DELPHI CORP
Form 10-Q
April 16, 2003

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, DC 20549-1004**

# FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2003

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________.

Commission file No. 1-14787

# DELPHI CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction of incorporation or organization) | **38-3430473**<br>(IRS employer identification number) |
| **5725 Delphi Drive, Troy, Michigan**<br>(Address of principal executive offices) | **48098**<br>(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 X. No _.

As of March 31, 2003, there were 560,280,510 outstanding shares of the registrant s $0.01 par value common stock.

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**DELPHI CORPORATION**

**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2003 | 2002 |
| | (in millions, except per share amounts) | |
| Net sales: | | |
| General Motors and affiliates | $ 4,555 | $ 4,484 |
| Other customers | 2,627 | 2,204 |
| Total net sales | 7,182 | 6,688 |
| Less operating expenses: | | |
| Cost of sales, excluding items listed below | 6,312 | 5,889 |
| Selling, general and administrative | 389 | 362 |
| Depreciation and amortization | 253 | 244 |
| Restructuring (Note 2) | | 225 |
| Total operating expenses | 6,954 | 6,720 |
| Operating income (loss) | 228 | (32) |
| Less: interest expense | 45 | 48 |
| Other income, net | 2 | 10 |
| Income (loss) before income taxes | 185 | (70) |
| Income tax expense (benefit) | 58 | (19) |
| Net income (loss) | $ 127 | $ (51) |
| Basic and diluted earnings (loss) per share (Note 1) | $ 0.23 | $ (0.09) |

See notes to consolidated financial statements.

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**DELPHI CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

| | March 31, 2003 (Unaudited) | December 31, 2002 |
|---|---|---|
| | (in millions) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 755 | $ 1,014 |
| Accounts receivable, net: | | |
| General Motors and affiliates | 2,954 | 2,304 |
| Other customers | 1,516 | 1,712 |
| Inventories, net (Note 3) | 1,765 | 1,769 |
| Deferred income taxes | 493 | 502 |
| Prepaid expenses and other | 173 | 241 |
| Total current assets | 7,656 | 7,542 |
| Long-term assets: | | |
| Property, net | 5,912 | 5,944 |
| Deferred income taxes | 3,652 | 3,649 |
| Goodwill, net | 707 | 699 |
| Other | 1,474 | 1,482 |
| Total assets | $ 19,401 | $ 19,316 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Notes payable and current portion of long-term debt | $ 648 | $ 682 |
| Accounts payable | 3,202 | 3,060 |
| Accrued liabilities | 1,982 | 2,118 |
| Total current liabilities | 5,832 | 5,860 |
| Long-term liabilities: | | |
| Long-term debt | 2,082 | 2,084 |
| Pension benefits | 3,440 | 3,568 |
| Postretirement benefits other than pensions | 5,269 | 5,120 |
| Other | 1,338 | 1,405 |
| Total liabilities | 17,961 | 18,037 |
| Stockholders equity (Note 6): | | |
| Common stock, $0.01 par value, 1,350 million shares authorized, 565 million shares issued in 2003 and 2002 | 6 | 6 |
| Additional paid-in capital | 2,459 | 2,445 |
| Retained earnings | 1,618 | 1,530 |
| Accumulated other comprehensive loss: | | |
| Minimum pension liability | (2,098) | (2,098) |
| All other components | (469) | (493) |
| Treasury stock, at cost (4.7 million and 6.9 million shares in 2003 and 2002, respectively) | (76) | (111) |
| Total stockholders equity | 1,440 | 1,279 |

| | | |
|---|---|---|
| Total liabilities and stockholders equity | $ 19,401 | $ 19,316 |

See notes to consolidated financial statements.

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**DELPHI CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2003** | **2002** |
| | (in millions) | |
| Cash flows from operating activities: | | |
| Net income (loss) | $ 127 | $ (51) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 253 | 244 |
| Deferred income taxes | 3 | (37) |
| Restructuring | | 225 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (474) | (523) |
| Inventories, net | 1 | 23 |
| Prepaid expenses and other | 68 | (31) |
| Accounts payable | 153 | 263 |
| Restructuring obligations | (24) | (174) |
| Accrued liabilities | (101) | 87 |
| Other long-term liabilities | 16 | 181 |
| Other | (18) | 13 |
| Net cash provided by operating activities | 4 | 220 |
| Cash flows from investing activities: | | |
| Capital expenditures | (221) | (209) |
| Other | 27 | 16 |
| Net cash used in investing activities | (194) | (193) |
| Cash flows from financing activities: | | |
| Net repayments of borrowings under credit facilities and other debt | (36) | (50) |
| Dividend payments | (39) | (39) |
| Issuance of treasury stock, net | 1 | 9 |
| Net cash used in financing activities | (74) | (80) |
| Effect of exchange rate fluctuations on cash and cash equivalents | 5 | (7) |
| Decrease in cash and cash equivalents | (259) | (60) |
| Cash and cash equivalents at beginning of period | 1,014 | 757 |
| Cash and cash equivalents at end of period | $ 755 | $ 697 |

See notes to consolidated financial statements.

