

## **Delphi SARS Offer – Keep Your Options Open (11/21/03)**

Delphi Corporation announced a one-for-one exchange offer, giving eligible employees the opportunity to exchange certain stock options for cash-settled stock appreciation rights (SARs). Each SAR represents the right to receive, at the time of exercise, cash in an amount equal to the difference between the grant price of the SAR and the fair market value of a share of Delphi common stock. The grant price of each SAR will equal the exercise price of the eligible option being exchanged in the offer. All other terms of such option, including vesting status, term and termination provisions will carry over to the newly issued SAR. Only options having an exercise price equal to or greater than \$17.00 per share may be exchanged.

### **What are the advantages of SARs over options?**

Delphi will pay all transaction fees when you exercise the SARs. In a "cashless exercise", an "exercise and hold", or an "exercise and sell to cover" of your options, you will have to pay transaction fees.

Although the transaction costs will vary with the number of options exercised, as an example, if you conduct a "cashless exercise" of 100 options priced at \$17.00 when the share price of Delphi stock is \$20.00, your gain would be \$3.00 per option for a total gain of \$300.00. Transaction fees in this example would be \$27.50, netting you \$272.50. In the exercise of SARs under the same terms, you would net the entire \$300.00.

### **What are the disadvantages of SARs?**

You may lose flexibility in how you exercise your options. A SAR is equivalent to the "cashless exercise" feature of an option. In the "cashless exercise" of an option (or the exercise of a SAR), you receive the "spread" between the option price (or SAR price) and the current price of the stock (as shown in the example above). These proceeds are taxed as ordinary income at your marginal tax rate. If your options are eligible for "exercise and hold" or "exercise and sell to cover", part of your gain could be taxed at the more favorable capital gains tax rate.

### **Recommendation**

Participation in the offer is voluntary. Your choice depends on your desire for the flexibility in how you can exercise your existing options versus the transaction cost savings of the SARs. The current exchange offer is open through December 17, 2003. Feel free to call us toll-free at 1-866-444-6246 with any questions relative to your personal situation.