

DELPHI CORP
Form 10-Q
November 09, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549-1004
FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2005

OR

**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

(State or other jurisdiction of
incorporation or organization)

38-3430473

(IRS employer identification number)

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 ☐ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☐

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

As of September 30, 2005 there were 561,781,590 outstanding shares of the registrant's \$0.01 par value common stock.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
DELPHI CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
(in millions, except per share amounts)				
Net sales:				
General Motors and affiliates	\$ 2,954	\$ 3,496	\$ 9,760	\$ 11,818
Other customers	3,329	3,146	10,408	9,771
Total net sales	6,283	6,642	20,168	21,589
Operating expenses:				
Cost of sales, excluding items listed below	6,221	6,074	19,327	19,315
Selling, general and administrative	424	383	1,230	1,171
Depreciation and amortization	331	293	912	858
Total operating expenses	6,976	6,750	21,469	21,344
Operating (loss) income	(693)	(108)	(1,301)	245
Interest expense	(103)	(58)	(224)	(175)
Other income (expense), net	17	8	44	(3)
(Loss) income before income taxes, minority interest, and equity income	(779)	(158)	(1,481)	67
Income tax (expense) benefit	(8)	33	(65)	(7)
Minority interest, net of tax	(11)	(10)	(27)	(36)
Equity income	10	16	44	63
Net (loss) income	\$ (788)	\$ (119)	\$ (1,529)	\$ 87
(Loss) earnings per share				
Basic and diluted	\$ (1.40)	\$ (0.21)	\$ (2.73)	\$ 0.16
Dividends declared per share	\$ 0.000	\$ 0.070	\$ 0.045	\$ 0.210

See notes to consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS**

	September 30, 2005 (Unaudited)	December 31, 2004
(in millions)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,652	\$ 950
Restricted cash	13	14
Accounts receivable, net:		
General Motors and affiliates	2,367	2,182
Other	2,646	1,476
Retained interest in receivables, net		726
Inventories, net:		
Productive material, work-in-process and supplies	1,320	1,413
Finished goods	559	545
Deferred income taxes	35	39
Prepaid expenses and other	384	354
 Total current assets	 8,976	 7,699
Long-term assets:		
Property, net	5,358	5,946
Deferred income taxes	107	130
Goodwill	751	798
Other intangible assets	59	80
Pension intangible assets	1,044	1,044
Other	915	896
 Total assets	 \$ 17,210	 \$ 16,593
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Notes payable, current portion of long-term debt and debt in default	\$ 5,301	\$ 507
Accounts payable	3,212	3,504
Accrued liabilities	3,086	2,694
 Total current liabilities	 11,599	 6,705
Long-term liabilities:		
Long-term debt	67	2,061
Junior subordinated notes due to Delphi Trust I and II		412
Pension benefits	2,910	3,523
Postretirement benefits other than pensions	6,767	6,297
Other	1,020	936

Total liabilities	22,363	19,934
Commitments and contingencies (Note 12)		
Minority interest	161	198
Stockholders' deficit:		
Common stock, \$0.01 par value, 1,350 million shares authorized, 565 million shares issued in 2005 and 2004	6	6
Additional paid-in capital	2,669	2,661
Accumulated deficit	(5,467)	(3,913)
Minimum pension liability	(2,458)	(2,469)
Accumulated other comprehensive (loss) income, excluding minimum pension liability	(12)	237
Treasury stock, at cost (3.2 million and 3.8 million shares in 2005 and 2004, respectively)	(52)	(61)
Total stockholders' deficit	(5,314)	(3,539)
Total liabilities and stockholders' deficit	\$ 17,210	\$ 16,593

See notes to consolidated financial statements.

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DELPHI CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30,	
	2005	2004
	(in millions)	
Cash flows from operating activities:		
Net (loss) income	\$ (1,529)	\$ 87
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	912	858
Deferred income taxes	19	(140)
Employee and product line charges		79
Pension and other postretirement benefit expenses	1,149	1,059
Equity income	(44)	(63)
Changes in operating assets and liabilities:		
Accounts receivable and retained interests in receivables, net	(183)	(319)
Inventories, net	21	(146)
Prepaid expenses and other	48	56
Accounts payable	(267)	277
Employee and product line obligations	(61)	(261)
Accrued and other long-term liabilities	162	37
Pension contributions and benefit payments	(680)	(655)
Other postretirement benefit payments	(138)	(122)
Other	(18)	80
Net cash (used in) provided by operating activities	(609)	827
Cash flows from investing activities:		
Capital expenditures	(792)	(633)
Proceeds from sale of property	49	17
Cost of acquisition, net of cash acquired		(17)
Proceeds from divestitures of product lines and joint ventures, net of cash given	245	
Other	101	35
Net cash used in investing activities	(397)	(598)
Cash flows from financing activities:		
Repayment of debt securities		(500)
Proceeds from term loan facility, net	983	
Repayments of borrowings under term loan facility	(12)	
Proceeds from revolving credit facility, net	1,484	
Net (repayments of) proceeds from borrowings under other debt	(601)	438
Dividend payments	(64)	(118)
Issuances of treasury stock		2

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Other	(50)	(22)
Net cash provided by (used in) financing activities	1,740	(200)
Effect of exchange rate fluctuations on cash and cash equivalents	(32)	(4)
Increase in cash and cash equivalents	702	25
Cash and cash equivalents at beginning of period	950	879
Cash and cash equivalents at end of period	\$ 1,652	\$ 904

See notes to consolidated financial statements.

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DELPHI CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION

General Delphi Corporation (Delphi or the Company) is a world-leading supplier of vehicle electronics, transportation components, integrated systems and modules and other electronic technology. 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 2004 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission. The consolidated financial statements include the accounts of Delphi and domestic and foreign subsidiaries in which we hold a controlling financial or management controlling interest and variable interest entities of which the Company has determined that it is the primary beneficiary.

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 On October 8, 2005, Delphi and certain of its United States (U.S.) subsidiaries (the Initial Filers) filed voluntary petitions for 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 relief under 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 business 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 chapter 11 requirements of the Bankruptcy Code. (See Note 13, Subsequent Events for details on the chapter 11 cases.)

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 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 ending 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, cash provided by reorganization items must be disclosed separately in the statement of cash flows. Delphi adopted SOP 90-7 effective on October 8, 2005 and will segregate those items as outlined above for all reporting periods subsequent to such date.

Earnings Per Share Basic earnings (loss) per share amounts were computed using weighted average shares outstanding for each respective period. Diluted earnings (loss) per share also reflect the weighted average impact from the date of issuance of all potentially dilutive securities during the periods presented, unless inclusion would not have had a dilutive effect. These securities include stock options and restricted stock units.

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Actual weighted average shares outstanding used in calculating basic and diluted earnings (loss) per share were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in thousands)			
Weighted average shares outstanding	561,702	561,188	559,462	560,808
Effect of dilutive securities				2,009
Diluted shares outstanding	561,702	561,188	559,462	562,817

Securities excluded from the computation of diluted earnings (loss) per share because inclusion would have had an anti-dilutive effect:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in thousands)			
Anti-dilutive securities	85,858	91,414	85,737	72,546

On September 8, 2005, the Board of Directors announced the elimination of Delphi's quarterly dividend of \$0.015 per share on Delphi common stock for the remainder of 2005. The dividend declared of \$0.015 per share on June 22, 2005 was paid on August 2, 2005.

Stock-Based Compensation Delphi's stock-based compensation programs include stock options, restricted stock units, and stock appreciation rights (SARs). As allowed under Financial Accounting Standards Board (FASB) Statement No. 123 (SFAS 123), Accounting for Stock-Based Compensation, Delphi accounts for stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25,

Accounting for Stock Issued to Employees, and related interpretations. As such, Delphi has followed the nominal vesting period approach for awards issued with retirement eligible provisions, and will continue to follow this approach for existing awards and new awards issued prior to the adoption of SFAS 123(revised) (SFAS 123(R)) in January 2006. Following the adoption of SFAS 123(R), Delphi will recognize compensation cost based on the grant-date fair value of the equity or liability instruments issued, with expense recognized over the periods that an employee provides service in exchange for the award. In 2006, we expect the impact of SFAS 123(R) to increase the compensation expense recognized in our consolidated financial statements by approximately \$9 million.

Stock options granted during 2004, 2003 and 2002 were exercisable at prices equal to the fair market value of Delphi common stock on the dates the options were granted; accordingly, no compensation expense has been recognized for the stock options granted. Compensation expense for restricted stock units is recognized over the vesting period. Compensation expense for SARs is recognized when the current stock price is greater than the SARs exercise price.

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If Delphi accounted for all stock-based compensation using the fair value recognition provisions of SFAS 123 and related amendments, our net income (loss) and basic and diluted earnings (loss) per share would have been as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in millions, except per share amounts)			
Net (loss) income, as reported	\$ (788)	\$ (119)	\$ (1,529)	\$ 87
Add: Stock-based compensation expense recognized, net of related tax effects	5	3	18	8
Less: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(9)	(7)	(28)	(17)
Pro forma net (loss) income	\$ (792)	\$ (123)	\$ (1,539)	\$ 78
(Loss) earnings per share:				
Basic and diluted as reported	\$ (1.40)	\$ (0.21)	\$ (2.73)	\$ 0.16
Basic and diluted pro forma	\$ (1.41)	\$		