described below; (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 further extensions of its accommodation agreement allowing the Debtors to retain the proceeds of, or an extension or replacement of their DIP financing agreement, which otherwise matured on December 31, 2008. Prior to expiration of the DIP financing agreement (the Amended and Restated DIP Credit Facility), Delphi entered into an accommodation agreement, which has been subsequently amended to revise the applicable covenants and milestone requirements (as so amended through the date hereof, the Accommodation Agreement) allowing Delphi to retain the proceeds of the Amended and Restated DIP Credit Facility until June 30, 2009, provided Delphi continues to remain in compliance with all applicable covenants under the Accommodation Agreement and 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 other repayment provisions) as described further in Note 8. Debt.

In addition, GM has supplemented Delphi s liquidity through (i) an agreement (the GM Advance Agreement) pursuant to which GM has agreed, subject to certain conditions, to provide a $300 million facility ($253 million was outstanding as of March 31, 2009), which may be drawn against from time to time as necessary for Delphi to maintain $300 million of liquidity, as determined in accordance with the terms of the GM Advance Agreement throughout the term of the accommodation period under the Accommodation Agreement and, (ii) by agreeing, subject to certain conditions, to accelerate payment of certain payables to Delphi, (the Partial Temporary Accelerated Payments Agreement), which has resulted in an additional $200 million of liquidity in the first quarter of 2009 and which resulted in an additional $100 million of liquidity in April 2009. Refer to Note 8. Debt for more information regarding the terms of the Accommodation Agreement, GM Advance Agreement and the Partial Temporary Accelerated Payments Agreement.

Accordingly, the Accommodation Agreement and support from GM coupled with savings realized as a result of significant cost reductions and cash conservation measures implemented by Delphi globally have provided Delphi with access to sufficient liquidity to fund its operations and remain in compliance with the covenants in the Amended and Restated DIP Credit Facility and Accommodation Agreement into May 2009 as it continued discussions with its stakeholders on proposed modifications to the Plan or another consensual resolution of Delphi s chapter 11 cases. Pursuant to the Accommodation Agreement, Delphi has until May 21, 2009 to deliver to the agent under the Amended and Restated DIP Credit Facility a detailed term sheet (the Term Sheet) which has been agreed to by both GM and the U.S. Treasury and which sets forth the terms of a global resolution of matters relating to GM s contribution to the resolution of Delphi s chapter 11 cases, including, without limitation, all material transactions between Delphi and GM relevant to such resolution (refer to Note 8. Debt). Failure to deliver a satisfactory Term Sheet or meet the other milestones under the Accommodation Agreement will be an event of default under the Accommodation Agreement and absent receipt of a waiver will result in a termination of the accommodation period entitling Delphi s lenders to exercise all available remedies, including foreclosure on substantially all of Delphi s assets. Such actions may result in the temporary or permanent suspension and ultimate sale or liquidation of the operations of Delphi. Delphi anticipates that the Term Sheet will comprehend additional liquidity support from its stakeholders to allow it to continue operations until a consensual resolution can be implemented, however, as discussions are ongoing, there can be no assurances that this will be the case.

Notwithstanding the Accommodation Agreement, Delphi is in default of the terms of its Amended and Restated DIP Credit Facility and as a result, Delphi is no longer able to make additional draws under the facility after December 12, 2008 (the effective date of the Accommodation Agreement). However, under the Accommodation Agreement, Delphi is required to continue to comply with the provisions of the Amended and Restated DIP Credit Facility (as amended and modified by the Accommodation Agreement, as amended). There can be no assurance that Delphi will continue to comply with the terms and conditions of the Amended and Restated DIP Credit Facility (as amended and modified by the Accommodation Agreement) or that the Term Sheet will comprehend sufficient additional liquidity support for Delphi to continue operating its business or remain compliant in view of anticipated additional production cuts by its customers. 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. Refer to Equity Purchase and Commitment Agreement and The Plan of Reorganization in Note 2. Transformation Plan and Chapter 11 Bankruptcy for more information. Pending confirmation and consummation of the plan of reorganization (as amended), an alternative plan of reorganization or other consensual resolution of Delphi s chapter 11 cases, 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, however the hearing on the motion has been adjourned and Delphi continues discussions with its stakeholders regarding a path to emergence from chapter 11. There can be no assurances as to when Delphi will confirm or consummate a modified plan or other consensual resolution of Delphi s chapter 11 cases. 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. 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. Delphi recorded interest related to prepetition debt and allowed unsecured claims of $14 million during the quarter ended March 31, 2008. At March 31, 2009 and December 31, 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 first quarter of 2009, 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.

