DELPHI CORP
Form 10-Q
November 10, 2008

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

FORM 10-Q

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

Commission file number: 1-14787

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

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

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

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

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

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

(Do not check if a smaller reporting company)

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

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

WEBSITE ACCESS TO COMPANY S REPORTS

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

DELPHI CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

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

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

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

CONSOLIDATED BALANCE SHEETS

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

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

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

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

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

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

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

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. TRANSFORMATION PLAN AND CHAPTER 11 BANKRUPTCY

Plan of Reorganization and Transformation Plan

Elements of Transformation Plan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Delphi is continuing to implement restructuring initiatives in furtherance of the transformation of its salaried workforce to reduce selling, general and administrative expenses to support its realigned portfolio. These initiatives include financial services, information technology and certain sales administration outsourcing activities, reduction of its global salaried workforce by taking advantage of attrition and using salaried separation plans, and realignment of certain salaried benefit programs to bring them in line with more

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competitive industry levels. However, additional investment is required to fully implement these initiatives and Delphi does not expect to fully realize substantial savings until 2009 and beyond.

Equity Purchase and Commitment Agreement

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 of 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. The rights offering commenced on March 11, 2008 and expired on March 31, 2008. In light of the Investors refusal to fund pursuant to the EPCA, in April 2008, the Company cancelled the rights offering and returned all funds submitted.

The Company would be required to pay the Investors $83 million plus certain transaction expenses if (a) the EPCA was terminated as a result of the Company s agreeing to pursue an alternative investment transaction with a third party or (b) either the Company s Board of Directors withdrew its recommendation of the transaction or the Company willfully breached the EPCA, and within the next 24 months thereafter, the Company then agreed to an alternative investment transaction.

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, that Appaloosa is entitled to terminate the EPCA and that the Investors are entitled to be paid the fee of $83 million plus certain expenses and other amounts. 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 Unsecured Creditors and Equity Committees 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.

On April 5, 2008, Appaloosa delivered to Delphi a letter described as a supplement to the April 4 Termination Notice, stating this letter constitutes a notice of an additional ground for termination of the EPCA. The April 5 letter stated that the EPCA s failure to become effective on or before April 4, 2008 was grounds for its termination. On June 30, 2008, Merrill, Goldman, UBS and affiliates of Pardus and Harbinger delivered to Delphi letters of termination relating to 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. Delphi s Board of Directors formed a special litigation committee and engaged independent legal counsel to consider and pursue any and all available equitable and legal remedies, and on May 16, 2008, Delphi filed complaints against the Investors in the Court to seek specific performance by the Investors of their obligations under the EPCA as well as compensatory and punitive damages. No amounts related to this matter have been recorded in Delphi s financial statements. The Investors filed motions to dismiss Delphi s complaints, and on July 28, 2008, the Court denied in part and granted in part the Investors motions. A trial on Delphi s complaint is currently scheduled to occur in March 2009, and the parties have agreed to participate in mediation in an attempt to settle the claims that were not dismissed.

During 2007, in exchange for the Investors commitment to purchase common stock and the unsubscribed shares in the rights offering, the Company paid an aggregate commitment fee of $39 million and certain transaction expenses and in exchange for the Investors commitment to purchase preferred stock the Company paid an aggregate commitment fee of $18 million. In addition, the Company paid an arrangement fee of $6 million to Appaloosa to compensate Appaloosa for arranging the transactions contemplated by the EPCA. The Company also paid certain out-of-pocket costs and expenses reasonably incurred by the Investors or their affiliates subject to certain terms, conditions and limitations set forth in the EPCA. Delphi had deferred the recognition of these amounts in other current assets as they were to be netted against the proceeds from the EPCA upon issuance of the new shares. However, as a result of the events relating to the termination of the EPCA as described above, Delphi recognized $79 million of expense related to these fees and other expenses during the nine months ended September 30, 2008.

The Plan of Reorganization

As noted above, due to the Investors failure to fund their commitments under the EPCA, Delphi has not yet consummated the Plan. Pursuant to an order entered by the Court on April 30, 2008, the Debtors exclusivity period under the Bankruptcy Code for filing a plan of reorganization was extended until 30 days after substantial consummation of the Plan (as modified) or any modified plan and the Debtors exclusivity period for soliciting acceptance of the Plan (as modified) was extended until 90 days after substantial consummation of the Plan (as modified) or any modified plan. On July 23, 2008, Delphi s Creditors Committee and WTC, as Indenture Trustee and a member of the UCC, filed separate complaints in the Court seeking revocation of the Court order entered on January 25, 2008 confirming Delphi s Plan. The Creditors Committee had earlier advised Delphi that it intended to file the complaint to preserve its interests with regard to a 180-day statutory period that would have otherwise expired on July 23, 2008. The Creditors Committee and WTC also advised Delphi that they do not intend to schedule a hearing on the complaints pending developments on (i) the continuation of stakeholder discussions concerning potential modifications to the Plan, which would permit Delphi to emerge from chapter 11 as soon as practicable, and (ii) Delphi s litigation against Appaloosa and the other Investors. Notwithstanding the foregoing, pursuant to an order entered by the Court on October 27, 2008, the Debtors exclusive period for filing a plan of reorganization, solely as to the Creditors Committee and the Equity Committee is extended through and including January 31, 2009 and the Debtors exclusive period for soliciting acceptance of a plan of reorganization, solely as to the Creditors Committee and the Equity Committee is extended through and including March 31, 2009.

On October 3, 2008, Delphi filed modifications to the Plan and related modifications to the Disclosure Statement with the Court. As detailed below, in order to facilitate its emergence from chapter 11, Delphi anticipates it will need to raise approximately $3.75 billion of funded emergence capital through a combination of term debt and rights to purchase equity, comprised of at least $2.75 billion in funded first and second lien debt, plus up to $1.2 billion of unfunded debt through an asset-backed revolving credit facility. Delphi anticipates obtaining the remaining $1.0 billion funded emergence capital through a rights offering and direct subscription for new common stock in reorganized Delphi.

To achieve the recoveries contemplated in the modifications to the Plan, Delphi will be required to achieve its target of $3.75 billion in funded emergence capital and the discount rights offering will be backstopped or fully subscribed at a discount not to exceed 40% of Plan Equity Value. In the event that these targets are not achieved, then, pursuant to the Company s agreements with GM, Delphi would be required to procure GM s consent regarding any modification to GM s recovery and the minimum recovery to holders of unsubordinated general unsecured claims would be proportionally reduced.

The preliminary Plan modification hearing was originally scheduled for October 23, 2008, and has been adjourned to November 21, 2008. The modifications to the Plan currently provide for the following recoveries:

All senior secured debt will be refinanced and paid in full and all allowed administrative and priority claims will be paid in full.

Trade and Other Unsecured Claims, including senior notes but not including the subordinated notes which are contractually subordinated to the senior notes, will be satisfied with $1.238 billion in a combination of rights and common stock of reorganized Delphi, at a midpoint per share total enterprise value of $20.00.

GM will receive $2.1 billion of Series D Convertible Preferred Stock in satisfaction of its allowed administrative claim of $2.1 billion and its allowed general unsecured claim of $2.5 billion.

Holders of Delphi s existing equity securities will receive Post-Emergence Rights exercisable to purchase up to 26,187,745 shares of common stock of reorganized Delphi at an exercise price of $17.00 per share. To the extent that any Post-Emergence Rights are exercised, the gross proceeds generated from the exercise thereof will be used to repurchase up to 25% of the shares of Series D Convertible Preferred Stock held by GM.

Delphi will not emerge from bankruptcy as a going concern unless and until the modified Plan becomes effective. There can be no assurances that the terms of the modified Plan will not change due to market conditions, the Court s requirements or otherwise. Moreover, the effectiveness of the Plan is subject to a number of conditions, including the entry of certain orders by the Court and the obtaining of necessary emergence capital. Delphi is currently seeking $2.75 billion of funded emergence capital in addition to the emergence capital Delphi is seeking to raise through a rights offering. There can be no assurances that such emergence capital will be obtained (or, if obtained, the terms thereof) or such other conditions will be satisfied.

The Amended GSA and the Amended MRA became effective during the third quarter of 2008. For costs and benefits and timing of recognition related to these agreements, refer to the detailed discussion under GM above. The cost related to the remaining components of the transformation plan will be recognized in the Company s consolidated financial statements as each other element of the Plan (as modified), including the remaining portions of the U.S. labor agreements, or as the terms of any future confirmed plan of reorganization, become effective. The Plan (as modified) and the agreements incorporated therein will significantly impact Delphi s accounting for long-lived asset impairments and exit costs related to the sites planned for closure or consolidation, compensation costs for labor recognized over the term of the U.S. labor agreements, and the fair values assigned to assets and liabilities upon Delphi s emergence from chapter 11, among others. Such adjustments will have a material impact on Delphi s financial statements.

If the modified Plan becomes effective, Delphi expects to emerge from chapter 11 as a stronger, more financially sound business with viable U.S. operations positioned to advance global enterprise objectives. There can be no assurances, however, that Delphi will be successful in achieving its objectives. There are a number of risks and uncertainties inherent in the chapter 11 process, including those detailed in Delphi s Annual Report on Form 10-K for the year ended December 31, 2007, Part I, Item 1A. Risk Factors, Part II, Item 1A. Risk Factors in the Company s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008 and Part II, Item 1A. Risk Factors in this Quarterly Report on Form 10-Q. In addition, Delphi cannot assure that potential adverse publicity associated with the Chapter 11 Filings and the resulting uncertainty regarding its future prospects will not materially hinder its ongoing business activities and its ability to operate, fund and execute its business plan by impairing relations with existing and potential customers; negatively impacting its ability to attract, retain and compensate key executives and to retain employees generally; limiting its ability to obtain trade credit; and impairing present and future relationships with vendors and service providers.

