VISTEON CORP
Form 10-Q/A
August 13, 2002

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended March 31, 2002, 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	**38-3519512**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
5500 Auto Club Drive, Dearborn, Michigan	**48126**
(Address of principal executive offices)	(Zip Code)

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

Indicate by checkmark 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___

Applicable Only to Corporate Issuers: Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: As of March 31, 2002, the Registrant had outstanding 130,790,498 shares of Common Stock, par value $1.00 per share.

Exhibit index located on page number 12.

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VISTEON CORPORATION AND SUBSIDIARIES

INTRODUCTORY NOTE

For purposes of this Form 10-Q/A, we have amended and revised Part I Item 1 Financial Statements of the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002 that was filed on May 1, 2002. This amendment reflects the reissuance of our consolidated financial statements as described further in Note 7 to those consolidated financial statements.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VISTEON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME
For the Periods Ended March 31, 2002 and 2001
(in millions, except per share amounts)

	First Quarter	
	2002	**2001**
	(unaudited)	
Sales		
Ford and affiliates	$ 3,646	$ 3,913
Other customers	823	810
Total sales	4,469	4,723
Costs and expenses (Notes 2 and 3)		
Costs of sales	4,356	4,448
Selling, administrative and other expenses	202	207
Total costs and expenses	4,558	4,655
Operating income (loss)	(89)	68
Interest income	6	19
Interest expense	29	36
Net interest expense	(23)	(17)
Equity in net income of affiliated companies	5	4
Income (loss) before income taxes	(107)	55
Provision (benefit) for income taxes	(40)	19
Income (loss) before minority interests	(67)	36
Minority interests in net income of subsidiaries	6	5
Income (loss) before cumulative effect of change in accounting principle	(73)	31
Cumulative effect of change in accounting principle, net of tax (Note 10)	(265)	
Net income (loss)	$ (338)	$ 31

Average number of shares of Common Stock outstanding	131	131
Earnings (loss) per share (Note 4)		
Basic and diluted before cumulative effect of change in accounting principle	$ (0.57)	$ 0.24
Cumulative effect of change in accounting principle	(2.06)	
Basic and diluted	$ (2.63)	$ 0.24
Cash dividends per share	$ 0.06	$ 0.06

The accompanying notes are part of the financial statements.

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VISTEON CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(in millions)

	March 31, 2002	December 31, 2001
	(unaudited)	(restated)
Assets		
Cash and cash equivalents	$ 815	$ 1,024
Marketable securities	257	157
Total cash and marketable securities	1,072	1,181
Accounts receivable Ford and affiliates	1,710	1,560
Accounts receivable other customers	907	834
Total receivables	2,617	2,394
Inventories (Note 7)	999	942
Deferred income taxes	167	167
Prepaid expenses and other current assets	148	153
Total current assets	5,003	4,837
Equity in net assets of affiliated companies	158	158
Net property	5,233	5,329
Deferred income taxes	487	322
Goodwill (Note 10)		363
Other assets	155	153
Total assets	$ 11,036	$ 11,162
Liabilities and Stockholders Equity		
Trade payables (Note 7)	$ 2,004	$ 1,915
Accrued liabilities	1,019	945
Income taxes payable	28	30
Debt payable within one year	631	629
Total current liabilities	3,682	3,519
Long-term debt	1,285	1,293
Postretirement benefits other than pensions	2,138	2,079
Other liabilities	992	967
Deferred income taxes	12	13
Total liabilities	8,109	7,871
Stockholders equity		
Capital stock		
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
Capital in excess of par value of stock	3,316	3,311
Accumulated other comprehensive income	(240)	(231)
Other	(39)	(25)
Earnings retained for use in business (accumulated deficit)	(241)	105

Total stockholders equity	2,927	3,291
Total liabilities and stockholders equity	$ 11,036	$ 11,162

The accompanying notes are part of the financial statements.

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VISTEON CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the Periods Ended March 31, 2002 and 2001
(in millions)

	First Quarter	
	2002	2001
	(unaudited)	
Cash and cash equivalents at January 1	$ 1,024	$ 1,412
Cash flows provided by (used in) operating activities	58	(187)
Cash flows from investing activities		
Capital expenditures	(140)	(172)
Purchases of securities	(199)	(85)
Sales and maturities of securities	100	
Other		3
Net cash used in investing activities	(239)	(254)
Cash flows from financing activities		
Commercial paper issuances, net		(15)
Short-term debt, net	(1)	1
Proceeds from issuance of other debt	44	28
Principal payments on other debt	(48)	(31)
Purchase of treasury stock	(11)	
Cash dividends	(8)	(8)
Net cash used in financing activities	(24)	(25)
Effect of exchange rate changes on cash	(4)	(6)
Net decrease in cash and cash equivalents	(209)	(472)
Cash and cash equivalents at March 31	$ 815	$ 940

The accompanying notes are part of the financial statements.

