American Accounting Association

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March 28, 2008

Agenda

- **Introduction to Delphi**
- **Hot Topics in Bankruptcy Accounting**
- **Compliance and Controls**
- **Questions & Discussion**

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Global Presence

U.S. & Canada

Manufacturing sites:	39
Employment:	33,000
Joint ventures:	6
Technical centers:	10

Europe & Middle East

Manufacturing sites:	54
Employment:	51,500
Joint ventures:	8
Technical centers:	14

Total Delphi

Manufacturing sites:	162
Employment:	170,000
Joint ventures:	42
Technical centers:	32

Mexico & South America

Manufacturing sites:	53
Employment:	74,000
Joint ventures:	9
Technical centers:	2

Asia Pacific

Manufacturing sites:	16
Employment:	11,500
Joint ventures:	19
Technical centers:	6

As of 03/31/07

Diversified Customer Breadth

Current Challenges

- Emergence from Chapter 11 Bankruptcy
  - Agreements reached with core constituencies
  - Successful negotiation of competitive labor agreements
  - Sponsorship of private equity plan investors
  - Bankruptcy exit financing
  - Fresh Start and other accounting considerations
- Footprint Rotation
  - Better match of Delphi manufacturing sites with customers
- Process and Data Standardization
  - Implementation of common IT systems
  - Transition back-office activities to outsourced provider
  - Rationalization of legal entity and trial balance structures
- Market Forces
  - Declining demand for passenger vehicles
  - Rotation into adjacent markets

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Brian Thelen – VP Internal Audit Services Team

- Public Accounting with AY/EY Chicago
  - External Audit services
  - Tax
  - M&A, Bankruptcy & Insolvency
- Industry Experience
  - American Standard (Trane HVAC, American Standard Plumbing, WABCO Automotive)
    - » Division Controller – Trane Chicago
    - » Americas Internal Audit Manager – ASD HQ Piscataway, NJ
    - » ASD General Auditor – Piscataway NJ
  - Waste Management Inc. (Houston, TX)
    - » VP Internal Audit Services Team
- Turnaround/Start-Up Experience
  - Trane Chicago private to public company transition
  - American Standard LBO and subsequent IPO
  - WM audit department start-up
  - Delphi bankruptcy emergence/business turnaround

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Hot Topics in Bankruptcy Accounting

10-K Disclosures

- Bankruptcy greatly expands disclosure requirements
  - 2007 Delphi 10-K is 224 pages long

- Disclosure Examples
  - Item 1 (Description of Business)
    - » History and description of Chapter 11 filing activities
    - » Constant changes require timely update of Item 1 info prior to 10-K release
  - Item 1A (Risk Factors)
    - » Significant additions due to bankrutcy
      - Risk of liquidation if Chapter 11 plans unsuccessful
      - Limited utilization of tax NOL's
      - Ability to obtain exit financing
      - Etc.

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10-K Disclosures (cont'd)

- Item 3 (Legal Proceedings)
  - » Description of shareholder lawsuits, other bankruptcy-related issues
  - » Challenge to stay current prior to release of 10-K
- Item 5 (Market for Common Equity)
  - » NYSE listing suspended for Delphi when in Chapter 11
  - » OTC trading via "Pink Sheets"
- Item 7 (Management Discussion & Analysis)
  - » Focus on Delphi Transformation Plans
  - » Descriptions of PSA (Plan Framework Support Agreements) and EPCA (Equity Purchase & Commitment Agreements)
  - » Challenge to stay on top of changes as plan investor mix changes or terms of agreements are modified

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Other Public Disclosures

- Emergence plans call for Subscription Rights & Warrants
- S-1 Registration Statement & Prospectus required
  - 290 pages
  - Significant input from Delphi Finance, Legal and outside counsel
  - “Plain English” challenge to describe rights under plan
  - Documents sent to all creditors & claimants

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Specific Bankruptcy-Related Financial Reporting

- Bankruptcy court requires specific reporting
  - U.S. GAAP standards continue to apply to public reporting
  - Additional requirements for presentation of financial statements
  - Additional reporting requirements drive additional cost

- Monthly Operating Reports (MOR)
  - Separation of debtor entity financial statements from consolidated financial results
  - Complexity of separation based on legal entity structure, management reporting systems, capability of financial reporting systems, capacity of personnel to manage information flow, etc.
  - Debtor entity information must be in sufficient detail to be meaningful to various stakeholders (statutory committees, bankruptcy court, potential investors, etc.)
  - Challenge to handle additional workload with reduced staff or to acquire external resources with limited financial resources

