VISTEON CORP
Form 10-Q
April 30, 2008

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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

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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

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VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three-Months Ended March 31 2008	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)
Basic and Diluted Per Share Data:				
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.

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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.

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

	Three-Months Ended March 31	
	2008	**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.

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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.

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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.

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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.

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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		6
Reimbursement from Escrow Account		6
Loss from discontinued operations, net of tax	$	17

NOTE 4. Restructuring Activities

The Company has undertaken various restructuring activities to achieve its strategic and financial objectives. Restructuring activities include, but are not limited to, plant closures, production relocation, administrative cost structure realignment and consolidation of available capacity and resources. The Company expects to finance restructuring programs through cash reimbursement from an escrow account established pursuant to the ACH Transactions, from cash on hand, from cash generated from its ongoing operations, or through cash available under its existing debt agreements, subject to the terms of applicable covenants.

Escrow Agreement

Pursuant to the Escrow Agreement, dated as of October 1, 2005, among the Company, Ford and Deutsche Bank Trust Company Americas, Ford paid $400 million into an escrow account for use by the Company to restructure its businesses. The Escrow Agreement provides that the Company will be reimbursed from the escrow account for the first $250 million of reimbursable restructuring costs, as defined in the Escrow Agreement, and up to one half of the next $300 million of such costs. Cash in the escrow account is invested, at the direction of the Company, in high quality, short-term investments and related investment earnings are credited to the account as earned. Investment earnings of $28 million became available to reimburse the Company s restructuring costs following the use of the first $250 million of available funds. Investment earnings on the remaining $150 million will be available for reimbursement after full utilization of those funds.

The following table provides a reconciliation of amounts available in the escrow account.

	Three-Months Ended March 31, 2008	Inception through March 31, 2008
	(Dollars in Millions)	
Beginning escrow account available	$ 144	$ 400
Add: Investment earnings	1	33
Deduct: Disbursements for restructuring costs	(22)	(310)
Ending escrow account available	$ 123	$ 123

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

NOTE 4. Restructuring Activities (Continued)

Approximately $24 million and $22 million of amounts receivable from the escrow account were classified in Other current assets in the Company s consolidated balance sheets as of March 31, 2008 and December 31, 2007, respectively.

2008 Restructuring Actions

During the first quarter of 2008, the Company recorded restructuring expenses of approximately $46 million under the previously announced multi-year improvement plan, including the following significant actions:

$23 million of employee severance and termination benefit costs associated with approximately 20 salaried and 280 hourly employees at a European Interiors facility.

$13 million of employee severance and termination benefit costs to reduce its salaried workforce in higher cost countries. These costs are associated with approximately 120 salaried employees.

$5 million of contract termination charges related to the closure of a European Other facility.

Utilization for the three-months ended March 31, 2008 includes $47 million of payments for severance and other employee termination benefits, $4 million of special termination benefits reclassified to pension and other postretirement employee benefits, where such payments are made from the Company s benefit plans and $2 million of contract termination, equipment relocation and other costs.

The Company currently estimates that the total cash cost associated with the multi-year improvement plan will be approximately $555 million. However, the Company continues to achieve targeted cost reductions associated with the multi-year improvement plan at a lower cost than expected due to higher levels of employee attrition and lower per employee severance cost resulting from changes to certain employee benefit plans. The Company anticipates that approximately $420 million of cash costs incurred under the multi-year improvement plan will be reimbursed from the escrow account pursuant to the terms of the Escrow Agreement. While the Company anticipates full utilization of funds available under the Escrow Agreement, any amounts remaining in the escrow account after December 31, 2012 will be disbursed to the Company pursuant to the terms of the Escrow Agreement. It is possible that actual cash restructuring costs could vary significantly from the Company s current estimates resulting in unexpected costs in future periods. Generally, charges are recorded as elements of the plan are finalized and the timing of activities and the amount of related costs are not likely to change.

The Company has incurred $321 million in cumulative restructuring costs related to the multi-year improvement plan including $116 million, $115 million, $59 million and $31 million for the Other, Interiors, Climate and Electronics product groups, respectively. Substantially all restructuring expenses recorded to date relate to employee severance and termination benefit costs and are classified as Restructuring expenses on the consolidated statements of operations. As of March 31, 2008, the restructuring reserve balance of $109 million is entirely attributable to the multi-year improvement plan.

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

NOTE 4. Restructuring Activities (Continued)

Restructuring Reserves

The following is a summary of the Company s consolidated restructuring reserves and related activity as of and for the three-months ended March 31, 2008.

	Interiors	Climate	Electronics	Other	Total
			(Dollars in Millions)		
December 31, 2007	$ 58	$ 23	$ 7	$ 24	$ 112
Expenses	25	1	1	19	46
Currency exchange	4				4
Utilization	(18)	(20)		(15)	(53)
March 31, 2008	$ 69	$ 4	$ 8	$ 28	$ 109

NOTE 5. Asset Impairments and Loss on Divestiture

Statement of Financial Accounting Standards No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets requires that long-lived assets and intangible assets subject to amortization be reviewed for impairment when certain indicators of impairment are present. Impairment exists if estimated future undiscounted cash flows associated with long-lived assets are not sufficient to recover the carrying value of such assets. Generally, when impairment exists the long-lived assets are adjusted to their respective fair values. During the three-month periods ended March 31, 2008 and 2007, the Company recorded asset impairment charges of $21 million and $40 million, respectively, to adjust certain long-lived assets to their estimated fair values.