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VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS
(unaudited)

1. Financial Statements The financial data presented herein are unaudited, but in the opinion of management reflect those adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of such information. Results for interim periods should not be considered indicative of results for a full year. Reference should be made to the consolidated financial statements and accompanying notes included in the company s Annual Report on Form 10-K for the fiscal year ended December 31, 2001, as filed with the Securities and Exchange Commission on March 29, 2002, as amended on August 13, 2002. Certain amounts for prior periods were reclassified to conform with present period presentation.

Visteon Corporation (Visteon) is a leading, global supplier of automotive systems, modules and components. Visteon sells products primarily to global vehicle manufacturers, and also sells to the worldwide aftermarket for replacement and vehicle appearance enhancement parts. Visteon became an independent company when Ford Motor Company (Ford) established Visteon as a wholly-owned subsidiary in January 2000 and subsequently transferred to Visteon the assets and liabilities comprising Ford s automotive components and systems business. Ford completed its spin-off of Visteon on June 28, 2000 (the spin-off). Prior to incorporation, Visteon operated as Ford s automotive components and systems business.

2. Selected costs and expenses are summarized as follows:

	First Quarter	
	2002	**2001**
	(in millions)	
Depreciation	$ 140	$ 140
Amortization	21	30
Total	$ 161	$ 170

3. Special Charges In the first quarter of 2002, Visteon recorded in costs of sales pre-tax charges of $116 million ($74 million after-tax), as summarized below:

	First Quarter 2002	
	Pre-tax	**After-tax**
	(in millions)	
Restructuring and other charges:		
First quarter 2002 actions*	$ 95	$ 61
Adjustments to prior year s expenses	(5)	(3)
Total restructuring and other charges	90	58
Loss related to sale of restraint electronics business	26	16
Total special charges	$ 116	$ 74

* Includes $5 million related to the write-down of inventory.

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VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

(unaudited)

3. Special Charges (Continued) In the first quarter of 2002, Visteon recorded pre-tax charges of $95 million related to the separation of 820 employees at Markham, Ontario as the company moves nearly all of the non-restraint electronics business to facilities in Mexico, the elimination of about 215 engineering positions in the United States to reduce research and development costs, the closure of our Visteon Technologies facility in California and the related discontinuation of support for our aftermarket navigation systems product line, the closure of our Leatherworks facility in Michigan and the elimination of about 240 manufacturing positions in Mexico. The engineering-related and Mexican manufacturing-related separations, and the closure of Visteon Technologies, were completed in the first quarter of 2002. The separations of the Markham employees are expected to be complete by the end of 2002.

Also in the first quarter of 2002, $5 million of accrued restructuring liabilities relating to prior year restructuring plans were reversed reflecting a change in estimated costs to complete these activities.

Effective April 1, 2002, Visteon completed the sale of its restraint electronics business to Autoliv, Inc. for $25 million. The sale includes Visteon s North American and European order book of approximately $150 million in annual sales to Ford Motor Company and its affiliates, including associated manufacturing operations in Markham, Ontario, as well as related assets and liabilities. As part of the sale, approximately 250 employees from Markham and 110 engineers from Dearborn, Michigan will transfer to Autoliv.

The following table summarizes the activity related to the remaining restructuring reserves from the 2001 actions, as well as restructuring reserve activity related to the 2002 actions. This table does not include the loss related to the sale of the electronics restraint business.

	Automotive Operations		Glass Operations	
	Employee-Related	Other	Employee-Related	Total
		(in millions)		
December 31, 2001 reserve balance	$ 16	$	$ 7	$ 23
Pre-tax charges recorded in costs of sales:				
First quarter 2002 actions	81	14		95
Adjustments to prior year s expenses	(3)		(2)	(5)
Total net expense	78	14	(2)	90
Utilization	(49)	(12)	(1)	(62)
March 31, 2002 reserve balance	$ 45	$ 2	$ 4	$ 51

Reserve balances of $23 million and $51 million at December 31, 2001 and March 31, 2002, respectively, are included in current accrued liabilities on the accompanying balance sheets. The March 31, 2002 reserve balance of $51 million includes $15 million related to 2001 restructuring activities. The company currently anticipates that the restructuring activities to which all of the above charges relate will be substantially completed in 2002.

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VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

(unaudited)

4. Income (Loss) Per Share of Common Stock Basic income per share of common stock is calculated by dividing the income attributable to common stock by the average number of shares of common stock outstanding during the applicable period, adjusted for restricted stock. The average number of shares of restricted stock outstanding was about 2,250,000 and 910,000 for the first quarter of 2002 and first quarter of 2001, respectively. The calculation of diluted income per share takes into account the effect of dilutive potential common stock, such as stock options and restricted stock. For the first quarter of 2002 potential common stock of about 317,000 shares are excluded as the effect would have been antidilutive.