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Specific Bankruptcy-Related Financial Reporting

- Liabilities Subject to Compromise (LSC)
  - Review all the liabilities of the debtor entities to determine which are subject to compromise and ultimately settled through the bankruptcy process
  - This balance will be segregated from the other liabilities on the balance sheet and will be detailed in a footnote
- Reorganization Items
  - The reorganization line includes expenses and income directly related to the case such as professional fees, interest income on the debtor's cash and settlement of prepetition liabilities
- Debtor Financial Statements footnote
  - Similar to the MOR, each quarterly and annual filing must include debtor only financial statements that must be in accordance with U.S. GAAP and audited for the annual periods

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Specific Bankruptcy-Related Financial Reporting

- Discontinued Operations Presentation
  - Determining the appropriate point in time to begin discontinued operations presentation including how the Court supervision impacts the assessment of the criteria in FAS 144
- Divestures
  - Managing transition service arrangements for divested businesses, particularly when sold to financial buyers
- Impairments
  - Chapter 11 is often considered a triggering event for long-lived asset impairment testing which requires cash flow analysis and valuation if an impairment will be required
- Restructuring costs for employee terminations and exit costs
  - Companies in reorganization often must rationalize existing facilities and people resources to reduce ongoing costs

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Fresh Start Accounting Overview

- As part of our emergence from Bankruptcy, we must apply Fresh Start accounting as of the date of emergence
  - Fresh Start accounting is very similar to purchase accounting
  - We must account for the transactions related to the bankruptcy Plan of Reorganization (POR)
  - We must record all assets and liabilities for the consolidated company (not just the debtors) at fair value
    - » The total value of the new company as well as the fair value of the underlying assets and liabilities are being calculated at the Product Business Unit (PBU) level and the fair value of the underlying assets and liabilities will be recorded at each trial balance location
  - Although not required, Fresh Start accounting allows for the update of internal accounting policies
  - It is required under Fresh Start accounting to implement as of the emergence date any accounting standards with an effective date within 12 months of the emergence date
    - » Currently no significant impact, however FAS 141(r) would have an impact if the FASB decides that early adoption is required

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Fresh Start Accounting Balance Sheet

- **We have defined the Fresh Start process to encompass two significant Accounting events. Each event must be completed in the required sequence, as part of the emergence from bankruptcy**

Closing Balance Sheet prior to Emergence

	Old Co	**Plan**	**Fresh Start**	**New Co**
Assets				
Liabilities				
Equity				

New Opening Balance Sheet

Transactions required to record the effects of the Plan upon emergence from Chapter 11, such as (debtor entities only):

- Debt extinguishment

- Cancellation of old common stock

- Estimated settlement of allowed claims

- Issuance of new stock and debt

Accounting per Fresh-Start Reporting Guidelines (all entities):

- Asset and liability valuation adjustments

- Deferred tax treatment

- New Intangible Assets

- Eliminate retained earnings and adjust other equity accounts

Application of Fresh Start Accounting

- Application of Fresh Start Accounting is a two-step process, which results in an opening balance sheet
  - Account for the effects of the Plan of Reorganization
  - Measure and account for the fair value of assets and liabilities
- Step 1: Accounting for the bankruptcy Plan of Reorganization:
  - Many accounting transactions will be required to record the effects of the Plan upon emergence from Chapter 11, including:
    - » Extinguish old debt; issue new debt
    - » Write-off of old common stock; issuance of new common and preferred stock
    - » Settlement of allowed claims through payment of cash, issuance of new notes (debt), issuance of new common stock (as appropriate for each class of claim)
    - » Estimate of allowed claims not settled at emergence (contingent, disputed or unliquidated claims) recorded as a liability at emergence

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Application of Fresh Start Accounting

- Step 2: Establish reorganization value and measure fair value of all assets and liabilities:
  - Determine the reorganization value
  - Allocate reorganization value to all assets at fair value and then to all liabilities at present value, including their tax impacts:
    - » Inventories
    - » Fixed assets
    - » Investments in non-consolidated joint ventures
    - » Intangibles- customer relationships, patents, tradenames, in-process research and development (IPR&D)
    - » Debt and other liabilities, including contingent liabilities and deferred income
    - » Pension and other post-retirement obligations
  - Any reorganization value left after allocating to fair value of assets and liabilities is recorded to goodwill