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3. REORGANIZATION ITEMS

SOP 90-7 requires reorganization items such as revenues, expenses such as professional fees directly related to the process of reorganizing the Debtors under chapter 11 of the Bankruptcy Code, realized gains and losses, provisions for losses, and interest income resulting from the reorganization and restructuring of the business to be separately disclosed. Professional fees directly related to the reorganization include fees associated with advisors to the Debtors, unsecured creditors, secured creditors and unions. The Debtors reorganization items consist of the following:

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(in millions)			
GM Amended GSA settlement (Note 2)	$ 5,332	$	$ 5,332	$
Professional fees directly related to reorganization	(24)	(41)	(83)	(128)
Interest income	1	2	5	8
Write off of previously capitalized fees and expenses related to the EPCA			(79)	
Other	(1)		(5)	
Total reorganization items	$ 5,308	$ (39)	$ 5,170	$ (120)

Delphi recorded a net reorganization gain of $5.3 billion in the three and nine months ended September 30, 2008 and received $641 million on September 30, 2008 as a result of the effectiveness of the Amended GSA, as described in Note 2. Transformation Plan and Chapter 11 Bankruptcy. For the nine months ended September 30, 2008 and 2007, reorganization items resulted in $5 million and $9 million, respectively, of cash received related to interest income. Cash paid for professional fees was approximately $68 million and $100 million, respectively, for the nine months ended September 30, 2008 and 2007. Professional fees for the nine months ended September 30, 2008 also includes arrangement and other fees paid to various lenders in conjunction with the bankruptcy exit financing that was commenced but not completed in April 2008.

4. DISCONTINUED OPERATIONS

The Court approval of Delphi s plan to dispose of the Steering Business and the Interiors and Closures Business triggered held for sale accounting under SFAS 144 in 2007.

Steering and Halfshaft Business

In the fourth quarter of 2007, Delphi executed a Purchase and Sale Agreement (the Purchase Agreement) with an affiliate of Platinum Equity, LLC, Steering Solutions Corporation (Platinum), for the sale of the Steering Business and a Transaction Facilitation Agreement with GM (the Transaction Agreement). Delphi expects proceeds from the sale and related Transaction Agreement to approximate $250 million. In February 2008, the Court issued an order authorizing Delphi to dispose of its Steering Business. Pursuant to the terms of the Purchase Agreement, any party in compliance with its obligations under the Purchase Agreement may terminate the Purchase Agreement since the transaction did not close by August 31, 2008, with certain exceptions. Negotiations continue between GM and Platinum on a supply agreement and Delphi does not expect the sale to close prior to January 1, 2009. GM agreed that ownership of the Steering Business will transfer to GM if it is not sold to a third party by August 31, 2010. During the three and nine months ended September 30, 2008, Delphi recorded income of $78 million, net of tax, and losses of $9 million, net of tax, respectively, due to the results of operations, adjustment of assets held for sale to fair value of the Steering Business as of September 30, 2008 and the effectiveness of the Amended MRA.

Prior to the assets of the Steering Business being classified as held for sale, Delphi recorded asset impairment charges related to the valuation of long-lived assets held-for-use for its Steering Business of $152 million during the first quarter of 2007.

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Interiors and Closures Business

Delphi and certain of its affiliates closed on the sale of the Interiors and Closures Business to Inteva Products, LLC (Inteva), a wholly-owned subsidiary of the Renco Group, on February 29, 2008. Delphi received proceeds from the sale of approximately $98 million consisting of $63 million of cash (less $23 million of cash at an overseas entity that was included in the sale) and the remainder in notes at fair value. During the third quarter of 2008, Delphi and Inteva agreed on final working capital adjustments and Delphi received a payment of $2 million. During the first quarter of 2008, as a result of the operating results and sale of the Interiors and Closures Business, Delphi recorded income of $18 million, net of tax.

The Interiors and Closures Business, through the date of the sale, and the Steering Business are reported as discontinued operations in the consolidated statement of operations and statement of cash flows for the three and nine months ended September 30, 2008 and 2007. The assets and liabilities of the Steering Business are reported in assets and liabilities held for sale in the consolidated balance sheet as of September 30, 2008 and December 31, 2007. The assets and liabilities of the Interiors and Closures Business are reported in assets and liabilities held for sale in the consolidated balance sheet as of December 31, 2007.

Results of Discontinued Operations

The results of the discontinued operations are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
	(in millions)			
Sales:				
Steering Business	$ 500	$ 633	$ 1,639	$ 2,013
Interiors and Closures Business		309	241	943
Total sales	$ 500	$ 942	$ 1,880	$ 2,956
Income (loss) before income taxes (including minority interest and equity income, net of tax)	$ 75	$ (18)	$ 33	$ (168)
Provision for income taxes		(2)	(9)	(7)
Income (loss) from discontinued operations	$ 75	$ (20)	$ 24	$ (175)
Steering Business	*78*	*(15)*	*9*	*(192)*
Interiors and Closures Business(a)	*(3)*	*(5)*	*15*	*17*

(a) The Interiors and Closures Business loss from discontinued operations for the three months ended September 30, 2008 reflects the impact of the retroactive labor subsidy and PCBB reimbursement.

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Assets and liabilities of the discontinued operations are summarized as follows:

	September 30, 2008		December 31, 2007	
	(in millions)			
Current assets:				
Cash	$	38	$	49
Accounts receivable		372		411
Inventory		184		188
Other current assets		21		8
Long-term assets:				
Property, net				48
Other long-term assets		2		16
Assets held for sale	$	617	$	720
Steering Business		*617*		*594*
Interiors and Closures Business				*126*
Current liabilities:				
Short-term debt	$	55	$	49
Accounts payable		235		271
Accrued liabilities		73		53
Other long-term liabilities		23		14
Minority interest		20		25
Liabilities held for sale	$	406	$	412
Steering Business		*406*		*392*
Interiors and Closures Business				*20*

Cash flows from operating activities for discontinued operations are summarized as follows:

	Nine Months Ended September 30,			
	2008		2007	
	(in millions)			
Charge related to assets held for sale	$	12	$	
Long-lived asset impairment charges				168
Pension and other postretirement benefit expenses		29		57
GM warranty settlement		(5)		
U.S. employee workforce transition program charges		4		47
GM Amended MRA settlement (Note 2)		(101)		
Changes in net operating assets		116		54

Total	$ 55	$ 326
Steering Business	*25*	*296*
Interiors and Closures Business	*30*	*30*

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5. ACQUISITIONS AND DIVESTITURES

The results of operations, including the gain or loss on divestitures described below, were not significant to the consolidated financial statements in any period presented.

Automotive Holdings Group Segment

Power Products Business Sale On May 27, 2008 and in accordance with the terms of an order authorizing the sale of certain assets for less than $10 million, Delphi served notice of its intention to sell its power products business (the Power Products Business) to Strattec Security Corporation, Witte-Velvert GmbH & Co. KG, Vehicle Access Systems Technology LLC, and certain of their affiliates (collectively, the Strattec Buyers) for approximately $8 million. On June 4, 2008, the Debtors filed a motion to assume and assign certain prepetition executory contracts related to the Power Products Business to the Strattec Buyers. On June 24, 2008, the Court entered an order authorizing the Debtors to assume and assign such contracts to the Strattec Buyers. The 2007 annual revenues for the Power Products Business were $59 million. Delphi recognized a charge of $3 million during the second quarter of 2008, included in cost of sales, related to the assets held for sale of the Power Products Business. On November 7, 2008, Delphi and the Strattec Buyers agreed to an amendment to the purchase and sale agreement, which among other things, reduced the consideration to be received by Delphi to approximately $5 million.

U.S. Suspensions Asset Sale On March 7, 2008, the Debtors filed a motion to sell certain assets of Delphi s U.S. suspensions business including the machinery, equipment and inventory primarily used and located at its suspension manufacturing facility in Kettering, Ohio (the Kettering Assets), to Tenneco Automotive Operating Company Inc. (Tenneco) for approximately $19 million and other consideration. On March 20, 2008, the Court approved the bidding procedures for the Kettering Assets, but no further bids were submitted by the bid deadline. On April 30, 2008, the Court entered an order approving the sale of the Kettering Assets to Tenneco. The 2007 annual revenues for the Kettering Assets were $113 million. The sale occurred on May 30, 2008 and resulted in a gain of $9 million, which was recorded as a reduction to cost of sales. Additionally, Delphi received proceeds from this sale of approximately $19 million in the second quarter of 2008. During the third quarter of 2008, Delphi and Tenneco agreed on final working capital adjustments and Delphi paid $1 million to Tenneco.

Bearings Business Product Sale On January 15, 2008, the Debtors filed a motion to sell Delphi s bearings business (the Bearings Business). On January 25, 2008, the Court approved the bidding procedures authorizing Delphi to commence an auction under section 363 of the Bankruptcy Code. On February 21, 2008, the Debtors announced that they had entered into a purchase agreement with Kyklos, Inc., a wholly owned subsidiary of Hephaestus Holdings, Inc. and an affiliate of KPS Special Situations Fund II, L.P. (Kyklos), which was the successful bidder at the auction held on February 19, and 20, 2008. The Court entered the order confirming the sale of the Bearings Business to Kyklos on March 19, 2008. The 2007 annual revenues for the Bearings Business were $280 million. During the first quarter of 2008, Delphi recognized a charge of $30 million, included in cost of sales, related to the assets held for sale of the Bearings Business. The sale occurred on April 30, 2008, and Delphi received net proceeds from this sale of approximately $15 million in the second quarter of 2008 with no net change to the loss on the sale.

Brake Hose Business Sale On September 28, 2007, Delphi closed on the sale of substantially all of the assets exclusively used in the brake hose product line produced at one of Delphi s manufacturing sites located in Dayton, Ohio (the Brake Hose Business). The sales price for the Brake Hose Business was $10 million and the sale resulted in a gain of $2 million, which was recorded as a reduction to cost of sales in the third quarter of 2007. The Brake Hose Business revenues were $33 million for the nine month period ended September 30, 2007.