2008 Impairment and Loss on Divestiture

During the first quarter of 2008, the Company announced the sale of its North American-based aftermarket underhood and remanufacturing operations including facilities located in Sparta, Tennessee and Reynosa, Mexico (the NA Aftermarket). The NA Aftermarket manufactures starters and alternators, radiators, compressors and condensers and also remanufactures steering pumps and gears. These operations recorded sales for the year ended December 31, 2007 of approximately $133 million and generated a negative gross margin of approximately $16 million. During the first quarter of 2008, the Company determined that long-lived assets subject to the NA Aftermarket Divestiture met the held for sale criteria of SFAS 144. Accordingly, these assets were valued at the lower of carrying amount or fair value less cost to sell, which resulted in an asset impairment charge of approximately $21 million. The Company also recorded a $19 million loss on the disposition of the NA Aftermarket.

2007 Impairment Charges

During the first quarter of 2007, the Company determined that long-lived assets subject to the Chassis Divestiture met the held for sale criteria of SFAS 144. Accordingly, these assets were valued at the lower of carrying amount or fair value less cost to sell, which resulted in an asset impairment charge of approximately $17 million.

In consideration of the MASPA and the Company s announced exit of the brake manufacturing business at its Swansea, UK facility, an asset impairment charge of $16 million was recorded to reduce the net book value of certain long-lived assets at the facility to their estimated fair value in the first quarter of 2007. The Company s estimate of fair value was based on market prices, prices of similar assets, and other available information.

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

NOTE 5. Asset Impairments and Loss on Divestiture (Continued)

Additionally during the first quarter of 2007 the Company entered into an agreement to sell an Electronics building located in Japan. The Company determined that the building met the held for sale criteria of SFAS 144 and was recorded at the lower of carrying value or fair value less cost to sell, which resulted in an asset impairment charge of approximately $7 million.

NOTE 6. Asset Securitization

Effective August 14, 2006, the Company entered into a European accounts receivable securitization facility (European Securitization) that extends until August 2011 and provides up to $325 million in funding from the sale of trade receivables originating from Company subsidiaries located in Germany, Portugal, Spain, France and the UK (the Sellers). Under the European Securitization, trade receivables originated by the Sellers and certain of their subsidiaries are transferred to Visteon Financial Centre P.L.C. (the Transferor). The Transferor is a bankruptcy-remote qualifying special purpose entity. Trade receivables transferred from the Sellers are funded through cash obtained from the issuance of variable loan notes to third-party lenders and through subordinated loans obtained from a wholly-owned subsidiary of the Company, which represent the Company s retained interest in the trade receivables transferred.

Transfers under the European Securitization, for which the Company receives consideration other than a beneficial interest, are accounted for as true sales under the provisions of Statement of Financial Accounting Standards No. 140 (SFAS 140), Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and are removed from the balance sheet. Transfers under the European Securitization, for which the Company receives a beneficial interest are not removed from the balance sheet and total $491 million and $434 million as of March 31, 2008 and December 31, 2007, respectively. Such amounts are recorded at fair value and are subordinated to the interests of third-party lenders. Securities representing the Company s retained interests are accounted for as trading securities under Statement of Financial Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities.

Availability of funding under the European Securitization depends primarily upon the amount of trade receivables reduced by outstanding borrowings under the program and other characteristics of those trade receivables that affect their eligibility (such as bankruptcy or the grade of the obligor, delinquency and excessive concentration). As of March 31, 2008, approximately $267 million of the Company s transferred trade receivables were considered eligible for borrowing under this facility, $105 million was outstanding and $162 million was available for funding. The Company recorded losses of $2 million and $1 million for the three-months ended March 31, 2008 and 2007, respectively, related to trade receivables sold under the European Securitization.

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

NOTE 6. Asset Securitization (Continued)

The table below provides a reconciliation of changes in interests in accounts receivable transferred for the period.