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Intangible Assets

- Patents/in-house technology is a combination of legal patent rights held and unpatented technology developed internally
  - The value is determined by estimating the royalty expense that the entity would pay for the technology if it were held by a third party
- In-process research & development (IPR&D) is the cost of developing a product for market
- Trade names are valued similar to patents in that the cost to license the brand is estimated
- Customer relationships represents the value of all our customers by adjusting future cash flows for the cost of capital, workforce, technology, etc.
- Following is the anticipated amortizable lives of the intangible assets to be recognized at emergence
  - Customer relationships – 5-13 years
  - Trade names – 20 years
  - IPR&D – written off immediately upon emergence
  - Patents – 10-17 years
  - Goodwill – indefinitely lived and subject to annual impairment test

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Fresh Start Accounting – Entities Affected

- **Every Legal Entity is Affected by this Process! -** both the entities in bankruptcy and non-debtor entities will require adjustments at emergence

	Debtors	Non-Debtors
Old Co		
Final Closing Balance Sheet	x	x
Audited Financials (Depends on facts)	x	x
Effects of Plan		
Liabilities subject to compromise	x	
Issuance of Stock	x	
Other	x	
Fresh-Start (including push-down)		
Valuation of Assets	x	x
Elimination of:		
Accumulated Deficit	x	x
Cumulative Translation Adj.	x	x
New Company (Audited)	x	x

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Preparing for Fresh Start

- The initiative has been managed like a project, with a project leader and the identification of project workstreams and related workstream owners including:
  - Valuation – consistent with purchase accounting
    - Significant effort required to value fixed assets, identifiable intangible assets and investments in joint ventures
  - Systems - the valuation adjustments need to be recorded by the operating units with fixed assets, intangible assets and inventory the most cumbersome depending on the existing systems configuration and subsidiary ledgers
  - Tax - The valuation adjustments generally impact book basis, but not tax basis, thereby generating deferred tax adjustments
  - Accounting – Fresh Start allows the unique opportunity to assess current accounting policies for updates without the need for preferability letters

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Preparing for Fresh Start

- All of the workstream owners report to an individual within Finance that has responsibility for the entire Fresh Start initiative
  - Corporate Functions
  - Division Finance
- Project crosses multiple Finance competencies critical to set-up a Steering Committee to which the project team reports status and raises issues as necessary
  - The Committee should consist of the leaders of each Finance competency as well as Finance representatives from the operating divisions and external auditors
- A Fresh Start "champion" has been identified at each operating unit to coordinate information requests with its locations and serve as the first point of contact for locations
  - Minimizes the level of coordination required by the Project Office

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Challenges

- Biggest obstacle has been educating the organization as to what Fresh Start is and how it impacts them . . . Specifically

- Next challenge has been managing the multitude of activities/tasks in an environment in which the deadline (emergence from bankruptcy) can be a constantly moving target

- Adapting the valuation of enterprise value and intangible assets to changes in the underlying economics of the emergence deal

- Delays in emergence may result in revisiting Fresh Start valuations and may result in considerable additional consultant spend

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Elements of an Effective Compliance Program

“Compliance-Challenged” Work Experience

- Waste Management
  - Misrepresentation of financial results; multi-billion $$ restatements
  - Insider trading by executives
  - Incentive compensation payments based on overstated financial results
  - Shareholder lawsuits
  - SEC investigations
  - Low employee morale

- Delphi Corporation
  - Misrepresentation of financial results
  - Insider trading by executives
  - SEC & DOJ investigations
  - 9 Material Weaknesses (2005)
  - Dysfunctional/adversarial relationship with external auditor

Some Elements of an Effective Compliance Program

- Statistory Requirements
  - US Federal Sentencing Guidelines
  - Foreign Corrupt Practices Act
  - Sarbanes Oxley Enforcement & Penalty Provisions
- Management Leadership
  - Championship of compliance programs by CEO and BOD
  - Sincerity of management's commitment
  - Inspiration of culture change
- Blocking and Tackling
  - Effective compliance organization framework
  - Effective compliance monitoring tools
  - Appropriate responses to compliance failures

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Some Elements of an Effective Compliance Program