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.

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). 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. Certain employee pension and other postretirement benefit liabilities for the Steering Business 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 were allocated to discontinued operations in the statements of operations. Allocations have been made based upon a reasonable allocation method. Refer to Note 15. Discontinued Operations for more information.

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*. In February 2008, the FASB issued FASB Staff Position No. 157-2 (FSP 157-2), *Effective Date of FASB Statement No. 157,* which partially deferred the effective date of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The FSP does not defer recognition and disclosure requirements for financial assets and liabilities or for nonfinancial assets and nonfinancial liabilities that are remeasured at least annually. Delphi adopted the provisions of SFAS No. 157 as of January 1, 2009 for nonfinancial assets and liabilities that are subject to the deferral (including long-lived assets and goodwill, asset retirement obligations and liabilities for exit or disposal activities measured at fair value upon initial recognition) and the adoption did not have a significant impact on Delphi s financial statements. Refer to Note 14. Derivatives and Hedging Activities and Fair Value Measurements for the disclosures required by SFAS 157.

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. The adoption of SFAS 141R as of January 1, 2009 did not have a significant impact on Delphi s 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

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periods within those fiscal years, beginning on or after December 15, 2008. Delphi adopted SFAS 160 as of January 1, 2009 and the accompanying financial statements reflect the provisions of SFAS 160 for all periods presented.

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* (SFAS 133)*;* 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. Delphi adopted SFAS 161 as of January 1, 2009. The adoption of SFAS 161 did not have a significant impact on Delphi s financial statements other than providing the new disclosures required by SFAS 161.

In December 2008, the FASB issued FASB Staff Position 132(R)-1 (FSP 132(R)-1), *Employers Disclosures about Postretirement Benefit Plan Assets*. FSP 132(R)-1 provides guidance on disclosures about plan assets of a defined benefit pension or other postretirement plan. Specifically, FSP 132(R)-1 requires enhanced disclosures of how investment allocation decisions are made, including pertinent factors to further understand investment policies and strategies, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period, and significant concentrations of risk within plan assets. FSP 132(R)-1 and the enhanced disclosures about plan assets are required for fiscal years ending after December 15, 2009. Earlier application is permitted. Delphi is currently assessing the impact FSP 132(R)-1 may have on its financial statements.

In April 2009, the FASB issued FASB Staff Position No. 141(R)-1 (FSP 141R-1), *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*. FSP 141R-1 amends the guidance in SFAS 141R to:

Require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with FASB Statement No. 5 (SFAS 5), *Accounting for Contingencies,* and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss.* Further, the FASB decided to remove the subsequent accounting guidance for assets and liabilities arising from contingencies from SFAS 141R, and carry forward without significant revision the guidance in FASB Statement No. 141, *Business Combinations.*

Eliminate the requirement to disclose an estimate of the range of outcomes of recognized contingencies at the acquisition date. For unrecognized contingencies, the FASB decided to require that entities include only the disclosures required by SFAS 5 and that those disclosures be included in the business combination footnote.

Require that contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be treated as contingent consideration of the acquirer and initially and subsequently measured at fair value in accordance with SFAS 141R.

FSP 141R-1 is effective for assets or liabilities arising from contingencies in 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. The adoption of FSP 141R-1 as of January 1, 2009 did not have a significant impact on Delphi s financial statements.

In April 2009, the FASB issued FASB Staff Position No. 157-4 (FSP 157-4), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. FSP 157-4 (i) affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction, (ii) clarifies

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and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active, (iii) eliminates the proposed presumption that all transactions are distressed (not orderly) unless proven otherwise, but instead requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence, (iv) includes an example that provides additional explanation on estimating fair value when the market activity for an asset has declined significantly, (v) requires an entity to disclose a change in valuation technique (and the related inputs) resulting from the application of FSP 157-4 and to quantify its effects, if practicable, and (vi) applies to all fair value measurements when appropriate. FSP 157-4 must be applied prospectively and retrospective application is not permitted. FSP 157-4 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP 157-4 must also early adopt FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments,* as defined and described below. Delphi is currently assessing the impact FSP 157-4 may have on its financial statements.

In April 2009, the FASB issued FASB Staff Position Nos. 115-2 and 124-2 (FSP FAS 115-2 and FAS 124-2), *Recognition and Presentation of Other-Than-Temporary Impairments.* FSP FAS 115-2 and FAS 124-2 (i) changes existing guidance for determining whether an impairment is other than temporary to debt securities; (ii) replaces the existing requirement that the entity s management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (*a*) it does not have the intent to sell the security; and (*b*) it is more likely than not it will not have to sell the security before recovery of its cost basis; (iii) incorporates examples of factors from existing literature that should be considered in determining whether a debt security is other-than-temporarily impaired; (iv) requires that an entity recognize noncredit losses on held-to-maturity debt securities in other comprehensive income and amortize that amount over the remaining life of the security in a prospective manner by offsetting the recorded value of the asset unless the security is subsequently sold or there are additional credit losses; (v) requires an entity to present the total other-than-temporary impairment in the statement of earnings with an offset for the amount recognized in other comprehensive income; and (vi) upon adoption requires an entity to record a cumulative-effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other-temporary impairment from retained earnings to accumulated other comprehensive income if the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may early adopt FSP FAS 115-2 and FAS 124-2 only if it also elects to early adopt FSP 157-4. Delphi is currently assessing the impact FSP FAS 115-2 and FAS 124-2 may have on its financial statements.

In April 2009, the FASB issued FASB Staff Position No. 107-1 and Accounting Principles Board Opinion 28-1 (FSP FAS 107-1 and APB 28-1), *Interim Disclosures about Fair Value of Financial Instruments.* This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments,* to require an entity to provide disclosures about fair value of financial instruments in interim financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting,* to require those disclosures in summarized financial information at interim reporting periods. Under FSP FAS 107-1 and APB 28-1, a publicly traded company shall include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. In addition, an entity shall disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position, as required by Statement 107. FSP FAS 107-1 and APB 28-1 is effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. However, an entity may early adopt these interim fair value disclosure requirements only if it also elects to early adopt FSP 157-4 and FSP FAS 115-2 and FAS 124-2. Delphi is currently assessing the impact FSP FAS 107-1 and APB 28-1 may have on its financial statements.

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2. TRANSFORMATION PLAN AND CHAPTER 11 BANKRUPTCY

Plan of Reorganization and Transformation Plan

Elements of Transformation Plan

On September 6, 2007 Delphi filed its proposed plan of reorganization (the Plan) and related disclosure statement (the Disclosure Statement) with the Court. The Plan and Disclosure Statement outline Delphi s transformation centering around five core areas, including agreements reached with each of Delphi s principal U.S. labor unions and GM, a plan to streamline our product portfolio and make the necessary manufacturing alignment with our new focus, transform our cost structure and resolve our pension funding situation. On February 4, 2008, the Confirmation Order entered by the Court on January 25, 2008 with respect to Delphi s Plan and Disclosure Statement became final. Under the terms and subject to the conditions of the Equity Purchase and Commitment Agreement between Delphi and certain affiliates of lead investor Appaloosa Management L.P. (Appaloosa), Harbinger Capital Partners Master Fund I, Ltd. (Harbinger), Pardus Capital Management, L.P. (Pardus), Merrill Lynch, Pierce, Fenner & Smith, Incorporated (Merrill), UBS Securities LLC (UBS), and Goldman Sachs & Co. (Goldman) (collectively the Investors), dated as August 3, 2007, as amended (and together with all schedules and exhibits thereto, the EPCA), the Investors committed to purchase $800 million of convertible preferred stock and approximately $175 million of common stock in the reorganized Company. Additionally, subject to satisfaction of other terms and conditions, the Investors committed to purchase any unsubscribed shares of common stock in connection with an approximately $1.6 billion rights offering that was made available to unsecured creditors. On April 4, 2008, Delphi announced that although it had met the conditions required to substantially consummate its Plan, including obtaining $6.1 billion of exit financing, the Investors refused to participate in a closing that was commenced but not completed on that date. Several hours prior to the scheduled closing on April 4, 2008, Appaloosa delivered to Delphi a letter, stating that such letter constitutes a notice of immediate termination of the EPCA. Appaloosa s April 4 letter alleged that Delphi had breached certain provisions of the EPCA and that Appaloosa is entitled to terminate the EPCA. At the time Appaloosa delivered its letter, other than the Investors, all the required parties for a successful closing and emergence from chapter 11, including representatives of Delphi s exit financing lenders, GM, and the Official Committee of Unsecured Creditors (the Creditors Committee) and the Official Committee of Equity Security Holders (the Equity Committee) in Delphi s chapter 11 cases were present, were prepared to move forward, and all actions necessary to consummate the plan of reorganization were taken other than the concurrent closing and funding of the EPCA. Delphi believes that Appaloosa wrongfully terminated the EPCA and disputes the allegations that Delphi breached the EPCA or failed to satisfy any condition to the Investors obligations thereunder as asserted by Appaloosa in its April 4 letter.

Throughout the second and third quarters of 2008, Delphi engaged in discussions with its stakeholders, including GM and representatives of both statutory committees, to develop modifications to the Plan that would allow Delphi to emerge from chapter 11. On October 3, 2008, Delphi filed proposed modifications to the Plan and related modifications to the Disclosure Statement with the Court which contained an updated business plan associated with a mid-point total enterprise business valuation of $7.2 billion, and contemplated that Delphi would need to raise approximately $3.75 billion of emergence capital through a combination of term debt and rights to purchase equity. However, since the filing of the proposed modifications, substantial uncertainty and a significant decline in capacity in the credit markets, the global economic downturn generally and the current economic climate in the automotive industry have adversely impacted Delphi s ability to develop a revised recapitalization plan and successfully consummate a confirmed plan of reorganization or other consensual resolution of Delphi s chapter 11 cases. Delphi continues comprehensive discussions with all of its stakeholders that have a continuing economic interest in its reorganization cases to formulate further plan modifications. In connection with those discussions, Delphi made further revisions to its business plan consistent with the extremely low volume production environment in the global automotive industry and depressed global capital and equity markets. Although no formal valuation of the revised business plan has been completed, it is anticipated that the total business enterprise value associated with the modified plan or other economic distribution in connection with another resolution of Delphi s chapter 11 cases, will be substantially below the valuation range contained in the modifications filed in October 2008 and may be equivalent to, or even less than, the amount of Delphi s postpetition obligations, including its borrowings under its debtor-in-possession financing facility. These factors also continue to delay Delphi s emergence from chapter 11 and its ability to refinance its Amended and Restated DIP Credit Facility.

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 provided 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.

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 Employees Pension Plan pursuant to section 414(l) of the Internal Revenue Code (the 414(l) Net Liability Transfer). Pursuant to the Amended GSA, the 414(l) Net Liability Transfer is to occur in two separate steps with the first step 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 $0.5 billion from the Hourly 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 First Pension 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) in the third quarter of 2008, and the obligations of the Hourly Plan were remeasured prior to the transfer occurring.

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, including the delivery of preferred stock to satisfy GM s allowed administrative claim as described below, 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 March 31, 2009. 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.

Hourly Plan Freeze and Triggering of Benefit Guarantees As provided for under certain union settlement agreements and implementation agreements, Delphi froze its Hourly Plan for future benefit accruals as of November 30, 2008. In addition, as a result of the triggering of the benefit guarantees, 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. The assumption of the traditional hourly OPEB liability by GM and GM s agreement to reimburse postretirement benefit expenses through the administrative transfer date of February 1, 2009 was accounted for as a settlement under Statement of Financial Accounting Standards No. 106, *Employer s Accounting for Postretirement Benefits Other Than Pensions*, in the third quarter of 2008. During the first quarter of 2009, GM funded an additional $25 million of OPEB payments made to the hourly workforce, of which $19 million was reimbursement for amounts paid by Delphi during the quarter prior to the administrative transfer and $6 million was applied to the receivable from GM at December 31, 2008. Refer to Note 10. Pensions and Other Postretirement Benefits for further information.

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 2008 and $427 million will be granted and recognized by Delphi when the remaining assets and liabilities allocable to certain participants of the 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.

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.

With respect to GM s claims in the Company s chapter 11 cases, GM under the Amended GSA 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 (other than holders of claims arising from Delphi s trust preferred securities) have achieved a recovery of 20% of the allowed amount of their claims. 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.

On October 3, 2008, Delphi filed proposed modifications to the Plan and related modifications to the Disclosure Statement with the Court, which contained an updated business plan associated with a mid-point total enterprise business valuation of $7.2 billion, and contemplated that Delphi would need to raise approximately $3.75 billion of emergence capital through a combination of term debt and rights to purchase equity. However, since the filing of the proposed modifications, substantial uncertainty and a significant decline in capacity in the credit markets, the global economic downturn generally and the current economic climate in the automotive industry, have adversely impacted Delphi s ability to develop a revised recapitalization plan and successfully consummate a confirmed plan of reorganization or other consensual resolution of Delphi s chapter 11 cases. Delphi continued comprehensive discussions with all of its stakeholders that have a continuing economic interest in its reorganization cases to formulate further plan modifications. In connection with those discussions, Delphi made further revisions to its business plan consistent with the extremely low volume production environment in the global automotive industry and depressed global capital and equity markets. Although no formal valuation of the revised business plan has been completed, it is anticipated that the total business enterprise value associated with the revised plan or other economic distribution in connection with another resolution of Delphi s chapter 11 cases, will be substantially below the valuation range contained in the modifications filed in October 2008 and may be equivalent to, or even less than, the amount of Delphi s postpetition obligations, including its borrowings under its debtor-in-possession financing facility. Accordingly, we believe it is likely that (i) we will not be able to satisfy all the conditions for the receipt by GM of the preferred stock or that the economic value of reorganized Delphi will exceed $7.13 billion and (ii) GM will not receive a distribution on account of its general unsecured claim. However, if there are distributions, pursuant to the Amended GSA, 50% of all distributions that would otherwise be made to GM on account of its administrative claim would be made to holders of general unsecured claims until such holders have received distributions on account of their general unsubordinated unsecured claims equal in value of up to $300 million. As part of the May 21, 2009 milestone under the Accommodation Agreement requiring Delphi to submit the Term Sheet, Delphi is continuing discussions on proposed modifications to the Plan, and further amendments to the Amended GSA and Amended MRA and expects that the Term Sheet will include agreement on sources of supplemental liquidity to enable Delphi to continue financing its operations until such time as the transactions in the Term Sheet can be implemented and Delphi is able to emerge from chapter 11 or another consensual resolution of Delphi s chapter 11 cases is reached. However, as discussions are ongoing, we can provide no assurances that this will be the case.

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 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. As of March 31, 2009 and December 31, 2008, Delphi s receivable from GM related to the funding of the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) buydown arrangements under the

2007 U.S. hourly workforce special attrition programs was $68 million. Refer to Note 9. U.S. Employee Workforce Transition Programs for more information.

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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 a modified plan of reorganization. GM s obligations under the Amended MRA are not subject to termination until December 31, 2015 (provided that certain obligations of GM with respect to legacy UAW employees would survive any such termination). As part of the ongoing discussions among Delphi, the United States Treasury and GM regarding GM s overall contribution to the resolution of Delphi s chapter 11 cases, the parties are considering further amendments to the Amended MRA and Amended GSA, which may include, among other things, a sale of one or more U.S. manufacturing sites to GM. Any payment that GM would make for such sites would likely be in lieu of GM s previously agreed upon support for Delphi, such as the production cash burn breakeven and labor subsidy payments referred to below.

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 an annual Keep Site Facilitation Fee of $110 million 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. On March 31, 2009, Delphi received its first quarterly installment of the annual Keep Site Facilitation Fee of $27.5 million, of which approximately $25 million was recorded as revenue and approximately $3 million was recorded as a deferred liability.

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. 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, the labor subsidy amounts received by Delphi are recorded as a reduction of cost of sales in the period receivable from GM. During the first quarter of 2009, Delphi received a $38 million reimbursement from GM of hourly labor costs in excess of $26 per hour, which was recorded as a reduction to cost of sales.

Production Cash Burn Breakeven Reimbursement Delphi has agreed to continue manufacturing at certain non-core sites to meet GM s production requirements and GM is providing 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. PCBB reimbursement, including capital spending, from GM is recognized contemporaneously as incurred, and is treated as a reduction to cost of sales, fixed assets or discontinued operations, as appropriate. During the first quarter of 2009, Delphi received $56 million PCBB reimbursement from GM which was recorded in income from discontinued operations. An additional $24 million was recorded as a receivable from GM as of March 31, 2009, of which $23 million was recorded in discontinued operations and $1 million was recorded as a reduction to cost of sales during the first quarter of 2009.

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Working Capital Backstop Steering Business GM 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 is recorded as a deferred liability as of March 31, 2009. The Steering Business is reported as discontinued operations, refer to Note 15. Discontinued Operations for further information.

Reimbursement of Hourly Workers Compensation and Other Benefits GM agreed to 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 recognizes future anticipated reimbursements from GM contemporaneously with Delphi s incurrence of related cash payments. During the first quarter of 2009, Delphi received reimbursement of $3 million and an additional $7 million is recorded as a receivable from GM as of March 31, 2009, for a total reduction to cost of sales of $10 million.

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 modified chapter 11 plan of reorganization pursuant to which Delphi emerges with substantially all of its core businesses. As these conditions have not yet occurred, the provisions of this program are not yet effective, and there was no financial impact for this matter in the first quarter of 2009 or 2008. The accelerated payments are expected to result in an increase in cash and a reduction in accounts receivable and will have no impact on the statement of operations.

The following table details changes during the three months ended March 31, 2009 in the GM and affiliates accounts receivable balance attributable to the Amended GSA and the Amended MRA, recorded in GM and affiliates accounts receivable in the accompanying consolidated balance sheet at March 31, 2009 and December 31, 2008:

Amended GSA and Amended MRA GM Accounts Receivable

		(in millions)
Balance at December 31, 2008	$	141
GM obligations recognized		175
Payments received from GM		(150)
Balance at March 31, 2009	$	166

As of March 31, 2009, $130 million of the Amended GSA and Amended MRA accounts receivable was included in accounts receivable from General Motors and affiliates and $36 million was included in assets held for sale on the consolidated balance sheet.

The following table details the GM obligations recognized during the three months ended March 31, 2009:

GM Obligations Recognized January 1, 2009 March 31, 2009

(in millions)

Amount recognized in pre-tax earnings	$	74
Amount recognized in discontinued operations		79
Amount of pass-through OPEB reimbursement		19
Amount recognized in deferred liability		3
Total	$	175

Pensions Devise a workable solution to the current pension funding situation.

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Since entering chapter 11, Delphi had generally 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 normal cost contributions, which are less than the minimum funding requirements established by the IRC and ERISA. Following the Court s approval of the Hourly and Salaried Pension Program Modification Motion on September 23, 2008, the Salaried Plan, the Mechatronic Plan, the ASEC Plan, and the PHI Non-Bargaining Plan were frozen effective September 30, 2008. The Hourly Plan was frozen on November 30, 2008. By freezing the Pension Plans, Delphi halted the accrual of normal cost payments going forward thereby preserving liquidity.

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, 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 initially recognized as Delphi funding contributions to the respective plans for the plan year ended September 30, 2008. However, on January 16, 2009, Delphi filed amended Forms 5500 (Annual Return Report of Employee Benefit Plan) with the IRS that applied all contributions made to the Hourly and Salaried Plans in 2008, including the proceeds from the letters of credit, back to the plan year ended September 30, 2007. This contribution carry back, together with the September 29, 2008 414(l) Net Liability Transfer discussed below, had the effect that no contributions were due under the Hourly Plan for the plan year ended September 30, 2008.

Approximately $56 million remains due as a minimum funding contribution under the Salaried Plan for the plan year ended September 30, 2008, and approximately $13 million remains due as minimum funding contribution under the Delphi Mechatronics Retirement Program, the ASEC Manufacturing Retirement Program, the PHI Bargaining Retirement Plan and the PHI Non-Bargaining Retirement Plan for the plan year ended December 31, 2008. As permitted under the Employee Retirement Income Security Act (ERISA) and the U.S. Internal Revenue Code (the Code), Delphi elected to defer the contribution necessary to satisfy this remaining obligation 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. On December 15, 2008, Delphi applied to the IRS for a waiver of the minimum funding contribution of approximately $56 million to the Salaried Plan for the plan year ended September 30, 2008, and permission to instead amortize amounts due in over future plan years. That application remains pending.

As reflected above, Delphi has not made certain minimum required contributions to the Pension Plans 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. However, because 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, exposure to the 100% excise tax related to the Delphi Hourly Plan has been eliminated for the plan year ended September 30, 2008. Assuming Delphi is assessed excise taxes for all plan years through 2007, the total exposure to date could approximate $383 million, plus interest and penalties, which could be substantial. In addition, if the IRS does not agree to waive the minimum required funding contribution under the Salaried Plan for the plan year ended September 30, 2008, the IRS may assess an additional excise tax of approximately $6 million if Delphi does not remit $56 million to the Salaried Plan by June 15, 2009. Additional excise taxes could be assessed with respect to the subsidiary plans if the minimum required contributions to those plans for the plan year ended December 31, 2008, are not remitted by September 15, 2009. To the extent not promptly paid by Delphi, any such excise tax assessments might be

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increased to 100% of any Salaried Plan and subsidiary plan contributions considered by the IRS to be due and unpaid.

Although the IRS has asserted certain of the excise tax assessments described above and might seek to assess additional excise taxes, plus interest and penalties, related to the Pension Plans, 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 March 31, 2009, no amounts have been recorded for any potential excise tax assessment.

If the Company emerges from chapter 11 as contemplated by the Amended GSA and the Amended MRA, then completing the second step of the 414(l) Net Liability Transfer will allow us to satisfy substantially all of the pension funding obligations to our hourly employees, however that second transfer is conditioned on our emergence from chapter 11 under a modified plan of reorganization that meets the terms of the Amended GSA, and it appears unlikely at this time that such conditions will be met. If the conditions to the second step of the 414(l) Net Liability Transfer are not satisfied, and the second step does not take place, we do not believe we will be able to fund those U.S. pension obligations. In addition, we still maintain responsibility for and need to meet U.S. pension funding obligations for those plans covering our remaining hourly employees, salaried employees and certain subsidiary employees. We may be unable to satisfy our U.S. pension funding obligations for those plans covering our remaining hourly employees, salaried employees or certain subsidiary employees. Due to the impact of the global economic recession, including reduced global automotive production, capital markets volatility that has adversely affected our pension asset return expectations, a declining interest rate environment, or other reasons, our funding requirements have substantially increased since September 30, 2008. Should we be unable to obtain funding from some other source to resolve these pension funding obligations, either Delphi or the Pension Benefit Guaranty Corporation (the PBGC) may initiate plan terminations. The PBGC would seek termination, if in its view, the risk of loss with respect to the plans may increase unreasonably if the plans are not terminated. 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. Refer to Note 10. Pension and Other Postretirement Benefits for further information.

<u>Labor</u> 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 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.

Among other things, 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 9. 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.

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