VISTEON CORP
Form 10-Q
April 30, 2008

Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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 1-15827

VISTEON CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware (State of incorporation)	**38-3519512** (I.R.S. employer Identification number)
One Village Center Drive, Van Buren Township, Michigan (Address of principal executive offices)	**48111** (Zip code)

Registrant s telephone number, including area code: (800)-VISTEON

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 ü No___

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 _ü_ Accelerated Filer ____ Non-Accelerated Filer ____ Smaller Reporting Company ____
(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____ No_ü_

As of April 24, 2008, the Registrant had outstanding 130,828,622 shares of common stock, par value $1.00 per share.

Exhibit index located on page number 44.

VISTEON CORPORATION AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

INDEX

Table of Contents

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Visteon Corporation

We have reviewed the accompanying consolidated balance sheet of Visteon Corporation and its subsidiaries as of March 31, 2008 and the related consolidated statements of operations for each of the three-month periods ended March 31, 2008 and March 31, 2007 and the consolidated statements of cash flows for the three-month periods ended March 31, 2008 and March 31, 2007. These interim financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2007, and the related consolidated statements of operations, shareholders deficit and of cash flows for the year then ended (not presented herein), and in our report dated February 22, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2007, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Detroit, Michigan
April 30, 2008

Table of Contents

VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three-Months Ended March 31 2008	Three-Months Ended March 31 2007
	(Dollars in Millions, Except Per Share Data)	
Net sales		
Products	$ 2,739	$ 2,758
Services	121	130
	2,860	2,888
Cost of sales		
Products	2,545	2,643
Services	120	128
	2,665	2,771
Gross margin	195	117
Selling, general and administrative expenses	148	169
Restructuring expenses	46	25
Reimbursement from Escrow Account	24	35
Asset impairments and loss on divestiture	40	40
Operating loss	(15)	(82)
Interest expense	57	49
Interest income	15	9
Equity in net income of non-consolidated affiliates	15	9
Loss from continuing operations before income taxes and minority interests	(42)	(113)
Provision for income taxes	51	17
Minority interests in consolidated subsidiaries	12	6
Net loss from continuing operations	(105)	(136)
Loss from discontinued operations, net of tax		17

Net loss	$	(105)	$	(153)
<u>Basic and Diluted Per Share Data:</u>				
Loss from continuing operations	$	(0.81)	$	(1.06)
Loss from discontinued operations, net of tax	$		$	(.13)
Net loss per share	$	(0.81)	$	(1.19)

See accompanying notes to the consolidated financial statements.

Table of Contents

VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31 2008	December 31 2007
	(Dollars in Millions)	
ASSETS		
Cash and equivalents	$ 1,613	$ 1,758
Accounts receivable, net	1,215	1,150
Interests in accounts receivable transferred	491	434
Inventories, net	484	495
Other current assets	281	235
Total current assets	4,084	4,072
Property and equipment, net	2,778	2,793
Equity in net assets of non-consolidated affiliates	240	218
Other non-current assets	126	122
Total assets	$ 7,228	$ 7,205
LIABILITIES AND SHAREHOLDERS DEFICIT		
Short-term debt, including current portion of long-term debt	$ 103	$ 95
Accounts payable	1,851	1,766
Accrued employee liabilities	270	316
Other current liabilities	400	351
Total current liabilities	2,624	2,528
Long-term debt	2,741	2,745
Postretirement benefits other than pensions	622	624
Employee benefits, including pensions	523	530
Deferred income taxes	160	147
Other non-current liabilities	409	428
Minority interests in consolidated subsidiaries	285	293
Shareholders deficit		
Preferred stock (par value $1.00, 50 million shares authorized, none outstanding)		
Common stock (par value $1.00, 500 million shares authorized, 131 million shares issued, 131 million and 130 million shares outstanding, respectively)	131	131
Stock warrants	127	127
Additional paid-in capital	3,406	3,406

Accumulated deficit	(4,128)	(4,016)
Accumulated other comprehensive income	333	275
Other	(5)	(13)
Total shareholders deficit	(136)	(90)
Total liabilities and shareholders deficit	$ 7,228	$ 7,205

See accompanying notes to the consolidated financial statements.