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**DELPHI CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

## 1. BASIS OF PRESENTATION

***General*** Delphi Corporation ( Delphi ) is a world-leading supplier of vehicle electronics, transportation components, integrated systems and modules and other electronic technology. The consolidated financial statements and notes thereto included in this report should be read in conjunction with our consolidated financial statements and notes thereto included in our 2002 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The consolidated financial statements include the accounts of Delphi and its wholly-owned and majority-owned subsidiaries.

All significant intercompany transactions and balances between consolidated Delphi businesses have been eliminated. In the opinion of management, all adjustments, consisting of only normal recurring items, which are necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results which may be expected from any other interim period or for the full year and may not necessarily reflect the consolidated results of operations, financial position and cash flows of Delphi in the future.

Certain prior period amounts have been reclassified to conform to current period presentation.

***Earnings Per Share*** Basic earnings per share amounts were computed using weighted average shares outstanding for each respective period. Diluted earnings per share also reflect the weighted average impact from the date of issuance of all potentially dilutive securities, unless inclusion would have had an antidilutive effect. Actual weighted average shares outstanding used in calculating basic and diluted earnings per share were:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2003** | **2002** |
| | (in thousands) | |
| Weighted average shares outstanding | 559,561 | 560,448 |
| Effect of dilutive securities | 170 | |
| Diluted shares outstanding | 559,731 | 560,448 |

The Board of Directors declared a dividend on Delphi common stock of $0.07 per share on March 26, 2003, which is payable on May 5, 2003 to holders of record on April 7, 2003. The dividend declared on December 4, 2002 was paid on January 15, 2003.

***Stock-Based Compensation*** As allowed under Statement of Financial Accounting Standards ( SFAS ) No. 123, Accounting for Stock-Based Compensation, Delphi accounts for stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Stock options granted during the three months ended March 31, 2002 were exercisable at prices equal to the fair market value of Delphi common stock on the dates the options were granted; accordingly, no compensation expense has been recognized for the stock options granted. There were no stock options granted during the first quarter of 2003.

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If we accounted for stock-based compensation using the fair value recognition provisions of SFAS No. 123 and related amendments, our net income (loss) and basic and diluted earnings (loss) per share would have been as follows:

| | Three Months Ended March 31, 2003 | Three Months Ended March 31, 2002 |
|---|---|---|
| | (in millions, except per share amounts) | |
| Net income (loss), as reported | $ 127 | $ (51) |
| Less: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects | 3 | 10 |
| Pro forma net income (loss) | $ 124 | $ (61) |
| Earnings (loss) per share: | | |
| Basic and diluted as reported | $ 0.23 | $ (0.09) |
| Basic and diluted pro forma | $ 0.22 | $ (0.11) |

During 1999, Delphi awarded certain employees approximately 3 million restricted stock units, which were delivered to them as stock during the first quarter of 2003 in accordance with the original award terms.

During the first quarter of 2003, we cancelled approximately 20 million shares available for future grants under the terms of certain of Delphi s stock option plans. As of March 31, 2003, there are 24 million shares available for future grants under these stock option plans.

**2. RESTRUCTURING AND PRODUCT LINE CHARGES**

In the first quarter of 2002, Delphi approved restructuring plans to eliminate approximately 6,100 positions from our global workforce, comprised of 3,100 U.S. employees and 3,000 employees in non-U.S. locations, downsize more than 25 selected facilities in the United States and Europe, and exit certain other activities by the end of the first quarter of 2003. The restructuring charge totaled $231 million with $222 million of employee costs (including postemployment benefits and special termination pension benefits) and $9 million in other exit costs (lease and contract cancellation fees). This charge, when netted against the $6 million reversal for the 2001 restructuring reserve, resulted in a net restructuring charge of $225 million ($150 million after-tax) in the first quarter of 2002.