- Active and Engaged Audit Committee
  - Committed to developing a compliance-focused organization
  - Willing to invest in required resources
  - Clarity in zero tolerance messages to senior leadership
  - Desire to be kept informed of compliance program progress and effectiveness
- Responsive and Participatory Workforce
  - Understand compliance is not "program of the day"
  - Do not underestimate the impact of poor compliance performance on employee morale
- Trust Between Company and Enforcement Agencies
  - Willingness of company to self-report compliance failures and corrective action plans
  - Willingness of company and/or BOD to discharge employees failing to abide by established compliance standards

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Implementing a "Culture of Compliance"

Implementing a “Culture of Compliance”

- Leadership from BOD and Executive Management
  - Chief Compliance Officer
    - Senior-executive level position
    - Access to BOD, AC
- Programs Must be Relevant to Employees
  - Revised Code of Conduct
  - Marketing of concepts to all employees
    - Programs must be easily understood and generate enthusiasm
      - **“Focus On” tagline at WM**
      - **DRIVE tagline at Delphi**
- Communication & Training
  - Use examples employees can relate to
  - Smaller groups and interactive
  - Content must be kept current

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Implementing a "Culture of Compliance" (cont'd)

- Clear and Consistent Actions
  - Ethical and compliance violations must be addressed promptly
  - Consistent treatment, regardless of level, division, location, etc.
  - Actions must be visible to employee population
- Senior Leadership Team Composition
  - 9 of 18 Senior Leadership Team members new to WM
    - » Change driven by external experiences of new blood
    - » Freedom to challenge status quo/implement new ideas
    - » "Blank sheet of paper" opportunity
  - 4 of 23 Senior Leadership Team members new to Delphi
    - » More difficult to rapidly promote new ideas
    - » Reliance on "teachable moments" caused by compliance failures
    - » Distractions of bankruptcy and multiple initiatives
    - » Requires more active hands on driving of compliance programs

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Roles, Responsibilities & Tools

Roles & Responsibilities – Personal Experiences

- VP Ethics & Compliance (WM)
  - Responsible for development, training & promotion of ethics and compliance programs
  - Point person to lead culture change activities
- Chief Compliance Officer (Delphi)
  - Role held by General Counsel
  - Shared responsibilities with VP-IAS
- Compliance Review Board (WM & Delphi)
  - Cross-functional team to review, discuss and recommend solutions to compliance related questions
  - Members include HR, Corp Accounting, Security, Internal Audit, Communications/Government Relations, Environmental, Legal, Procurement, Tax, Operations
- Risk Management Committee (WM)
  - Venue including CEO, COO, CFO to discuss risk, including compliance

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Roles & Responsibilities – Smaller Companies

- Company size may not justify specialization
  - Need to find a sponsor who has:
    - » The support and respect of Executive leadership and BOD
    - » Access to the BOD independent of management
    - » Appropriate level of responsibility and authority in the organization
    - » The ability to effectively communicate with the employee population
- Roles have been filled by:
  - Legal department (when compliance deemed "regulatory")
  - HR department (when compliance deemed "behavioral")
  - IA department (when no one else wants it?)
- Shared responsibility can be effective
  - "Compliance Review Board" example
  - Leader of Board needs to be a senior leader in the organization
  - Audit is a natural leader/champion

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Tools

- Help Line
  - Review data for compliance failure trends (behavioral, geographic, etc.)
  - Not very effective outside of the US
- Conflict of Interest/Business Conduct Policy Validation
  - Annual survey of employee population to identify conflicts
  - Opportunity to annually refresh exposure to Business Conduct Policy
  - Opportunity to provide training based on lessons learned
- Enterprise Risk Assessment
  - Solicit input regarding compliance-related risks
- Formal Business Conduct Training (NOT Ethics Training)!
  - Company-specific examples
  - Opportunity to foster discussion of what compliance means

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Tools (cont'd)

- Ethics & Compliance Audit Scopes
  - Validation of training and certification programs
  - Participation in Help Line investigations involving ethical/compliance lapses
- Cross-Functional Compliance Boards
  - Regional, Divisional, Other
  - Forum for discussing compliance issues and questions
  - Points of contact for employees
- Visible & Consistent Consequences to Violators
  - Public hangings when appropriate
  - Consistent treatment of violations
- Effective Marketing and Communication
  - "Why to Comply"
  - Needs to be interesting, memorable and "sticky"
  - Needs to be culturally relevant

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Driving Tomorrow's Technology