4

Table of Contents

VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three-Months Ended March 31 2008	Three-Months Ended March 31 2007
	(Dollars in Millions)	
Operating activities		
Net loss	$ (105)	$ (153)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	115	121
Asset impairments and loss on divestiture	40	50
(Gain) loss on asset sales	(14)	3
Equity in net income of non-consolidated affiliates, net of dividends remitted	(15)	(9)
Other non-cash items	(7)	16
Changes in assets and liabilities:		
Accounts receivable and retained interests	(96)	(153)
Inventories	(30)	(23)
Accounts payable	80	63
Other assets and liabilities	(94)	(46)
Net cash used by operating activities	(126)	(131)
Investing activities		
Capital expenditures	(74)	(64)
Proceeds from divestiture and asset sales	52	7
Net cash used by investing activities	(22)	(57)
Financing activities		
Short-term debt, net		2
Proceeds from issuance of debt, net of issuance costs	12	1
Principal payments on debt	(15)	(4)
Other, including book overdrafts	(9)	2
Net cash (used by) provided from financing activities	(12)	1
Effect of exchange rate changes on cash	15	2
Net decrease in cash and equivalents	(145)	(185)
Cash and equivalents at beginning of year	1,758	1,057
Cash and equivalents at end of period	$ 1,613	$ 872

See accompanying notes to the consolidated financial statements.

5

Table of Contents

VISTEON CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. Description of Business and Company Background

Visteon Corporation (the Company or Visteon) is a leading global supplier of climate, interiors, electronics and other automotive systems, modules and components to global automotive original equipment manufacturers (OEMs). Headquartered in Van Buren Township, Michigan, Visteon has a workforce of approximately 40,000 employees and a network of manufacturing operations, technical centers, sales offices and joint ventures in every major geographic region of the world.

The Company was incorporated in Delaware in January 2000 as a wholly-owned subsidiary of Ford Motor Company (Ford or Ford Motor Company). Subsequently, Ford transferred the assets and liabilities comprising its automotive components and systems business to Visteon. The Company separated from Ford on June 28, 2000 when all of the Company s common stock was distributed by Ford to its shareholders. On October 1, 2005, the Company sold Automotive Components Holdings, LLC, an indirect, wholly-owned subsidiary of the Company to Ford (ACH Transactions).

The Company continues to transact a significant amount of commercial activity with Ford. The financial statement impact of these commercial activities is summarized in the table below as adjusted for discontinued operations.

	Three-Months Ended March 31	
	2008	2007
	(Dollars in Millions)	
Product sales	$ 978	$ 1,162
Services revenues	$ 115	$ 130

	March 31 2008	December 31 2007
	(Dollars in Millions)	
Accounts receivable, net	$ 306	$ 277
Postretirement employee benefits	$ 120	$ 121

Additionally, as of March 31, 2008 and December 31, 2007, the Company transferred approximately $185 million and $154 million, respectively, of Ford receivables under a European receivables securitization program.

NOTE 2. Basis of Presentation

The unaudited consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations.

These interim consolidated financial statements include all adjustments (consisting of normal recurring adjustments) that management believes are necessary for a fair presentation of the results of operations, financial position and cash flows of the Company for the interim periods presented. The Company s management believes that the disclosures are adequate to make the information presented not misleading when read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as filed with the SEC. Interim results are not necessarily indicative of full year results.

Table of Contents

VISTEON CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. Basis of Presentation (Continued)

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and all subsidiaries that are more than 50% owned and over which the Company exercises control. Investments in affiliates of 50% or less but greater than 20% are accounted for using the equity method. The consolidated financial statements also include the accounts of certain entities in which the Company holds a controlling interest based on exposure to economic risks and potential rewards (variable interests) for which it is the primary beneficiary.

Revenue Recognition: The Company records revenue when persuasive evidence of an arrangement exists, delivery occurs or services are rendered, the sales price or fee is fixed or determinable and collectibility is reasonably assured. The Company delivers product and records revenue pursuant to commercial agreements with its customers generally in the form of an approved purchase order, including the effects of contractual customer price productivity. The Company does negotiate discrete price changes with its customers, which are generally the result of unique commercial issues between the Company and its customers and are generally the subject of specific negotiations between the Company and its customers. The Company records amounts associated with discrete price changes as a reduction to revenue when specific facts and circumstances indicate that a price reduction is probable and the amounts are reasonably estimable. The Company records amounts associated with discrete price changes as an increase to revenue upon execution of a legally enforceable contractual agreement and when collectibility is reasonably assured.

Services revenues are recognized as services are rendered and associated costs of providing such services are recorded as incurred.

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

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect amounts reported herein. Management believes that such estimates, judgments and assumptions are reasonable and appropriate. However, due to the inherent uncertainty involved, actual results may differ from those provided in the Company s consolidated financial statements.

Fair Value Measurements: The Company uses fair value measurements in the preparation of its financial statements, which utilize various inputs including those that can be readily observable, corroborated or generally unobservable. The Company utilizes market-based data and valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the Company applies assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

Recent Accounting Pronouncements: In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. This statement requires disclosure of (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, results of operations, and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of this statement on its consolidated financial statements.

VISTEON CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. Basis of Presentation (Continued)

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations and Statement of Financial Accounting Standards No. 160, Non-controlling Interests in Consolidated Financial Statements, an amendment to ARB No. 51. These statements change the accounting and reporting for business combination transactions and minority interests in consolidated financial statements. These statements are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the impact of these statements on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. This statement permits measurement of financial instruments and certain other items at fair value. The Company adopted this statement effective January 1, 2008 and has not elected the permitted fair value measurement provisions of this statement.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements. This statement, which became effective January 1, 2008, defines fair value, establishes a framework for measuring fair value and expands disclosure requirements regarding fair value measurements. The Company adopted the requirements of SFAS 157 as of January 1, 2008 without a material impact on its consolidated financial statements, as more fully disclosed in Note 17, Fair Value Measurements. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis to fiscal years beginning after November 15, 2008. The Company has not applied the provisions of SFAS 157 to its nonfinancial assets and nonfinancial liabilities in accordance with FSP 157-2.

NOTE 3. Discontinued Operations

In March 2007, the Company entered into a Master Asset and Share Purchase Agreement (MASPA) to sell certain assets and liabilities associated with the Company s chassis operations (the Chassis Divestiture). The Company s chassis operations were primarily comprised of suspension, driveline and steering product lines and included facilities located in Dueren and Wuelfrath, Germany, Praszka, Poland and Sao Paulo, Brazil. Collectively, these operations recorded sales for the year ended December 31, 2006 of approximately $600 million. The Chassis Divestiture, while representing a significant portion of the Company s chassis operations, did not result in the complete exit of any of the affected product lines.

Effective May 31, 2007, the Company ceased to produce brake components at its Swansea, UK facility, which resulted in the complete exit of the Company s global suspension product line. Accordingly, the results of operations of the Company s global suspension product line have been reclassified to Loss from discontinued operations, net of tax in the consolidated statements of operations for the three-month period ended March 31, 2007.

Table of Contents

VISTEON CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. Discontinued Operations (Continued)

A summary of the results of discontinued operations is provided in the table below.

		Three-Months Ended March 31, 2007 (Dollars in Millions)
Net product sales	$	39
Cost of sales		45
Gross margin		(6)
Selling, general and administrative expenses		1
Asset impairments		10
Restructuring expenses		