	March 31	
	2008	2007
	(Dollars in Millions)	
Beginning balance	$ 434	$ 482
Receivables transferred	814	1,018
Proceeds from new securitizations		(41)
Proceeds from collections reinvested in securitization	(137)	(141)
Cash flows received on interest retained	(650)	(750)
Currency exchange	30	6
Ending balance	$ 491	$ 574

NOTE 7. Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market. A summary of inventories is provided below:

	March 31 2008	December 31 2007
	(Dollars in Millions)	
Raw materials	$ 174	$ 159
Work-in-process	228	224
Finished products	126	160
	528	543
Valuation reserves	(44)	(48)
	$ 484	$ 495

NOTE 8. Other Assets

Other current assets are summarized as follows:

	March 31 2008	December 31 2007
	(Dollars in Millions)	
Recoverable taxes	$ 119	$ 88
Current deferred tax assets	46	47
Prepaid assets	36	28
Deposits	28	30
Escrow receivable	24	22
Other	28	20
	$ 281	$ 235

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

NOTE 8. Other Assets (Continued)

Other non-current assets are summarized as follows:

	March 31 2008	December 31 2007
	(Dollars in Millions)	
Non-current deferred tax assets	$ 38	$ 39
Unamortized debt costs and other intangible assets	32	33
Notes and other receivables	11	11
Other	45	39
	$ 126	$ 122

NOTE 9. Non-Consolidated Affiliates

The Company had $240 million and $218 million of equity in the net assets of non-consolidated affiliates at March 31, 2008 and December 31, 2007, respectively. The Company recorded equity in net income of non-consolidated affiliates of $15 million and $9 million for the three-months ended March 31, 2008 and 2007, respectively.

The following table presents summarized financial data for the Company s non-consolidated affiliates. The amounts included in the table below represent 100% of the results of operations of the Company s non-consolidated affiliates accounted for under the equity method. Yanfeng Visteon Automotive Trim Systems Co., Ltd (Yanfeng), of which the Company owns a 50% interest, is considered a significant non-consolidated affiliate.

Summarized financial data for the three-month periods ended March 31 are as follows:

	Net Sales		Gross Margin		Net Income	
	2008	2007	2008	2007	2008	2007
	(Dollars in Millions)					
Yanfeng	$ 269	$ 185	$ 49	$ 30	$ 20	$ 13
All other	210	170	24	23	10	5
	$ 479	$ 355	$ 73	$ 53	$ 30	$ 18

The Company s share of net assets and net income is reported in the consolidated financial statements as Equity in net assets of non-consolidated affiliates on the consolidated balance sheets and Equity in net income of non-consolidated affiliates on the consolidated statements of operations. Included in the Company s accumulated deficit is undistributed income of non-consolidated affiliates accounted for under the equity method of approximately $115 million and $99 million at March 31, 2008 and December 31, 2007, respectively.

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

NOTE 10. Property and Equipment

Property and equipment is stated at cost and is depreciated over the estimated useful lives of the assets, principally using the straight-line method. A summary of Property and equipment, net is provided below:

	March 31 2008	December 31 2007
	(Dollars in Millions)	
Land	$ 93	$ 95
Buildings and improvements	1,077	1,083
Machinery, equipment and other	3,928	3,894
Construction in progress	138	146
Total property and equipment	5,236	5,218
Accumulated depreciation	(2,591)	(2,573)
	2,645	2,645
Product tooling, net of amortization	133	148
Property and equipment, net	$ 2,778	$ 2,793

Depreciation and amortization expenses are summarized as follows:

	Three-Months Ended March 31	
	2008	2007
	(Dollars in Millions)	
Depreciation	$ 104	$ 109
Amortization	11	12
	$ 115	$ 121

The Company recorded approximately $15 million and $10 million of accelerated depreciation expense during the three-month periods ended March 31, 2008 and 2007, respectively, representing the shortening of estimated useful lives of certain assets (primarily machinery and equipment) in connection with the Company s restructuring activities.

NOTE 11. Other Liabilities

Other current liabilities are summarized as follows:

	March 31 2008	December 31 2007
	(Dollars in Millions)	
Restructuring accrual	$ 109	$ 87
Product warranty and recall accrual	55	54
Non-income taxes payable	45	34
Accrued interest payable	36	62
Income taxes payable	25	13
Other accrued liabilities	130	101
	$ 400	$ 351

VISTEON CORPORATION AND SUBSIDIARIES
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NOTE 11. Other Liabilities (Continued)

Other non-current liabilities are summarized as follows:

	March 31 2008	December 31 2007
	(Dollars in Millions)	
Income tax accrual	$ 171	$ 154
Non-income taxes payable	78	80
Deferred income	65	63
Product warranty and recall accrual	55	54
Restructuring accrual		25
Other accrued liabilities	40	52
	$ 409	$ 428

NOTE 12. Debt

Short-term and long-term debt including the fair value of related interest rate swaps are as follows:

	March 31 2008	December 31 2007
	(Dollars in Millions)	
Short-term debt		
Current portion of long-term debt	$ 43	$ 44
Other short-term	60	51
Total short-term debt	$ 103	$ 95
Long-term debt		
8.25% notes due August 1, 2010	$ 556	$ 553
Term loan due June 13, 2013	1,000	1,000
Term loan due December 13, 2013	500	500
7.00% notes due March 10, 2014	458	449
Other	227	243
Total long-term debt	2,741	2,745
Total debt	$ 2,844	$ 2,840

Fair value of total debt was $2,245 million and $2,542 as of March 31, 2008 and December 31, 2007, respectively.

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NOTE 13. Employee Retirement Benefits

The components of the Company s net periodic benefit costs for the three-months ended March 31, 2008 and 2007 are as follows: