DELPHI CORP
Form 10-Q
August 15, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549-1004
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 June 30, 2006
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 No. 1-14787
DELPHI CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**38-3430473**
(State or other jurisdiction of incorporation or organization)	(IRS employer identification number)
5725 Delphi Drive, Troy, Michigan	**48098**
(Address of principal executive offices)	(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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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 July 31, 2006 there were 561,781,590 outstanding shares of the registrant s $0.01 par value common stock.

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 June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(in millions, except per share amounts)			
Net sales:				
General Motors and affiliates	$ 3,069	$ 3,407	$ 6,286	$ 6,806
Other customers	3,926	3,616	7,682	7,079
Total net sales	6,995	7,023	13,968	13,885
Operating expenses:				
Cost of sales, excluding items listed below	6,543	6,606	13,102	13,106
U.S. employee special attrition program charges	1,905		1,905	
Selling, general and administrative	387	412	763	806
Depreciation and amortization	272	289	542	581
Total operating expenses	9,107	7,307	16,312	14,493
Operating loss	(2,112)	(284)	(2,344)	(608)
Interest expense (contractual interest expense for the three and six months ended June 30, 2006 was $144 million and $284 million, respectively)	(104)	(67)	(203)	(121)
Other income, net	12	22	23	27
Loss before reorganization items, income taxes, minority interest, equity income, and cumulative effect of accounting change	(2,204)	(329)	(2,524)	(702)
Reorganization items, net	(20)		(33)	
Loss before income taxes, minority interest, equity income, and cumulative effect of accounting change	(2,224)	(329)	(2,557)	(702)
Income tax expense	(51)	(20)	(91)	(57)
Loss before minority interest, equity income, and cumulative effect of accounting change	(2,275)	(349)	(2,648)	(759)
Minority interest, net of tax	(14)	(8)	(24)	(16)
Equity income	14	19	31	34
Loss before cumulative effect of accounting change	(2,275)	(338)	(2,641)	(741)
Cumulative effect of accounting change			3	

Net loss	$ (2,275)	$ (338)	$ (2,638)	$ (741)
Basic and diluted loss per share				
Before cumulative effect of accounting change	$ (4.05)	$ (0.60)	$ (4.71)	$ (1.33)
Cumulative effect of accounting change	$	$	$ 0.01	$
Basic and diluted loss per share	$ (4.05)	$ (0.60)	$ (4.70)	$ (1.33)
Dividends declared per share	$ 0.00	$ 0.015	$ 0.00	$ 0.045

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)
CONSOLIDATED BALANCE SHEETS

	June 30, 2006 (Unaudited)	December 31, 2005
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,988	$ 2,221
Restricted cash	117	36
Accounts receivable, net:		
General Motors and affiliates	2,223	1,920
Other	3,296	2,975
Inventories, net:		
Productive material, work-in-process and supplies	1,477	1,350
Finished goods	601	524
Deferred income taxes	50	51
Prepaid expenses and other	469	477
Total current assets	10,221	9,554
Long-term assets:		
Property, net	4,996	5,108
Deferred income taxes	135	59
Investments in affiliates	452	418
Goodwill	370	363
Other intangible assets, net	52	54
Pension intangible assets	698	891
Other	590	576
Total long-term assets	7,293	7,469
Total assets	$ 17,514	$ 17,023
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Notes payable, current portion of long-term debt, and debt in default	$ 3,109	$ 3,117
Accounts payable	2,882	2,494
Accrued liabilities	1,980	1,192
Total current liabilities	7,971	6,803
Long-term debt	296	273
Pension benefits	340	310
Other	909	651
Liabilities subject to compromise	15,754	15,074

Total liabilities	25,270	23,111
Minority interest in consolidated subsidiaries	171	157
Stockholders deficit:		
Common stock, $0.01 par value, 1,350 million shares authorized, 565 million shares issued in 2006 and 2005	6	6
Additional paid-in capital	2,753	2,744
Accumulated deficit	(9,067)	(6,429)
Minimum pension liability	(1,544)	(2,395)
Accumulated other comprehensive loss, excluding minimum pension liability	(23)	(119)
Treasury stock, at cost (3.2 million shares in 2006 and 2005)	(52)	(52)
Total stockholders deficit	(7,927)	(6,245)
Total liabilities and stockholders deficit	$ 17,514	$ 17,023

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(in millions)	
Cash flows from operating activities:		
Net loss	$ (2,638)	$ (741)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	542	581
Deferred income taxes	(16)	(14)
Pension and other postretirement benefit expenses	804	772
Equity income	(31)	(34)
Reorganization items	33	
U.S employee special attrition program charges	1,905	
Changes in operating assets and liabilities:		
Accounts receivable and retained interest in receivables, net	(573)	200
Inventories, net	(209)	90
Prepaid expenses and other	(173)	83
Accounts payable	549	67
Employee and product line obligations		(44)
Accrued and other long-term liabilities	229	20
Pension contributions and benefit payments	(141)	(655)
Other postretirement benefit payments	(116)	(92)
Net payments for reorganization items	(21)	
Other, net	43	(9)
Net cash provided by operating activities	187	224
Cash flows from investing activities:		
Capital expenditures	(416)	(555)
Proceeds from sale of property	34	43
Increase in restricted cash	(81)	
Proceeds from divestitures	12	
Other, net	48	37
Net cash used in investing activities	(403)	(475)
Cash flows from financing activities:		
Net proceeds from term loan facility		983
Repayments under cash overdraft.	(24)	
Net proceeds (repayments) under other short-term debt agreements	5	(554)
Dividend payments		(56)
Other, net	(11)	(57)

Net cash (used in) provided by financing activities	(30)	316
Effect of exchange rate fluctuations on cash and cash equivalents	13	(41)
(Decrease) increase in cash and cash equivalents	(233)	24
Cash and cash equivalents at beginning of period	2,221	950
Cash and cash equivalents at end of period	$ 1,988	$ 974

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 (Delphi or the Company) is a supplier of vehicle electronics, transportation components, integrated systems and modules, and other electronic technology. Delphi s most significant customer is General Motors Corporation (GM) and North America and Europe are its most significant markets, but 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 our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005 filed with the United States (U.S.) Securities and Exchange Commission.

Consolidation The consolidated financial statements include the accounts of Delphi and domestic and foreign subsidiaries in which Delphi holds a controlling financial or management controlling 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. In the opinion of management, 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 which 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 and Going Concern 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 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 filings and will continue their business operations without supervision from the U.S. Courts and will not be subject to the requirements of the Bankruptcy Code.

The Debtors are operating pursuant to chapter 11 under the Bankruptcy Code and continuation of the Company as a going concern is contingent upon, among other things, the Debtors ability (i) to comply with the terms and conditions of the debtor-in-possession (DIP) financing agreement; (ii) to obtain confirmation of a plan of reorganization under the Bankruptcy Code; (iii) to reduce wage and benefit costs and liabilities through the bankruptcy process; (iv) to return to profitability; (v) to generate sufficient cash flow from operations; and (vi) to obtain financing sources to meet the Company s future obligations. These matters create 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, a plan of reorganization could materially change the amounts and classifications reported in the 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 confirmation of a plan of reorganization.

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American Institute of Certified Public Accountants Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code (SOP 90-7), which is applicable to companies in chapter 11, 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 beginning in the quarter ended December 31, 2005. The balance sheet must distinguish prepetition liabilities subject to compromise from both those prepetition liabilities that are not subject to compromise and from post-petition 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 on October 8, 2005 and has segregated those items as outlined above for all reporting periods subsequent to such date.

Contractual Interest Expense 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.

Use of Estimates The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires Delphi management to make estimates and assumptions that affect amounts reported therein. 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.

Annual Incentive Plan On February 17, 2006, the Court entered a final order (the AIP Order) granting the Debtors motion to implement a short-term annual incentive plan (the AIP) for the period commencing on January 1, 2006 and continuing through June 30, 2006. The AIP provides the opportunity for incentive payments to the Executives provided that specified corporate and divisional financial targets are met. For each of Delphi s named executive officers, such targets are based on Delphi s earnings before interest, taxes, depreciation, amortization, and restructuring costs, but exclude earnings generated from comprehensive transformation agreements. The amounts paid to individual executives may be adjusted either upward or downward based upon individual levels of performance. In addition, under some circumstances, individual executives may not be entitled to receive or retain incentive compensation. For more information regarding the AIP Order refer to Delphi s Current Report on Form 8-K as filed on February 23, 2006. Additionally, an annual incentive plan mirroring the AIP applies to approximately 100 individuals holding executive positions at non-Debtor subsidiaries of Delphi, as well as substantially all salaried employees in the U.S. In the three and six months ended June 30, 2006, Delphi recorded expense of $52 million and $104 million, respectively, related to these incentive plans resulting in an accrual balance of $104 million as of June 30, 2006. In conjunction with the approval of the AIP, certain incentive compensation plans previously in place for Delphi executives were cancelled resulting in the reduction of expense of approximately $21 million for incentive compensation in the first quarter of 2006.

Postemployment Benefits Delphi accrues for costs associated with postemployment benefits provided to inactive employees throughout the duration of their employment. Delphi uses future production estimates combined with workforce geographic and demographic data to develop projections of time frames and related expense for postemployment benefits. For purposes of accounting for postemployment benefits, inactive employees represent those employees who have been other than temporarily idled. Delphi considers all idled employees in excess of approximately 10% of the total workforce at a facility to be other than temporarily idled. Total accruals for postemployment benefits for other than temporarily idled employees were $11 million and $148 million as of June 30, 2006 and December 31, 2005, respectively, and are included in liabilities subject to compromise in the accompanying consolidated balance sheet.

During the second quarter of 2006, the Company entered into a special attrition program for certain union-represented U.S. hourly employees that significantly impacts the future cash expenditures expected during the period between the idling of affected employees and the time when such employees are redeployed, retire, or otherwise terminate their employment. As a result, approximately $103 million of accruals were no longer necessary and accordingly were recorded as a reduction to cost of sales. For additional information, refer to Note 8, U.S. Employee Special Attrition Program and Pension and Other Postretirement Benefits.

Employee Termination Benefits and Other Exit Costs Delphi continually evaluates alternatives to align its business with the changing needs of its customers and to lower the operating costs of the Company. This includes the realignment of its existing manufacturing capacity, facility closures, or similar actions in the normal course of business. These actions may result in voluntary or involuntary employee termination benefits, which are mainly pursuant to union or other contractual agreements. Voluntary termination benefits are accrued when an employee accepts the related offer. Involuntary termination benefits are accrued when Delphi management commits to a termination plan and the benefit arrangement is communicated to affected employees, or when liabilities are determined to be probable and estimable, depending on the circumstances of the termination plan. Contract termination costs are recorded when contracts are terminated or when we no longer derive economic benefit from the contract. All other exit costs are accrued when incurred. Delphi incurred expenses related to these actions of $89 million and $57 million included in cost of sales for the three months ended June 30, 2006 and 2005, respectively, and $135 million and $91 million in cost of sales in the six months ended June 30, 2006 and 2005, respectively.

Recently Issued Accounting Pronouncements In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109.* FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement disclosure of tax positions taken or expected to be taken in a tax return. The evaluation of a tax position is a two-step process. The first step requires an entity to determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. The second step requires an entity to recognize in the financial statements each tax position that meets the more likely than not criteria, measured at the largest amount of benefit that has a greater than fifty percent likelihood of being realized. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The impact of initially applying FIN 48 will be recognized as a cumulative effect adjustment to the opening balance of retained earnings. Delphi is currently evaluating the requirements of FIN 48, and has not yet determined the impact on its consolidated financial statements.

2. CHAPTER 11 BANKRUPTCY

On the Petition Date, Delphi and certain of its U.S. subsidiaries filed voluntary petitions in the United States Bankruptcy Court for the Southern District of New York, and on October 14, 2005, three additional U.S. subsidiaries of Delphi filed voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code. 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 filings and will continue their business operations without supervision from the U.S. courts and will not be subject to the requirements of the Bankruptcy Code.

On March 31, 2006, Delphi announced its transformation plan. As part of the transformation plan, Delphi identified non-core product lines and manufacturing sites that do not fit into Delphi s future strategic framework, which it is seeking to sell or wind-down. Any sale or wind-down process is being

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conducted in consultation with the Company s customers, unions and other stakeholders to carefully manage the transition of affected product lines. The disposition of any U.S. operation is also being accomplished in accordance with the requirements of the Bankruptcy Code and labor contracts as applicable. The Company also has begun consultations with the works councils in accordance with applicable laws regarding any sale or wind-down of affected manufacturing sites in Europe. Non-core product lines include brake and chassis systems, catalysts, cockpits and instrument panels, door modules and latches, ride dynamics, steering and wheel bearings. The Company continually evaluates its product portfolio and could retain or exit certain businesses depending on market forces or cost structure changes. The Company intends to sell or wind-down non-core product lines and manufacturing sites by January 1, 2008. These product lines and manufacturing sites are not classified as held for sale in the current period as the Court approval process required by the Bankruptcy Code is not complete and other held for sale criteria of Statement of Financial Accounting Standards (SFAS) No. 144 *Accounting for the impairment or Disposal of Long-Lived Assets* were not met as of June 30, 2006. Delphi has also begun discussions with certain governmental agencies whose policies could help improve the competitiveness of plants and product lines regardless of whether they are being retained or offered for sale.

Also, on March 31, 2006, the Debtors filed a motion with the Court under sections 1113 and 1114 of the Bankruptcy Code seeking authority to reject U.S. labor agreements and to modify retiree benefits. A hearing on the section 1113 and 1114 motion commenced in May 2006, continued into June, and has been adjourned until August 17, 2006. Representatives of certain unions whose labor agreements are subject to the motion, including the UAW and IUE-CWA, have indicated that they received strike authorization and may call for a strike in the event the Debtor s labor agreements are rejected pursuant to the Debtors pending motion. Discussions with the Debtors stakeholders, including the unions and GM are ongoing in hopes of reaching a consensual resolution, but the parties have not yet reached comprehensive agreements. While the Debtors believe that the filing of the 1113 and 1114 motion with the Court was necessary to protect the Debtors interests, Delphi is focused on pursuing a consensual resolution with all of the Debtors stakeholders.

Also on March 31, 2006, the Debtors filed a motion with the Court seeking authority to reject certain customer contracts with GM under section 365 of the Bankruptcy Code. The initial GM contract rejection motion covers approximately half of the North American annual purchase volume revenue from GM. The initial GM contract rejection motion is scheduled to be heard by the Court no earlier than August 15, 2006. On March 31, 2006, the Company also delivered a letter to GM initiating a process to reset the terms and conditions of more than 400 commercial agreements that expired between October 1