We executed our restructuring actions as planned. Total cash paid for restructuring was $200 million, with $191 million for employee costs and $9 million for other exit costs. The cash outflows for the first quarter of 2003 were $24 million, with $17 million for employee costs and $7 million for other exit costs.

In late 2001, we planned to dispose of our generator product line. During 2002, we determined that we would not complete the transaction and began to wind down this product line. Of the total recorded loss of $231 million ($149 million after-tax) associated with the wind down of this product line, $37 million ($24 million after-tax) for contractually required payments (principally employee related) was recorded in cost of sales during the first quarter of 2002.

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### 3. INVENTORIES, NET

Inventories, net consisted of:

| | March 31, 2003 | December 31, 2002 |
|---|---|---|
| | (in millions) | |
| Productive material, work-in-process and supplies | $ 1,454 | $ 1,587 |
| Finished goods | 564 | 435 |
| Total inventories at FIFO | 2,018 | 2,022 |
| Less: allowance to adjust the carrying value of certain inventories to LIFO | (253) | (253) |
| Total inventories, net | $ 1,765 | $ 1,769 |

### 4. ASSET SECURITIZATION

In the first quarter of 2003, we entered into a $500 million domestic accounts receivable securitization facility agreement ( Facility Agreement ) for certain trade receivables. Under this Facility Agreement, we have agreed to sell certain accounts receivable to Delphi Receivables LLC, ( DR ) a wholly-owned consolidated special purpose entity. DR may then sell, on a non-recourse basis (subject to certain exceptions relating to receivables that are reduced or cancelled for reasons unrelated to the creditworthiness of the obligor or customary write-offs, are disputed, or for which any representations and warranties are no longer true), an undivided interest in its receivables to certain receivable conduits that fund their purchases through the issuance of commercial paper, with back-up purchase commitments from the conduits related financial institutions. The receivables are sold at fair market value and a discount on the sale is recorded in operating income. While we do not retain an interest in the receivables sold, we do perform collections and administrative functions. As of March 31, 2003, DR had not sold any undivided interests in its accounts receivables; on April 1, 2003, DR sold undivided interests in its receivables equal to $350 million to the receivable conduits. The Facility Agreement expires on March 31, 2004 and can be extended on an annual basis until March 31, 2006 based upon the mutual agreement of the parties. Additionally, the Facility Agreement contains financial and other covenants similar to our revolving credit facilities that, if not met, would result in a termination of the agreement. As of March 31, 2003, we are in compliance with all such covenants.

### 5. 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. To manage the volatility relating to these exposures, we aggregate the exposures on a consolidated basis to take advantage of natural offsets. For exposures that are not offset within our operations, we enter into various derivative transactions pursuant to our 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. We assess the initial and ongoing effectiveness of our hedging relationships in accordance with our documented policy. We do not hold or issue derivative financial instruments for trading purposes.

Gains and losses on derivatives qualifying as cash flow hedges are recorded in other comprehensive income ( OCI ) to the extent that hedges are effective until the underlying transactions are recognized in earnings. Net losses included in OCI as of March 31, 2003, were $7 million after-tax ($11 million pre-tax). Of this pre-tax total, a loss of approximately $16 million is expected to be included in cost of sales within the next 12 months and a gain of approximately $2 million is expected to be included in subsequent periods. A loss of approximately $2 million is expected to be included in depreciation and amortization expense over the lives of the related fixed assets and a gain of approximately $5 million is expected to be

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included in interest expense over the term of the related debt. The unrealized amounts in OCI will fluctuate based on changes in the fair value of open contracts at each reporting period. Cash flow hedges are discontinued when it is probable that the original forecasted transactions will not occur. The amount included in cost of sales related to hedge ineffectiveness and the time value of options was not material.

**6. STOCKHOLDERS EQUITY**

Changes in stockholders equity for the three months ended March 31, 2003 were:

| | Common Stock | | Additional | | Accumulated Other Comprehensive Loss | | | Total |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Paid-in Capital | Retained Earnings | Minimum Pension Liability | Other | Treasury Stock | Stockholders Equity |
| | | | | | (in millions) | | | |
| Balance at January 1, 2003. | 565 | $ 6 | $ 2,445 | $ 1,530 | $ (2,098) | $ (493) | $ (111) | $ 1,279 |
| Net income | | | | 127 | | | | 127 |
| Currency translation adjustments and other, net of tax | | | | | | 21 | | 21 |
| Net change in unrecognized loss on derivative instruments, net of tax | | | | | | | | |