North American Brake Product Asset Sale On September 17, 2007, Delphi and TRW Integrated Chassis Systems, LLC signed an Asset Purchase Agreement for the sale of certain assets for Delphi s North American brake components machining and assembly assets (North American Brake Components) primarily located at its Saginaw, Michigan; Spring Hill, Tennessee; Oshawa, Ontario, Canada; and Saltillo, Mexico facilities. The 2007 annual revenues for North American Brake Components were $568 million. The sale occurred in the first quarter of 2008 and resulted in a gain of $3 million, which was recorded as a reduction to cost of sales. Additionally, Delphi received proceeds from this sale of approximately $38 million in the first quarter of 2008.

Powertrain Systems Segment

Global Exhaust Business Sale On June 27, 2008, the Debtors announced their intention to sell Delphi s global exhaust business relating to the design and manufacture of the exhaust system front exhaust module including catalytic converters and exhaust manifolds (the Exhaust Business). Although Delphi intends to divest its Exhaust Business, the Company intends to continue to provide full engine management systems, including air and fuel management, and combustion and valve-train technology.

Catalyst Product Line Sale On September 28, 2007, Delphi closed on the sale of its original equipment and aftermarket catalyst business (the Catalyst Business) to Umicore for approximately $67 million which included certain post-closing working capital adjustments. Delphi recorded the loss of $30 million on the sale of the Catalyst Business in cost of sales in the third quarter of 2007. The Catalyst Business revenues for the nine months ended September 30, 2007 were $249 million. During the first quarter of 2008, Delphi and Umicore agreed on final working capital adjustments and Delphi received a payment of $9 million, of which $6 million offset a receivable recognized during 2007 and $3 million was recorded as a reduction to cost of sales.

Battery Product Line Sale In 2005, Delphi sold its battery product line, with the exception of two U.S. operations, to Johnson Control, Inc. (JCI). In 2006, Delphi sold certain assets related to one of the remaining facilities to JCI, and in 2007, Delphi ceased production at the remaining U.S. battery manufacturing facility, and closed the facility. In 2006, Delphi received approximately $10 million as agreed upon in the 2005 agreement between Delphi and GM, the principal battery customer, which was executed in connection with the sale of Delphi s battery business. In accordance with the 2005 agreement, upon completion of the transition of the supply of battery products to JCI, Delphi received a $6 million payment in the third quarter of 2007, which was recorded as a reduction to cost of sales.

Electronics & Safety Segment

Acquisition of Joint Venture In the second quarter of 2008, Delphi made an additional investment in a consolidated South American majority-owned subsidiary for approximately $35 million in cash and short term notes. As a result, the ownership interest is now 100 percent.

6. INCOME TAXES

Generally, the amount of tax expense or benefit allocated to continuing operations is determined without regard to the tax effects of other categories of income or loss, such as OCI. However, an exception to the general rule is provided when there is a pre-tax loss from continuing operations and pre-tax income from other categories in the current year. The intraperiod tax allocation rules in Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, (SFAS 109) related to items charged directly to OCI can result in disproportionate tax effects that remain in OCI until certain events occur.

As of June 30, 2008, Delphi had disproportionate tax effects in OCI related to the hourly pension and OPEB obligations of a $533 million tax benefit and a $311 million tax expense, respectively. During the three and nine months ended September 30, 2008, Delphi accounted for its hourly pension and OPEB transfer to GM as settlements. Delphi eliminated the disproportionate tax effect in OCI related to the hourly pension and OPEB obligations on a pro rata basis to the amount of the obligation that was settled. Accordingly, Delphi has recorded a net $9 million tax benefit in continuing operations for the nine months ended September 30, 2008, comprised of a $320 million tax benefit and $311 million tax expense related to the hourly pension and OPEB obligation settlement, respectively.

During the second quarter of 2008, because Delphi projected a loss in continuing operations for 2008 and generated a gain in OCI for the six months ended June 30, 2008, the intraperiod tax allocation exception contained in SFAS 109 applied and Delphi recorded a tax benefit of $21 million in continuing operations related to a pre-tax gain in OCI, primarily related to derivative contracts on copper and the Mexican Peso. As Delphi had pre-tax income during the nine months ended September 30, 2008, principally due to the reorganization gain the intraperiod tax allocation exception referred to above ceased to apply, and accordingly Delphi reversed $21 million of intraperiod tax allocation benefit during the three months ended September 30, 2008.

Also impacting the annual effective tax rate in the three and nine months ended September 30, 2008 was the effectiveness of the Amended MRA and the Amended GSA in September of 2008, which did not generate a U.S. tax expense due to a full valuation allowance on our U.S. deferred tax assets. Delphi continues to maintain a full valuation allowance in the U.S. as it is more likely than not that the benefits will not be recognized.

A reconciliation of the provision for income taxes for continuing operations compared to the amounts at the U.S. federal statutory rate was:

	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
	(in millions)	
Tax at U.S. federal statutory income tax rate	$ 1,863	$ 1,478
U.S. income taxed at other rates	(7)	(22)
Non-U.S. income taxed at other rates	8	104
Change in valuation allowance	(1,857)	(1,466)
Tax allocation from OCI deferred taxes	12	(9)
Other adjustments	(14)	(7)
Total income tax provision	$ 5	$ 78

7. LONG-LIVED ASSET IMPAIRMENT

Delphi evaluates the recoverability of long-lived assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Estimates of future cash flows used to test the recoverability of long-lived assets include separately identifiable undiscounted cash flows expected to arise from the use and eventual disposition of the assets. Where estimated future cash flows are less than the carrying value of the assets, impairment losses are recognized based on the amount by which the carrying value exceeds the fair value of the assets. The fair value of the assets was determined based on the held for use classification.

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The following table summarizes the long-lived asset impairment charges recorded for the three and nine months ended September 30, 2008 and 2007 by operating segment:

Segment	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(in millions)			
Electronics & Safety	$	$	$ 5	$ 1
Powertrain Systems		1		10
Electrical/Electronic Architecture		2	1	3
Thermal Systems	4		4	
Automotive Holdings Group	1	11	3	40
Continuing Operations	5	14	13	54
Discontinued Operations		9		168
Total	$ 5	$ 23	$ 13	$ 222

Delphi s Bearings Business was a non-core product line in the Automotive Holdings Group segment that Delphi sold in the second quarter of 2008. In June 2007, Delphi had reassessed its estimated net proceeds from disposition of the Bearings Business and determined that the carrying value of the Bearings Business exceeded the undiscounted estimated future cash flows and consequently recognized an impairment charge of $26 million related to the valuation of long-lived assets held-for-use in the second quarter of 2007.

During the third quarter of 2007, Delphi recognized $13 million of long-lived asset impairment related to two plants in Delphi s Automotive Holdings Group segment, of which $11 million was recorded in long-lived asset impairment charges and $2 million was recorded in loss from discontinued operations in the consolidated statements of operations. These impairments were caused by a deterioration in the expected net proceeds resulting from the use and ultimate sale of these assets.

Refer to Note 4. Discontinued Operations for more information on the long-lived asset impairment charges recorded in loss from discontinued operations.

8. GOODWILL

At September 30, 2008 and December 31, 2007, Delphi s goodwill balance was approximately $239 million and $397 million, respectively. The change in carrying amount of goodwill for the first nine months of 2008 is as follows:

	2008 (in millions)
Balance at January 1,	$ 397(a)
Acquisitions	19
Impairment	(168)

Currency translation		(9)
Balance at September 30,	$	239(b)

(a) $165 million in Electrical/Electronic Architecture, $155 million in Electronics & Safety and $77 million in Corporate and Other.

(b) $166 million in Electronics & Safety and $73 million in Corporate and Other.

Delphi reviews the recoverability of goodwill annually on May 31 and at any other time when business conditions indicate a potential change in recoverability. In conjunction with Delphi s annual recoverability tests, the deterioration of Delphi s financial performance, combined with an unfavorable outlook, were indicators for potential impairment. More specifically, during the second quarter of 2008, Delphi experienced deteriorated financial performance primarily due to significant reductions in North American customer production volumes, particularly related to GM, continuing unfavorable pricing pressures and increasing commodity prices. This caused previously unanticipated projected revenue and operating income declines. As a result of these changes, long-term projections showed declines in discounted future operating cash flows. These revised cash flows and declining market conditions caused the implied fair value of Delphi s Electrical/Electronic Architecture segment to be less than its book value. The fair value was also adversely affected by declining industry market valuation metrics. Accordingly, the Company recorded $168 million of goodwill impairment charges during the second quarter of 2008 related to the Electrical/Electronic Architecture segment.

Delphi performed its goodwill impairment test by comparing the carrying value of each of its reporting units to the fair value of the reporting unit. In determining fair value of reporting units, Delphi utilized a number of methodologies, including discounted cash flow analysis and review of fair value appraisals. Where the carrying value exceeded the fair value for a particular reporting unit, goodwill impairment charges were recognized. The goodwill impairment charges recognized were determined by stating all other assets and liabilities of a reporting unit at their fair values with the remaining fair value of the reporting unit attributed to goodwill. The resulting goodwill impairment charges are the excess of the recorded goodwill balance over the implied fair value of goodwill for the reporting unit. Delphi s reporting units are the global businesses focused on product families. The fair value of the reporting units was negatively impacted by the continued deterioration of business conditions, principally in North America, as previously described.

9. 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 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 Delphi ceases to use the facility and no longer derives economic benefit from the contract. All other exit costs are accrued when incurred.

Delphi s employee termination benefit and other exit costs are undertaken as necessary to execute management s strategy, streamline operations, take advantage of available capacity and resources, and ultimately achieve net cost reductions. These activities generally fall into one of two categories:

(1) Realignment of existing manufacturing capacity and closure of facilities and other exit or disposal activities, as it relates to executing the Company s strategy in the normal course of business.

(2) Transformation plan activities, which support the Company s overall transformation initiatives announced in 2006, including selling or winding down non-core product lines, transforming its salaried workforce to reduce general and administrative expenses, and modifying labor agreements with its principal unions in the U.S.

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The following table summarizes the employee termination benefit and other exit cost charges recorded for the three and nine months ended September 30, 2008 and 2007 by operating segment:

Segment	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(in millions)			
Electronics & Safety	$ 61	$ 13	$ 100	$ 16
Powertrain Systems	30	21	40	40
Electrical/Electronic Architecture	21	8	53	73
Thermal Systems	9	29	18	39
Automotive Holdings Group	18	36	76	225
Corporate and Other	7	2	8	24
Continuing Operations	146	109	295	417
Discontinued Operations	7	3	51	115
Total	$ 153	$ 112	$ 346	$ 532
Cost of sales	*128*	*106*	*267*	*390*
Selling, general and administrative expenses	*18*	*3*	*28*	*27*
Income (loss) from discontinued operations	*7*	*3*	*51*	*115*

Delphi has initiated several programs to streamline operations and lower costs. The following are details of significant charges during the three and nine months ended September 30, 2008.

Realignment of existing manufacturing capacity and closure of facilities. As part of Delphi s ongoing efforts to lower costs and operate efficiently, Delphi s Electronics & Safety and the Automotive Holdings Group segments plan to transfer core products manufactured at a shared location in Portugal to a lower cost market and exit non-core products from that facility in the second quarter of 2009, and recognized employee termination benefits of $45 million during the nine months ended September 30, 2008. Additionally, Electronics & Safety, Electrical/Electronic Architecture, Thermal Systems and the Automotive Holdings Group segments executed initiatives to realign manufacturing operations within North America to lower cost markets, and incurred approximately $31 million and $72 million of employee termination benefits and other related exit costs during the three and nine months ended September 30, 2008, respectively.

Transformation plan activities. As part of an initiative to sell or wind down non-core product lines, Delphi incurred employee termination benefits and other exit costs of $6 million and $43 million related to the closure of a manufacturing facility in Athens, Alabama during the three and nine months ended September 30, 2008, respectively, which related to the Steering Business and was recorded in discontinued operations. As part of an effort to transform its salaried workforce and reduce general and administrative expenses, Delphi identified certain salaried employees in North America during the three and nine months ended September 30, 2008 for involuntary separation and incurred $93 million and $135 million, respectively, in related employee termination benefits in the Electronics & Safety, Powertrain Systems, Electrical/Electronic Architecture, Thermal Systems and the Automotive Holdings Group segments.

The following are details of significant charges during the three and nine months ended September 30, 2007.

Realignment of existing manufacturing capacity and closure of facilities. As part of Delphi s ongoing efforts to lower costs and operate efficiently, the Electrical/Electronic Architecture segment transferred manufacturing operations in Germany and Portugal to lower cost markets in Eastern Europe and Asia Pacific. As a result, the Electrical/Electronic Architecture segment significantly reduced the number of employees at these locations, and announced involuntary employee separation packages for approximately $26 million during the nine months ended September 30, 2007. Additionally, the

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Electrical/Electronic Architecture segment announced an involuntary employee separation package due to a planned closure of a manufacturing facility in France for approximately $11 million during the nine months ended September 30, 2007. Finally, the Electronics & Safety segment announced an involuntary separation package due to a planned closure of a manufacturing facility in Germany for approximately $10 million during the three and nine months ended September 30, 2007.

Transformation plan activities. As part of an initiative to sell or wind down non-core product lines, Delphi incurred employee termination benefits and other exit costs of $268 million related to the closure of a manufacturing facility in Cadiz, Spain during the nine months ended September 30, 2007, of which $161 million related to the Automotive Holdings Group segment and $107 million related to the Steering Business, which is recorded in loss from discontinued operations. As a part of an effort to transform its salaried workforce and reduce general and administrative expenses, Delphi identified certain salaried employees, primarily in North America, during the three and nine months ended September 30, 2007 for involuntary separation, and incurred $11 million and $53 million, respectively, in related employee termination benefits in the Powertrain Systems, Electrical/Electronic Architecture and the Automotive Holdings Group segments. During the nine months ended September 30, 2007, Delphi incurred $19 million related to the financial services and information technology outsourcing activities related to the transformation of its salaried workforce to reduce general and administrative expenses in the Corporate and Other segment. Finally, as part of Delphi s initiative to modify its labor agreements, Delphi signed agreements with the UAW and all of its other principal U.S. labor unions during the three and nine months ended September 30, 2007. The new agreements offered certain eligible Delphi employees severance payments and supplemental unemployment benefits, among other options. Delphi incurred $48 million of employee termination benefits related to these agreements during the three and nine months ended September 30, 2007, primarily in the Powertrain Systems and the Automotive Holdings Group segments. Refer to Note 16. U.S. Employee Workforce Transition Program.

10. WEIGHTED AVERAGE SHARES

Basic and diluted income (loss) per share amounts were computed using weighted average shares outstanding for each respective period. As a result of the market price of shares as compared to the price associated with outstanding options in the three and nine months ended September 30, 2008 and the losses incurred in the three and nine months ended September 30, 2007, the effect of potentially dilutive securities has been excluded from the calculation of loss per share as inclusion would have had an anti-dilutive effect.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in thousands)			
Weighted average shares outstanding	564,635	561,782	564,268	561,782
Effect of dilutive securities				
Diluted shares outstanding	564,635	561,782	564,268	561,782

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

	Three and Nine Months Ended September 30,	
	2008	**2007**
	(in thousands)	
Anti-dilutive securities	59,090	77,848

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11. INVENTORIES, NET

Inventories are stated at the lower of cost, determined on a first-in, first-out basis (FIFO), or market, including direct material costs and direct and indirect manufacturing costs. A summary of inventories, net is shown below:

	September 30, 2008	December 31, 2007
	(in millions)	
Productive material	$ 861	$ 926
Work-in-process and supplies	308	386
Finished goods	477	496
Total	$ 1,646	$ 1,808

12. LIABILITIES

Accrued liabilities consisted of the following:

	September 30, 2008	December 31, 2007
	(in millions)	
Payroll-related obligations	$ 290	$ 238
Employee benefits, including current pension obligations	176	185
Accrued income taxes	62	54
Taxes other than income	232	195
Warranty obligations (Note 13)	124	244
U.S. employee workforce transition program (Note 16)	123	234
Manufacturing plant rationalization	244	259
Interest on prepetition claims (Note 1)	415	411
Working capital backstop Steering Business (Note 2)	210	
Other	474	461
Total	$ 2,350	$ 2,281

Other long-term liabilities consisted of the following:

	September 30, 2008	December 31, 2007
	(in millions)	
Workers compensation	$ 299	$ 328
Environmental	93	112

U.S. employee workforce transition program (Note 16)		90		148
Extended disability benefits		60		72
Warranty obligations (Note 13)		272		315
Payroll-related obligations		53		55
Accrued income taxes		69		55
Other		119		100
Total	$	1,055	$	1,185

13. WARRANTY OBLIGATIONS

Delphi recognizes expected warranty costs for products sold principally at the time of sale of the product based on Delphi s estimate of the amount that will eventually be required to settle such obligations. These accruals are based on factors such as past experience, production changes, industry developments and various

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other considerations. Delphi s estimates are adjusted from time to time based on facts and circumstances that impact the status of existing claims.

The table below summarizes the activity in the product warranty liability for the nine months ended September 30, 2008:

	Warranty Obligations (in millions)
Accrual balance at December 31, 2007	$ 559
Provision for estimated warranties issued during the period	47
Provision for changes in estimate for preexisting warranties	20
GM warranty forgiveness	(112)
Settlements made during the period (in cash or in kind)	(117)
Foreign currency translation and other	(1)
Accrual balance at September 30, 2008	$ 396

Approximately $124 million and $244 million of the warranty accrual balance as of September 30, 2008 and December 31, 2007, respectively, is included in accrued liabilities in the accompanying consolidated balance sheets. Approximately $272 million and $315 million of the warranty accrual balance as of September 30, 2008 and December 31, 2007, respectively, is included in other long-term liabilities.

On September 27, 2007, the Court authorized Delphi to enter into a Warranty, Settlement, and Release Agreement (the Warranty Settlement Agreement) with GM resolving certain warranty matters, including all warranty claims set forth in GM s amended proof of claim filed on July 31, 2006 in connection with Delphi s chapter 11 cases. Delphi elected to defer amounts due under the Warranty Settlement Agreement until it received payments from GM, on or about the time of its emergence from chapter 11. Because Delphi elected to defer these payments, GM was to receive interest at the rate of 6% per annum on the payment from November 1, 2007, until the amounts were paid by Delphi or set off against amounts payable by GM. In conjunction with overall negotiations regarding potential amendments to the Plan to enable Delphi to emerge from chapter 11 as soon as practicable, including discussions regarding support assisting Delphi in remaining compliant with the Global EBITDAR covenants in its existing debtors-in-possession credit facility, GM agreed, on July 31, 2008 to forgive certain of the cash amounts due under the Warranty Settlement Agreement, including any applicable interest, and as a result Delphi recorded the extinguishment of this liability as a reduction of warranty expense in the third quarter of 2008, of which $107 million was included in cost of sales, which had a corresponding favorable impact on operating income, and $5 million was included in discontinued operations. As of June 30, 2007, Delphi expected to settle obligations with GM for approximately $199 million and recorded $91 million of additional warranty expense during the nine months ended September 30, 2007, primarily related to the Powertrain Systems segment and the Electronics & Safety segment. Additionally, Delphi recorded an increase to warranty reserves for specific warranty claims related to the Powertrain Systems segment during the three and nine months ended September 30, 2007. Refer to Note 22. Commitments and Contingencies, Ordinary Business Litigation for additional disclosure regarding warranty matters.

14. LIABILITIES SUBJECT TO COMPROMISE

As a result of the Chapter 11 Filings, the payment of prepetition indebtedness is subject to compromise or other treatment under the Debtors plan of reorganization. Generally, actions to enforce or otherwise effect payment of prepetition liabilities are stayed. Refer to Note 2. Transformation Plan and Chapter 11 Bankruptcy. Although prepetition claims are generally stayed, at hearings held in October and November 2005, the Court granted final approval of the Debtors first day motions generally designed to stabilize the Debtors operations and covering, among other things, human capital obligations, supplier relations, customer relations, business operations, tax matters, cash management, utilities, case management, and retention of professionals. The following data regarding the number and amount of claims and proof of claims is unaudited.

The Debtors have been paying and intend to continue to pay undisputed postpetition obligations in the ordinary course of business. In addition, pursuant to the Plan, the Debtors assumed most of their executory contracts and unexpired leases with respect to the Debtors operations, and rejected certain of them, with the approval of the Court. Damages resulting from rejection of executory contracts and unexpired leases are treated as general unsecured claims and will be classified as liabilities subject to compromise. The Court entered an order establishing July 31, 2006 as the bar date by which claims against the Debtors arising prior to the Debtors Chapter 11 Filings were required to be filed if the claimants were to receive any distribution in the chapter 11 cases. As of September 30, 2008, the Debtors have received approximately 16,800 proofs of claim, a portion of which assert, in part or in whole, unliquidated claims. In addition, the Debtors have compared proofs of claim they have received to liabilities they have already scheduled and determined that there are certain scheduled liabilities for which no proof of claim was filed. In the aggregate, total proofs of claim and scheduled liabilities assert approximately $34 billion in liquidated amounts, including approximately $900 million in intercompany claims, and additional unliquidated amounts. As is typical in reorganization cases, differences between claim amounts listed by the Debtors in their Schedules of Assets and Liabilities (as amended) and claims filed by creditors will be investigated and resolved in connection with the claims reconciliation process or, if necessary, the Court will make the final determination as to the amount, nature, and validity of claims. Many of these claims have been found to be duplicative, based on contingencies that have not occurred, or are otherwise overstated, and therefore have been determined to be invalid. As a result, the aggregate amount of claims filed with the Court exceeds the amount that has been to date allowed by the Court. As of September 30, 2008, the Debtors have filed thirty omnibus claims objections that objected to claims on procedural or substantive grounds. Pursuant to these claims objections, the Debtors have objected to approximately 13,400 proofs of claim which asserted approximately $10.0 billion in aggregate liquidated amounts plus additional unliquidated amounts. As of September 30, 2008, the Court has entered orders disallowing and/or claimants have withdrawn approximately 9,800 of those claims, which orders reduced the amount of asserted claims by approximately $9.7 billion in aggregate liquidated amounts plus additional unliquidated amounts. In addition, the Court has entered an order allowing or modifying approximately 3,700 claims reducing the aggregate amount on those claims by $294 million, which amounts are subject to further objection by the Debtors at a later date on any basis. The Debtors anticipate that additional proofs of claim will be the subject of future objections as such proofs of claim are reconciled. The determination of how these liabilities are to be settled and treated is set forth in the Plan. In light of the number of creditors of the Debtors, the claims resolution process may take considerable time to complete. Accordingly, the ultimate number and amount of allowed claims is not determinable at this time. Classification for purposes of these financial statements of any prepetition liabilities on any basis other than liabilities subject to compromise is not an admission against interest or a legal conclusion by the Debtors as to the manner of classification, treatment, allowance, or payment in the Debtors chapter 11 cases, including in connection with any plan of reorganization that may be confirmed by the Court and that may become effective pursuant to an order of the Court. As of January 25, 2008, the total general unsecured claims, other than funded debt claims, against the Company had been reduced to an amount less than the $1.45 billion cap specified in the Plan. 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 Note 2. Transformation Plan and Chapter 11 Bankruptcy for details on the chapter 11 cases.

SOP 90-7 requires prepetition liabilities that are subject to compromise to be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. The amounts currently classified as liabilities subject to compromise may be subject to future adjustments depending on Court actions, further developments with respect to disputed claims, determinations of the secured status of certain claims, the values of any collateral securing such claims, or other events.

Liabilities subject to compromise consist of the following:

	September 30, 2008	December 31, 2007
	(in millions)	
Pension obligations	$ 2,085	$ 3,329
Postretirement obligations other than pensions	946	8,786
Allowed GM general unsecured claim (Note 2)	2,500	
Allowed GM administrative claim (Note 2)	1,628	
Allowed IUE-CWA and USW claims (Note 2)	129	
Debt and notes payable	1,984	1,984
Accounts payable	732	744
Junior subordinated notes due 2033	391	391
GM claim for U.S. employee workforce transition programs (Note 2)		312
Securities & ERISA litigation liability (Note 22)	351	351
Other	377	300
Total Liabilities Subject to Compromise	$ 11,123	$ 16,197

The decrease in liabilities subject to compromise as of September 30, 2008 is due to the reductions of pension obligations, postretirement obligations and the GM claim for the U.S. employee workforce transition programs resulting from the effectiveness of the Amended GSA and the Amended MRA during the third quarter of 2008. Refer to Note 2. Transformation Plan and Chapter 11 Bankruptcy for more information. The remaining other postretirement benefit obligations are primarily for salaried employees.

15. DEBT

Debtor-in-Possession Credit Facility

During the first quarter of 2007, Delphi refinanced its prepetition and postpetition credit facilities by entering into a Revolving Credit, Term Loan, and Guaranty Agreement (the Refinanced DIP Credit Facility) to borrow up to approximately $4.5 billion from a syndicate of lenders. During the second quarter of 2008, Delphi received Court approval and the required commitments from its lenders to amend and extend its Refinanced DIP Credit Facility (the Amended and Restated DIP Credit Facility), which amendments and extension became effective in May 2008. As a result of the amendment and restatement, the aggregate size of the facility was reduced from $4.5 billion to $4.35 billion, consisting of a $1.1 billion first priority revolving credit facility (Tranche A or the Revolving Facility), a $500 million first priority term loan (the Tranche B Term Loan) and a $2.75 billion second priority term loan (the Tranche C Term Loan). The Amended and Restated DIP Credit Facility otherwise matures on December 31, 2008. On November 7, 2008, Delphi filed a motion with the Court seeking authority to enter into the Accommodation Agreement whereby the administrative agent under the facility and the requisite majority of holders of the Tranche A and Tranche B commitments and exposure by amount (the Required Lenders) would agree to, among other things, allow Delphi to continue using the proceeds of the Amended and Restated DIP Credit Facility, to the extent already drawn prior to December 31, 2008, notwithstanding the passing of the maturity date or the failure to comply with certain mandatory prepayment provisions until the earlier to occur of (i) June 30, 2009 (or May 5, 2009 if Delphi does not achieve certain specified milestones in its reorganization cases), (ii) the date on which a plan of reorganization becomes effective, (iii) Delphi s failure to comply with its covenants under the Accommodation Agreement or (iv) an event of default under the Amended and Restated DIP Credit Facility (other than the failure to repay the loans under the facility on the maturity date or comply with certain mandatory prepayment provisions). Delphi has begun seeking the necessary consents to consummate the Accommodation Agreement and anticipates receiving consents from the Required Lenders prior to November 24, 2008, the scheduled hearing date of the motion, though there can be no assurances it will obtain the required consents or Court approval. Refer to Note 23. Subsequent Events for more information. Absent receipt of the necessary consents and Court approval of the Accommodation Agreement or the ability

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to obtain an extension or other amendment to the Amended and Restated DIP Credit Facility, Delphi does not anticipate having sufficient cash to pay the outstanding balances upon expiration on December 31, 2008 and still continue to fund its operations. The following describes the terms of the Amended and Restated DIP Credit Facility as currently in effect.

The facilities currently bear interest at the option of Delphi at either the Administrative Agent s Alternate Base Rate (ABR) plus a specified percent or LIBOR plus a specified percent as follows:

	ABR plus	LIBOR plus
Tranche A	3.00%	4.00%
Tranche B(a)	3.00%	4.00%
Tranche C(a)	4.25%	5.25%

(a) Facilities include ABR and LIBOR floor of 4.25% and 3.25%, respectively

Delphi monitors ABR and LIBOR rates and evaluates the interest selection at each rate reset period.

Borrowings under the Amended and Restated DIP Credit Facility are prepayable at Delphi s option without premium or penalty. As of September 30, 2008, total available liquidity under the Amended and Restated DIP Credit Facility was approximately $138 million, net of a $200 million liquidity block when Available Liquidity, as defined in the Amended and Restated DIP Credit Facility, is less than $500 million. At September 30, 2008, there was $500 million outstanding under the Tranche B Term Loan at LIBOR plus 4.00% (or 7.25%), $2.75 billion outstanding under the Tranche C Term Loan at LIBOR plus 5.25% (or 8.50%), and $465 million outstanding under the Revolving Facility, of which $275 million was at LIBOR plus 4.00% ($75 million at 7.69% and $200 million at 7.75%) and $190 million was at ABR plus 3.00% (or 8.00%). Additionally, the Company had $97 million in letters of credit outstanding under the Revolving Facility as of that date. The amount outstanding at any one time under the First Priority Facilities is limited by a borrowing base computation as described in the Amended and Restated DIP Credit Facility. While the borrowing base computation excluded outstanding borrowings, it was less than the Amended and Restated DIP Credit Facility commitment at September 30, 2008. Under the Amended and Restated DIP Credit Facility, Delphi is required to provide weekly borrowing base calculations to the bank lending syndicate regardless of availability levels. Based on its current borrowing base computation, as defined in the Amended and Restated DIP Credit Facility, Delphi s borrowing base was reduced by the maximum deduction of $75 million for unrealized losses related to Delphi s hedging portfolio as further described in Note 18. Derivatives and Hedging Activities. As of November 7, 2008, Delphi had drawn down substantially all of the remaining available amounts under the Revolving Facility.

The Amended and Restated DIP Credit Facility includes affirmative, negative and financial covenants that impose restrictions on Delphi s financial and business operations, including Delphi s ability to, among other things, incur or secure other debt, make investments, sell assets and pay dividends or repurchase stock. The Company does not expect to pay dividends prior to emergence from chapter 11. As long as the Facility Availability Amount (as defined in the Amended and Restated DIP Credit Facility) is equal to or greater than $500 million, compliance with the restrictions on investments, mergers and disposition of assets does not apply (except with respect to investments in, and dispositions to, direct or indirect domestic subsidiaries of Delphi that are not guarantors). Delphi s Facility Availability Amount fell below $500 million for seven consecutive days in September 2008, but was greater than $500 million at September 30, 2008.

The covenants require Delphi, among other things, to maintain a rolling 12-month cumulative Global EBITDAR (as defined in the Amended and Restated DIP Credit Facility) for Delphi and its direct and indirect subsidiaries, on a consolidated basis as follows:

Period Ending	**Global EBITDAR (in millions)**	
September 30, 2008	$	625
October 31, 2008	$	600
November 30, 2008	$	675

Delphi was in compliance with the Amended and Restated DIP Credit Facility covenants as of September 30, 2008.

In connection with the Amended and Restated DIP Credit Facility, Delphi paid a total of approximately $75 million to participating lenders on the Revolving Facility, the Tranche B facility and the Tranche C facility. Delphi also received approval from the Court to pay arrangement and other fees to various lenders in conjunction with the Amended and Restated DIP Credit Facility and the bankruptcy exit financing that was commenced but not completed.

In conjunction with the entry into the Amended and Restated DIP Credit Facility, the Refinanced DIP Credit Facility was terminated. Delphi incurred no early termination penalties in connection with the termination of this agreement. However, as a result of significant changes in the debt structure and corresponding cash flows related to the refinancing, Delphi expensed $49 million of unamortized debt issuance costs related to the Amended and Restated DIP Credit Facility and the Refinanced DIP Credit Facility in the second quarter of 2008, which was recognized as loss on extinguishment of debt. As of September 30, 2008, $20 million of debt issuance costs remains deferred in other current assets and is being amortized over the term of the Amended and Restated DIP Credit Facility.

In 2007, concurrently with the entry into the Refinanced DIP Credit Facility, Delphi expensed $25 million of unamortized debt issuance costs related to the Revolving Credit, Term Loan and Guaranty Agreement Delphi entered into on October 14, 2005, as amended through November 13, 2006, and the Five Year Third Amended and Restated Credit Agreement, dated as of June 14, 2005 in the first quarter of 2007, of which $23 million was recognized as loss on extinguishment of debt, as these fees relate to the refinancing of the term loans, and $2 million was recognized as interest expense, as these fees relate to the refinancing of the revolving credit facility.

Advance Agreement and Liquidity Support from General Motors and Related Matters

Concurrently with the Amended and Restated DIP Credit Facility, Delphi entered into an agreement with GM whereby GM agreed to advance Delphi amounts anticipated to be paid following the effectiveness of the GSA and MRA (the GM Advance Agreement). The original GM Advance Agreement had a maturity date of the earlier of December 31, 2008, when $650 million was to have been paid under the GSA and MRA and the date on which a plan of reorganization becomes effective. The original GM Advance Agreement provided for availability of up to $650 million, as necessary for Delphi to maintain $500 million of liquidity, as determined in accordance with the GM Advance Agreement. The amounts advanced accrue interest at the same rate as the Tranche C Term Loan on a paid-in-kind basis.

On September 26, 2008, the Court granted Delphi s motion to amend the GM Advance Agreement to provide for an additional $300 million availability above the existing $650 million, as necessary for Delphi to maintain $300 million of liquidity, as determined in accordance with the amendment to the GM Advance Agreement signed on August 7, 2008. The amendment provided that the outside maturity date with respect to the original $650 million may be extended in connection with an extension of Delphi s existing Amended and Restated DIP Credit Facility, if GM and Delphi agree, to the earlier of June 30, 2009, and the termination of Delphi s Amended and Restated DIP Credit Facility. The accrued interest on the advances made through the effectiveness of the Amended GSA and Amended MRA was cancelled due to the effectiveness of the Amended GSA and Amended MRA, as more fully described in Note 2. Transformation Plan and Chapter 11 Bankruptcy, and Delphi may not redraw the original $650 million facility amount. The amendment also provided that the maturity date with respect to the additional $300 million is December 31, 2008 (subject to potential extension through June 30, 2009, on the same terms as apply to the original $650 million). The additional $300 million of advances was also conditioned upon Delphi filing a plan of reorganization and related disclosure statement in form and substance materially consistent with Section 5 of the Amended GSA and Section 7.01 of the Amended MRA which condition was satisfied with Delphi s filing of proposed modifications to its previously confirmed plan of reorganization with the Court on October 3, 2008, and certain other conditions. GM received an administrative claim for all advances made under the GM Advance Agreement, however those advances have been set off against the payments that were owed to Delphi upon

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the effectiveness of the Amended GSA and Amended MRA. As of September 30, 2008, no amounts were outstanding pursuant to the GM Advance Agreement. Any future advances under the GM Advance Agreement of the remaining $300 million in availability will remain administrative claims in Delphi s chapter 11 cases.

In support of Delphi s efforts to obtain the Accommodation Agreement, GM agreed, subject to Court approval and subject to the Accommodation Agreement becoming effective, to extend the term of the GM Advance Agreement, pursuant to the terms set forth in an amendment thereto filed with the Court on November 7, 2008, through the earlier of June 30, 2009, such date as Delphi files any motion seeking to amend the Plan in a manner that is not reasonably acceptable to GM, the termination of Delphi s Amended and Restated DIP Credit Facility, the termination of the standstill period in the Accommodation Agreement or the Accommodation Agreement in its entirety, and such date as a plan of reorganization becomes effective. The Court is expected to hear Delphi s motion to amend and extend the GM Advance Agreement concurrently with Delphi s motion seeking authority to enter into the Accommodation Agreement. Additionally, subject to the amendment to the GM Advance Agreement becoming effective, GM has agreed, subject to certain conditions, to accelerate payment of certain payables to Delphi, pursuant to a Partial Temporary Accelerated Payments Agreement, dated as of November 7, 2008 (the Partial Temporary Accelerated Payments Agreement), which could result in an additional $100 million of liquidity to Delphi in each of April, May and June of 2009. The Partial Temporary Accelerated Payments Agreement provides that GM will generally recoup these accelerated payments over its three subsequent monthly payments on or after the date that GM s obligation to advance funds under the GM Advance Agreement terminates or advances made become due and payable in accordance with the GM Advance Agreement. The effectiveness of the Partial Temporary Accelerated Payments Agreement is conditioned on Court approval and, among other things, the satisfaction of the conditions precedent to the proposed amendment to the GM Advance Agreement filed with the Court on November 7, 2008, including the absence of default under the Amended and Restated DIP Credit Facility, as modified by the Accommodation Agreement. There can be no assurances, however that the Court will approve the Accommodation Agreement, the extension of the GM Advance Agreement or the Partial Temporary Accelerated Payments Agreement, that such agreements will actually become effective or that GM will have sufficient liquidity to accelerate payables to Delphi at such time. Refer to Note 23. Subsequent Events to the consolidated financial statements for additional information and refer to Part II, Item 1A. Risk Factors in this Quarterly Report on Form 10-Q for risks and uncertainties related to our business relationship with GM.

16. U.S. EMPLOYEE WORKFORCE TRANSITION PROGRAMS

As previously disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, Delphi, GM, and Delphi s principal labor unions in the U.S. signed settlement agreements during 2007 which included workforce transition programs for eligible union employees (the Workforce Transition Programs). Delphi recorded workforce transition program charges of approximately $244 million and $238 million during three and nine months ended September 30, 2007, respectively, of which $197 million and $191 million were recorded in U.S. workforce transition program charges, respectively, and $47 million was recorded in discontinued operations. These charges included $67 million for attrition programs for the eligible union-represented U.S. hourly employees and $2 million amortization expense related to buy-down payments for eligible traditional employees who did not elect an attrition or flowback option and continue to work for Delphi. Additionally, Delphi recorded $175 million in net pension curtailment charges during the three and nine months ended September 30, 2007, respectively, as discussed further in Note 17. Pension and Other Postretirement Benefits. During the nine months ended September 30, 2007, Delphi reversed $6 million of special termination benefit charges recorded in 2006 due to a change in estimate. During the three and nine months ended September 30, 2008, Delphi recorded additional charges of $3 million and $19 million, respectively, to reflect costs under the Workforce Transition Programs in excess of amounts previously estimated. The estimated payments to be made under the buy-down arrangements within the UAW and IUE-CWA Workforce Transition Programs totaled $323 million and were recorded as a wage asset and liability during 2007. In accordance with EITF 88-23, *Lump-Sum Payments under Union Contracts,* the wage asset was being amortized over the life of the respective union agreements. The corresponding wage liability will be reduced as buy-down payments are made.

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As discussed in Note 2. Transformation Plan and Chapter 11 Bankruptcy, the net reorganization gain recorded for the elements of the Amended GSA that were implemented during the third quarter of 2008, included $491 million related to the 2006 and 2007 special attrition programs. GM reimbursed Delphi $230 million related to the funding of various 2007 U.S. hourly workforce special attrition programs, consistent with the provisions of the U.S. labor union settlement agreements. Additionally, previously recognized GM general unsecured claims of $333 million primarily related to the 2006 U.S. hourly workforce attrition programs previously reimbursed by GM have been forgiven and subsumed in the overall $2.5 billion allowed general unsecured claim granted to GM. The following table details this component of the reorganization gain and cash received:

Amended GSA Effectiveness	**Reorganization Gain**	**Cash**
	(in millions)	
Amounts reimbursed for buyouts	$ 68	$ 68
Amounts reimbursed for retirement incentives		7
Amounts reimbursed for buy-downs	90	155
Forgiveness of 2006 special attrition program allowed claim	333	
Total	$ 491	$ 230

The following table represents the activity in the U.S. employee workforce transition program liability for the nine months ended September 30, 2008:

U.S. Employee Workforce Transition Program Liability	**(in millions)**
Balance at December 31, 2007	$ 382
U.S. employee workforce transition program charges	19
Buy-down wage liability adjustment	(49)
Payments	(122)
Pension and other postretirement benefits (Note 17)	(23)
Accretion and other	6
Balance at September 30, 2008	$ 213

At September 30, 2008 and December 31, 2007, $123 million and $234 million, respectively, of the U.S. employee workforce transition program liability is included in accrued liabilities, and $90 million and $148 million, respectively, is included in other long-term liabilities in the consolidated balance sheets.

The following table represents the activity in the U.S. employee workforce transition program buy-down wage asset for the nine months ended September 30, 2008:

U.S. Employee Workforce Transition Program Buy-Down Wage Asset	**(in millions)**
Balance at December 31, 2007	$ 301

Buy-down wage asset adjustment	(49)
Amortization expense	(61)
Amounts reimbursed by GM upon Amended GSA effectiveness	(155)
Reclassified amounts as a receivable from GM under Amended GSA	(126)
Reorganization gain	90
Balance at September 30, 2008	$

As of December 31, 2007, $80 million of the U.S. employee workforce transition program buy-down wage asset is included in other current assets and $221 million is included in other long-term assets in the consolidated balance sheet.

17. PENSION AND OTHER POSTRETIREMENT BENEFITS

Delphi sponsors pension plans covering unionized employees in the U.S., which generally provide benefits of stated amounts for each year of service, as well as supplemental benefits for employees who qualify for retirement before normal retirement age. Delphi also sponsors defined benefit plans covering U.S. salaried employees, with benefits generally based on years of service and salary history. Certain Delphi employees also participate in nonqualified pension plans covering executives, which are based on targeted wage replacement percentages and are unfunded. Delphi s funding policy with respect to its qualified plans is to contribute annually, not less than the minimum required by applicable laws and regulations, including the Bankruptcy Code. Certain of Delphi s non-U.S. subsidiaries also sponsor defined benefit pension plans, which generally provide benefits based on negotiated amounts for each year of service. Delphi s primary non-U.S. plans are located in France, Germany, Luxembourg, Mexico, Portugal, and the United Kingdom (UK). The UK and certain Mexican plans are funded. In addition, Delphi has defined benefit plans in Korea, Turkey and Italy for which amounts are payable to employees immediately upon separation. The obligations for these plans are recorded based on the vested benefit obligation.

Delphi froze the Salaried Plan, the Supplemental Executive Retirement Program (SERP) the ASEC Manufacturing Retirement Program, the Delphi Mechatronics Retirement Program and the PHI Non-Bargaining Retirement Plan effective as of September 30, 2008. Effective as of October 1, 2008, Delphi s existing Savings-Stock Purchase Program for Salaried Employees was enhanced to provide a Delphi matching contribution and a 4% non-elective Delphi retirement contribution. Additionally, Delphi reached agreement with its labor unions which will allow Delphi to freeze the Hourly Plan effective as of November 30, 2008 for those with traditional benefits.

Delphi also maintains other postretirement benefit plans, which provide covered U.S. hourly and salaried employees with retiree medical and life insurance benefits. Certain of Delphi s non-U.S. subsidiaries have other postretirement benefit plans; although most participants are covered by government sponsored or administered programs. The annual cost of such non-U.S. other postretirement benefit plans was not significant to Delphi.

The amounts shown below reflect the defined benefit pension and other postretirement benefit expense for the three- and nine-month periods ended September 30, 2008 and 2007 for U.S. and non-U.S. salaried and hourly employees, excluding the plans in Korea, Turkey and Italy discussed above. Benefit costs presented below were determined based on actuarial methods and included the following components for U.S. and non-U.S. salaried and hourly plans:

	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
	Three Months Ended September 30,					
	2008	2007	2008	2007	2008	2007
	(in millions)					
Service cost(a)	$ 40	$ 42	$ 12	$ 12	$ 8	$ 20
Interest cost	206	212	23	20	136	135
Expected return on plan assets	(219)	(216)	(23)	(20)		
Settlement loss (gain)(b)	494			8	(7,087)	
Curtailment loss (gain)	38	170	16		(36)	(2)
Amortization of prior service costs	7	13	1	1	(30)	(24)
Amortization of actuarial losses	5	18	5	8	12	19
Net periodic benefit cost	$ 571	$ 239	$ 34	$ 29	$ (6,997)	$ 148

	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
	Nine Months Ended September 30,					
	2008	2007	2008	2007	2008	2007
	(in millions)					
Service cost(a)	$ 122	$ 137	$ 34	$ 35	$ 23	$ 62
Interest cost	633	637	70	60	410	406
Expected return on plan assets	(655)	(648)	(69)	(60)		
Settlement loss (gain)(b)	494			41	(7,087)	
Curtailment loss (gain)	38	170	40	5	(36)	(2)
Amortization of prior service costs	18	41	5	3	(83)	(74)
Amortization of actuarial losses	16	69	13	25	34	57
Net periodic benefit cost	$ 666	$ 406	$ 93	$ 109	$ (6,739)	$ 449

(a) Includes $6 million and $23 million for the three and nine months ended September 30, 2008, respectively, and $11 million and $39 million for the three and nine months ended September 30, 2007, respectively, of costs previously accrued related to the U.S. employee workforce transition programs.

(b) Settlement loss (gain) does not include the impact of allowed bankruptcy claims granted to GM under the Amended GSA discussed in Note 2. Transformation Plan and Chapter 11 Bankruptcy.

Net periodic benefit cost above reflects $9 million and $29 million for the three and nine months ended September 30, 2008, respectively, and $59 million and $96 million for the three and nine months ended September 30, 2007, respectively, that were included in discontinued operations.

Settlements and Curtailments

On September 26, 2008, Delphi received the consent of its labor unions and approval from the Court to transfer certain assets and liabilities of the Hourly Plan to the GM Hourly-Rate Employee Pension Plan, pursuant to section 414(l) of the Internal Revenue Code (the 414(l) Net Liability Transfer), as agreed under the Amended GSA. The 414(l) Net Liability Transfer is to occur in two separate steps.

On September 29, 2008, Delphi completed the first step of the 414(l) Net Liability Transfer, transferring liabilities of approximately $2.6 billion and assets of approximately $486 million of 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 414(l) Net Liability Transfer is sufficient to avoid an accumulated funding deficiency for the Hourly Plan for plan year ended September 30, 2008. The $486 million transferred represents 90% of the estimated $540 million of assets to be transferred under the first step of the 414(l) Net Liability Transfer. The remaining 10% of the assets will be transferred within six months upon finalization of related valuations. In consideration of the first step of the 414(l) Net Liability Transfer, GM received an allowed administrative bankruptcy claim equivalent to 77.5% of the net unfunded liabilities transferred, or $1.6 billion. The first step of the 414(l) Net Liability Transfer was accounted for as a partial settlement of the Hourly Plan under SFAS 88. Delphi recognized a SFAS 88 settlement loss of $494 million included in reorganization items in the consolidated statements of operations for the three and nine month periods ended September 30, 2008, which reflects the recognition of $494 million of previously unrecognized actuarial losses. The amount of actuarial losses recognized represents the proportion of the projected benefit obligation transferred to GM relative to the total projected benefit obligation of the Hourly Plan.

The second step of the 414(l) Net Liability Transfer will include all remaining Hourly Plan assets and obligations related to plan participants with prior GM service and will occur upon the effectiveness of an amended plan of reorganization that (i) provides for the treatment of GM s claims and releases as set forth in the Amended GSA and (ii) contains interpretive provisions under the Amended GSA regarding conflicts between such plan and the Amended GSA, see Note 2. Transformation Plan and Chapter 11 Bankruptcy.

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Under the terms of the Amended GSA and union labor agreements, GM assumed $6.8 billion of traditional hourly OPEB liabilities related to plan participants with prior GM service. GM s assumption of these traditional hourly OPEB liabilities constitutes a settlement under Statement of Financial Accounting Standards No. 106, *Employer s Accounting for Postretirement Benefits Other Than Pensions.* Delphi recognized a settlement gain of $7.1 billion included in reorganization items in the consolidated statements of operations for the three and nine month periods ended September 30, 2008, which reflects the assumption by GM of the net unfunded liability of $6.8 billion and the recognition of $266 million of previously unrecognized actuarial gains.

As a result of the salaried workforce transformation plan activities in North America discussed in Note 9. Employee Termination Benefits and Other Exit Costs, salaried separations in 2008 have resulted in significant reductions in expected future service, or curtailments, of the Salaried Plan, OPEB and SERP. Delphi recorded net salaried pension curtailment losses of $38 million and salaried OPEB curtailment gains of $36 million for the three and nine month periods ended September 30, 2008.

During the three months ended September 30, 2007, Delphi recorded pension curtailment losses of approximately $175 million in U.S. employee workforce transition program charges of which $59 million related to the Hourly Plan and $116 million related to the Salaried Plan. The curtailment losses were recorded to recognize the effect of employees who elected to participate in the workforce transition programs and the effect of prospective plan amendments that will eliminate the accrual of future defined pension benefits for salaried and certain hourly employees on emergence from bankruptcy. In addition, during the nine months ended September 30, 2007, Delphi recorded pension and other postretirement benefit curtailment gains of $5 million related to the divestiture of the Catalyst Business and pension curtailment losses of $5 million related to a non-U.S. entity.

The non-U.S. pension plan settlements recorded in the three and nine months ended September 30, 2008 and 2007 were primarily related to renegotiated labor contracts and employee separations in Mexico.

In conjunction with the settlements and curtailments during the three and nine months ended September 30, 2008 discussed above, the obligations for the hourly plans were remeasured as of September 29, 2008, the date of Amended GSA effectiveness, and the salaried plans were remeasured as of September 30, 2008, the date at which the curtailments were probable and the impacts of the curtailments were reasonably estimable. The amounts shown below reflect the impact of the remeasurements during the third quarter of 2008.

	U.S. Pension Plans	Other Postretirement Benefits
	(in millions)	
Benefit obligation at January 1, 2008	$ 13,841	$ 8,771
Service cost	122	23
Interest cost	632	409
Plan participants contributions	4	
Actuarial gains	(1,257)	(1,334)
Benefits paid	(822)	(199)
Impact of transfers / settlements	(2,623)	(6,821)
Impact of curtailments	38	(54)
Impact of adoption of SFAS 158		132
Other transfers	(22)	
Benefit obligation at September 30, 2008	$ 9,913	$ 927
Change in plan assets:		
Fair value of plan assets at January 1, 2008	$ 10,677	$
Actual return on plan assets	(1,702)	
Delphi contributions	262	199
Plan participants contributions	4	
Benefits paid	(822)	(199)
Impact of transfers / settlements	(540)	
Other transfers	(22)	
Fair value of plan assets at September 30, 2008	$ 7,857	$
Pension liabilities subject to compromise	$ 2,056	$ 927
Amounts recognized in accumulated other comprehensive income consist of (pre-tax):		
Actuarial loss	$ 1,903	$ 134
Prior service cost (credit)	92	(595)
Total	$ 1,995	$ (461)

Delphi selected discount rates for these remeasurements by analyzing the results of matching each plan s benefit obligations with hypothetical portfolios of high quality fixed income investments rated AA- or higher by Standard and Poor s and with the Citigroup Pension Discount Curve. Because high quality bonds in sufficient quantity and with appropriate maturities are not available for all years when benefit cash flows are expected to be paid, hypothetical bonds were imputed based on combinations of existing bonds, and interpolation and extrapolation reflecting current and past yield trends. The weighted-average pension discount rate determined on that basis increased from 6.35% as of December 31, 2007 to 7.50% as of the remeasurement dates during the three and nine month periods ended September 30, 2008. The weighted-average OPEB discount rates determined on that basis increased from 6.40% as of December 31, 2007 to 7.75% as of the remeasurement dates during the three and nine month periods ended

September 30, 2008. Other assumptions utilized for these remeasurements remained consistent with the December 31, 2007 valuations.

SFAS 158 Adoption

In September 2006, the FASB issued SFAS 158, which requires, among other things, an employer to measure the funded status of its defined benefit pension and other postretirement benefit plans as of the date of its year-end statement of financial position, with limited exceptions, effective for fiscal years ending after December 15, 2008. Historically, Delphi has measured the funded status of its U.S. retiree health care benefit plans and certain international pension plans as of September 30 of each year. Delphi adopted the measurement date provisions of SFAS 158 as of January 1, 2008, and utilized the second transition approach provided under SFAS 158. Under this approach, net periodic benefit cost related to these plans for the period between the most recent measurement date of September 30, 2007 and December 31, 2008, was allocated proportionately between an adjustment of accumulated deficit as of January 1, 2008 and amounts to be recognized as net periodic benefit cost during 2008.

The following table summarizes the impact of the adoption of the measurement date provisions of SFAS 158:

	U.S Retiree Medical Plans	Non-U.S. Pension Plans	Total
	Increase/(Decrease) (in millions)		
Pension and other postretirement benefit liabilities	$ 132	$ 7	$ 139
Accumulated deficit as of January 1, 2008	$ 117	$ 12	$ 129
Accumulated other comprehensive loss as of January 1, 2008	$ 15	$ (5)	$ 10

Pension Funding

As permitted under chapter 11 of the Bankruptcy Code, during the nine months ended September 30, 2008, Delphi contributed only the portion of the required contributions attributable to service after the Chapter 11 Filings 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 against Delphi. Delphi believes that under the Bankruptcy Code, the Company is not obligated to make contributions for pension benefits while in chapter 11 and, as a result, the Company would not be liable for any such assessments. Accordingly, management has concluded that an unfavorable outcome is not currently probable and, as of September 30, 2008, no amounts have been recorded for any potential excise tax assessment.

During the nine months ended September 30, 2008, Delphi contributed approximately $264 million to its U.S. pension plans, of which $45 million, and $46 million related to services rendered during the fourth quarter of 2007 and the first quarter of 2008, respectively, and the remaining $172.5 million related to the PBGC draw against the letters of credit in favor of the Hourly and Salaried Plans discussed in Note 2. Transformation Plan and Chapter 11 Bankruptcy. Approximately $46 million of the proceeds from the letters of credit were applied to the July 15, 2008 quarterly contribution to the Hourly and Salaried plans related to services rendered during the second quarter of 2008. As permitted under ERISA and the Code, Delphi elected to defer contributions necessary to satisfy approximately $7 million of additional benefit obligations accrued during the third quarter of 2008 under the Salaried and subsidiary plans until as late as June 15, 2009 for the Salaried Plans and as late as September 15, 2009 for the subsidiary plans.

Delphi may continue to defer quarterly contributions until emergence from chapter 11 and will periodically consider whether or not to make such payments; however due to the freeze of the Pension Plans and pending freeze of the Hourly Plan discussed above, Delphi does not expect future accruals for postpetition benefits to be material. Under ERISA and the Code, minimum funding payments to the U.S. pension plans of $1.1 billion were due during the first nine months of 2008 and a minimum funding payment of approximately $1.1 billion to the U.S. pension plans was due in October 2008. The 414(l) Net Liability Transfer is sufficient to avoid an Hourly Plan accumulated funding deficiency for the plan year ended September 30, 2008.

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18. DERIVATIVES AND HEDGING ACTIVITIES

Delphi is exposed to market risk, such as fluctuations in foreign currency exchange rates, commodity prices and changes in interest rates, which may result in cash flow risks. To manage the volatility relating to these exposures, Delphi aggregates the exposures on a consolidated basis to take advantage of natural offsets. For exposures that are not offset within its operations, Delphi enters into various derivative transactions pursuant to risk management policies. Designation is performed on a transaction basis to support hedge accounting. The changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the fair value or cash flows of the underlying exposures being hedged. Delphi assesses the initial and ongoing effectiveness of its hedging relationships in accordance with its documented policy. Delphi s policy prohibits holding or issuing derivative financial instruments for trading purposes.

The fair value of derivative financial instruments recorded in the consolidated balance sheets as assets and liabilities as of September 30, 2008 and December 31, 2007 are as follows:

	September 30, 2008		December 31, 2007	
	(in millions)			
Current assets	$	74	$	40
Non-current assets		21		13
Total assets	$	95	$	53
Current liabilities	$	44	$	24
Non-current liabilities		16		
Total liabilities	$	60	$	24

The fair value of financial instruments recorded as assets increased from December 31, 2007 to September 30, 2008 primarily due to certain favorable foreign currency contracts involving the Euro with the U.S. Dollar, slightly offset by unfavorable contracts involving the Mexican Peso with the U.S. Dollar and the South African Rand with the Euro. The fair value of financial instruments recorded as liabilities increased from December 31, 2007 to September 30, 2008, primarily due to the decrease in copper prices and related decrease in copper forward rates.

Gains and losses on derivatives qualifying as cash flow hedges are recorded in OCI, to the extent that hedges are effective, until the underlying transactions are recognized in earnings. Unrealized amounts in OCI will fluctuate based on changes in the fair value of open hedge derivative contracts at each reporting period. Net gains included in accumulated OCI as of September 30, 2008, were $26 million pre-tax. Of this pre-tax total, a gain of approximately $22 million is expected to be included in cost of sales within the next 12 months and a gain of approximately $5 million is expected to be included in cost of sales in subsequent periods and a loss of approximately $1 million is expected to be included in depreciation and amortization expense over the lives of the related fixed assets. Cash flow hedges are discontinued when it is no longer probable that the originally forecasted transactions will occur. The amount included in cost of sales related to hedge ineffectiveness was a $6 million loss for the nine months ended September 30, 2008 and was an approximate loss of $1 million for the nine months ended September 30, 2007. The amount included in cost of sales related to the time value of options was not significant in the nine months ended September 30, 2008 and 2007. The amount included in cost of sales related to natural gas hedges that no longer qualified for hedge accounting due to changes in the underlying purchase contracts was not significant for the nine months ended September 30, 2008 and was $1 million for the nine months ended September 30, 2007.

Subsequent to September 30, 2008, substantial volatility in the commodity and currency markets has significantly impacted the price of commodities and foreign currency exchange rates that impact Delphi s operations. Two of Delphi s largest exposures, copper and the Mexican Peso to U.S. Dollar exchange rate, experienced substantial volatility since September 30, 2008. As a result of the market volatility, Delphi has experienced unrealized losses in its derivative contracts related to these exposures. Based on prices and rates as of the end of October 2008, Delphi estimates its overall liability position for its hedging portfolio to be

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approximately $270 million, an increase of approximately $305 million from September 30, 2008. Most of this change is due to the exposures to copper and the Mexican Peso to U.S. Dollar exchange rate. As Delphi s hedges relative to these two exposures represent highly effective cash flow hedges, Delphi anticipates that any amounts recorded within OCI will be recognized in earnings in the same period that the underlying hedged transaction occurs, thereby resulting in an offsetting impact to earnings in the period the underlying transaction is consummated. However, as a result of the substantial overall liability position as of October 31, 2008, Delphi s most recent weekly borrowing base computation, as further described in Note 15. Debt, included the maximum deduction from its borrowing base of $75 million due to these hedging obligations.

19. FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued SFAS 157, which defines fair value, establishes a framework for measuring fair value in U.S. GAAP, and expands the disclosure requirements regarding fair value measurements. The rule does not introduce new requirements mandating the use of fair value.

In February 2008, the FASB issued FASB Staff Position No. 157-2 (FSP 157-2), *Effective Date of FASB Statement No. 157,* which partially defers 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 SFAS No. 157 as of January 1, 2008 for assets and liabilities not subject to the deferral and expects to adopt the provisions of SFAS No. 157 as of January 1, 2009 for nonfinancial assets and liabilities that are subject to the deferral.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The definition is based on an exit price rather than an entry price, regardless of whether the entity plans to hold or sell the asset. SFAS No. 157 also establishes a fair value hierarchy to prioritize inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques noted in SFAS 157:

a. *Market approach:* Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

b. *Cost approach:* Amount that would be required to replace the service capacity of an asset (replacement cost).

c. *Income approach:* Techniques to convert future amounts to a single present amount based upon market expectations (including present value techniques, option-pricing and excess earnings models).

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As of September 30, 2008, Delphi had the following assets measured at fair value on a recurring basis:

		Fair Value Measurements Using:		
	Total as of September 30, 2008	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
		(in millions)		
Available for sale securities	$ 74	$ 25	$	