5. Transactions with Ford and its Affiliates Visteon has been working with Ford to resolve a number of outstanding commercial issues. Visteon s supply agreement and related pricing letter with Ford Motor Company require Visteon to provide Ford with productivity price adjustments for 2001, 2002 and 2003. In March 2002, Visteon and Ford reached an agreement resolving North American pricing for 2001 that is consistent with Visteon s previously established reserves. The agreement also included a consensus on the productivity price adjustment for 2002 calendar year as well as agreement that the companies will negotiate all future year price adjustments in a manner consistent with that followed by other Tier One suppliers. There remains a difference of opinion between Visteon and Ford under the supply agreement and related pricing letter with respect to the pricing and sourcing of products supplied to Ford of Europe. The amount in dispute in this regard for 2001 is approximately $50 million before taxes, representing a unilateral reduction in prices assessed by Ford of Europe. Visteon and Ford are continuing settlement discussions regarding this matter, have recently participated in a mediation process and are intending to proceed with arbitration of this issue if the parties cannot reach agreement, as specified in the supply agreement. Although the outcome of this matter is not fully predictable, we believe our established reserves are adequate. The final amounts, however, could differ materially from the recorded estimates.

6. Land Lease In January 2002, Visteon completed an arrangement with a special-purpose entity, owned by an affiliate of a bank, to lease land in Southeast Michigan suitable for a potential headquarters facility. The lease has an initial lease term through June 30, 2002, at which time Visteon has the option to renew the lease on terms mutually acceptable to Visteon and the lessor, purchase the land or arrange for the sale of the property. Visteon has a contingent liability for up to about $23 million in the event the property is sold for less than full cost.

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VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

(unaudited)

7. Inventories Generally, Visteon s policy is to organize arrangements with suppliers to support its production inventory needs with just-in-time deliveries of materials and not take ownership from or authorize payment to suppliers until such time as the materials have been utilized in the production process. During the second quarter of 2002, Visteon became aware that the terms of its purchase orders with certain suppliers did not adequately reflect its understanding of the terms of its pay on production agreements. Accordingly, Visteon has revised its inventory recognition practice related to inventory received from these suppliers to reflect inventory, and the corresponding trade payable, upon receipt rather than when the material is utilized in the production process. As a result, Visteon has revised the following line items in the consolidated balance sheet, with no revision of Visteon s consolidated statement of income or statement of cash flows:

	As Restated		As Originally Reported	
	March 31, 2002	December 31, 2001	March 31, 2002	December 31, 2001
	(in millions)			
Inventories	$ 999	$ 942	$ 872	$ 858
Trade Payables	2,004	1,915	1,877	1,831

Company management is in the process of obtaining formal documentation of these pay on production terms from our vendors and we will reflect these vendor agreements when obtained, on a prospective basis.

Inventories are summarized as follows:

	March 31, 2002	December 31, 2001
	(in millions)	
Raw materials, work-in-process and supplies	$ 853	$ 812
Finished products	146	130
Total inventories	$ 999	$ 942
U.S. inventories	$ 650	$ 589

8. Debt On April 2, 2002, Visteon and Visteon Capital Trust I (the trust) filed a shelf registration statement with the Securities and Exchange Commission to register $800 million in securities. Under this shelf process, in one or more offerings, Visteon may sell notes, preferred stock, common stock, depositary shares, warrants, stock purchase contracts and stock purchase units; and the trust may sell trust preferred securities representing undivided beneficial interests in the trust. This shelf registration statement replaces the prior shelf registration statement filed on June 23, 2000. The registration statement became effective on April 12, 2002. Each time Visteon sells securities under this shelf registration statement, a prospectus supplement will be provided that will contain specific information about the terms of that offering. Except as may otherwise be determined at the time of sale, the net proceeds would be used for general corporate purposes.

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VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

(unaudited)

9. Comprehensive Income (Loss) Other comprehensive income mainly includes foreign currency translation adjustments. Total comprehensive income is summarized as follows:

	First Quarter	
	2002	**2001**
	(in millions)	
Net income (loss)	$ (338)	$ 31
Other comprehensive income (loss)	(9)	(20)
Total comprehensive income (loss)	$ (347)	$ 11

10. Accounting Change In 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets . SFAS 142 no longer permits amortization of goodwill and establishes a new method of testing goodwill for impairment by using a fair-value based approach. Under this statement goodwill is to be evaluated for possible impairment as of January 1, 2002, and periodically thereafter.

Visteon adopted SFAS 142 on January 1, 2002. As required by this standard, an initial test for goodwill impairment was performed which compared the fair value of our Automotive Operations segment to the segment s net book value. Visteon s stock market capitalization, as well as market multiples and other factors, were used as the basis for determining the fair value of the Automotive Operations segment. Because the fair value of the Automotive Operations segment was less than its net book value, Visteon recorded an impairment loss on goodwill of $363 million ($265 million after-tax) as a cumulative effect of change in accounting principle in the first quarter of 2002. The pre-tax impairment loss consists of $357 million of net goodwill as of December 31, 2001 and $6 million reclassified to goodwill related to certain acquired intangible assets, as required by SFAS 142.

The following presents net income and earnings per share adjusted to reflect the adoption of the non-amortization provisions of SFAS 142 as of the beginning of the period presented: