VISTEON CORP
Form 10-Q
May 11, 2009

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, 2009, 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: has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes___ 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 ____ Accelerated Filer _ü_ 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 May 7, 2009, the Registrant had outstanding 130,419,920 shares of common stock, par value $1.00 per share.

Exhibit index located on page number 46.

VISTEON CORPORATION AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009

INDEX

Table of Contents

VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31			
	2009		2008	
	(Dollars in Millions, Except Per Share Data)			
Net sales				
Products	$	1,295	$	2,739
Services		57		123
		1,352		2,862
Cost of sales				
Products		1,251		2,545
Services		56		122
		1,307		2,667
Gross margin		45		195
Selling, general and administrative expenses		108		148
Deconsolidation gain		95		
Restructuring expenses		27		46
Reimbursement from Escrow Account		62		24
Asset impairments and loss on divestiture				40
Operating income (loss)		67		(15)
Interest expense		55		57
Interest income		4		15
Equity in net income of non-consolidated affiliates		7		15
Income (loss) before income taxes		23		(42)
Provision for income taxes		14		51
Net income (loss)		9		(93)
Net income attributable to noncontrolling interests		7		12
Net income (loss) attributable to Visteon	$	2	$	(105)

Per Share Data				
Net earnings (loss) per share attributable to Visteon	$	0.02	$	(0.81)

See accompanying notes to the consolidated financial statements.

Table of Contents

VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31 2009	December 31 2008
	(Dollars in Millions)	
ASSETS		
Cash and equivalents	$ 604	$ 1,180
Restricted cash	163	
Accounts receivable, net	887	989
Inventories, net	328	354
Other current assets	265	249
Total current assets	2,247	2,772
Property and equipment, net	2,008	2,162
Equity in net assets of non-consolidated affiliates	226	220
Other non-current assets	80	94
Total assets	$ 4,561	$ 5,248
LIABILITIES AND SHAREHOLDERS DEFICIT		
Short-term debt, including current portion of long-term debt and debt in default	$ 2,655	$ 2,697
Accounts payable	813	1,058
Accrued employee liabilities	191	228
Other current liabilities	301	288
Total current liabilities	3,960	4,271
Long-term debt	60	65
Employee benefits, including pensions	435	627
Postretirement benefits other than pensions	400	404
Deferred income taxes	138	139
Other non-current liabilities	318	365
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, 130 million and 131 million shares outstanding, respectively)	131	131
Stock warrants	127	127
Additional paid-in capital	3,407	3,407
Accumulated deficit	(4,702)	(4,704)
Accumulated other comprehensive income	47	157
Other	(5)	(5)
Total Visteon shareholders deficit	(995)	(887)
Noncontrolling interests	245	264

Total shareholders deficit		(750)		(623)
Total liabilities and shareholders deficit	$	4,561	$	5,248

See accompanying notes to the consolidated financial statements.

3

Table of Contents

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

	Three Months Ended March 31 2009	Three Months Ended March 31 2008
	(Dollars in Millions)	
Operating activities		
Net income (loss)	$ 9	$ (93)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation and amortization	78	115
Deconsolidation gain	(95)	
Asset impairments and loss on divestiture		40
Equity in net income of non-consolidated affiliates, net of dividends remitted	(7)	(15)
Other non-cash items	(6)	(21)
Changes in assets and liabilities:		
Accounts receivable	15	(96)
Inventories	3	(30)
Accounts payable	(122)	80
Other assets and liabilities	(150)	(106)
Net cash used by operating activities	(275)	(126)
Investing activities		
Capital expenditures	(25)	(74)
Cash associated with deconsolidation	(11)	
Proceeds from divestiture and asset sales	2	52
Net cash used by investing activities	(34)	(22)
Financing activities		
Short-term debt, net	(15)	
Cash restriction	(163)	
Proceeds from issuance of debt, net of issuance costs	39	12
Principal payments on debt	(45)	(15)
Other, including book overdrafts	(56)	(9)
Net cash used by financing activities	(240)	(12)
Effect of exchange rate changes on cash	(27)	15
Net decrease in cash and equivalents	(576)	(145)
Cash and equivalents at beginning of year	1,180	1,758
Cash and equivalents at end of period	$ 604	$ 1,613

See accompanying notes to the consolidated financial statements.

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 and electronics systems, modules and components to global automotive original equipment manufacturers (OEMs). Headquartered in Van Buren Township, Michigan, Visteon has a workforce of approximately 31,000 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.

	Three Months Ended March 31	
	2009	2008
	(Dollars in Millions)	
Product sales	$ 398	$ 978
Services revenues	$ 57	$ 117

	March 31 2009	December 31 2008
	(Dollars in Millions)	
Accounts receivable, net	$ 197	$ 174
Postretirement employee benefits	$ 111	$ 113

Visteon UK Limited Administration

On March 31, 2009, in accordance with the provisions of the United Kingdom Insolvency Act of 1986 and pursuant to a resolution of the board of directors of Visteon UK Limited, a company organized under the laws of England and Wales (the UK Debtor) and an indirect, wholly-owned subsidiary of the Company, representatives from KPMG (the Administrators) were appointed as administrators in respect of the UK Debtor (the UK Administration). The UK Administration was initiated in response to continuing operating losses of the UK Debtor and mounting labor costs and their related demand on the Company s cash flows, and does not include the Company or any of the Company s other subsidiaries. Under the UK Administration, the UK Debtor, which has operations in Enfield, UK, Basildon, UK and Belfast, UK, is expected to be wound down. The effect of the UK Debtor s entry into administration was to place the management, affairs, business and property of the UK Debtor under the direct control of the Administrators.

The UK Debtor recorded sales, negative gross margin and net loss of $32 million, $7 million and $10 million, respectively for the three months ended March 31, 2009. As of March 31, 2009 total assets of $64 million, total liabilities of $132 million and related amounts deferred as Accumulated other comprehensive income of $84 million, were deconsolidated from the Company s balance sheet in accordance with the requirements of Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160) resulting in a deconsolidation gain of $152 million. The Company also recorded $57 million for contingent liabilities related to the UK Administration, including $45 million of costs associated with former employees of the UK Debtor, for which the Company will be reimbursed from the escrow account, on a 100% basis.

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

NOTE 1. Description of Business and Company Background (Continued)

Additional amounts related to these items or other contingent liabilities for potential claims under the UK Administration, which may result from (i) negotiations; (ii) actions of the Administrators; (iii) resolution of contractual arrangements, including unexpired leases; (iv) material adverse developments or other events, may be recorded in future periods. No assurance can be provided that the Company will not be subject to future litigation and/or liabilities related to the UK Administration. Additional liabilities, if any, will be recorded when they become probable and estimable and could materially affect the Company s results of operations and financial condition in future periods.

Going Concern Considerations

The global credit crisis and the erosion of consumer confidence continue to negatively impact the automotive sector on a global basis. In consideration of current and projected market conditions, overall automotive sector instability and Visteon s recent history of operating losses and cash usage, projections indicate that the Company s liquidity will be at or near minimum cash levels required to operate the business during 2009. The Company continues to develop and execute, as appropriate, additional actions designed to generate liquidity. The success of the Company s liquidity plans depends on global economic conditions, levels of automotive sales and production, trade creditor business conduct and occurrence of no other material adverse developments. Additionally, various macro-level factors outside of the Company s control may further negatively impact the Company s ability to meet its obligations as they come due. Such factors include, but are not limited to, the following:

Sustained weakness and/or continued deterioration of global economic conditions.

Continued automotive sales and production at levels consistent with or lower than first quarter 2009.

Bankruptcy of any significant customer resulting in delayed payment or non-payment of amounts receivable.

Bankruptcy of any significant supplier resulting in delayed shipments of materials necessary for production.

Actions of trade creditors to accelerate payments for goods and services provided.

Other events of non-compliance with the terms and conditions of short or long-term debt obligations.

On April 30, 2009, Chrysler LLC and twenty-four of its affiliates filed petitions in the United States Bankruptcy Court for the Southern District of New York seeking relief under Chapter 11 of the U.S. Bankruptcy Code. In accordance with documents filed by Chrysler with the Bankruptcy Court for the Southern District of New York, the Company was owed approximately $26 million as of April 30, 2009. While the Company continues to evaluate the impact of this bankruptcy, no additional valuation reserves have been recorded as of March 31, 2009 based on currently available information and related expectations for recovery. Additionally, Chrysler LLC announced that it has halted production at many of its U.S. manufacturing facilities until certain transactions are completed with Fiat SpA. General Motors Corporation has also announced that it will extend its usual mid-year down time at many of its North America manufacturing facilities during the spring and summer of 2009. The Company is in the process of evaluating the impact of such closures. However, the magnitude of such impact cannot be fully determined at this time.

6

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

NOTE 1. Description of Business and Company Background (Continued)

Despite the actions management has taken or plans to take, there can be no assurance that factors outside of the Company s control, including but not limited to, the financial condition of OEMs or other automotive suppliers, will not cause further significant financial distress for Visteon. Additionally, while the Company has already taken significant restructuring and cost reduction measures and plans to implement further actions designed to provide additional liquidity, there can be no assurance that such actions will provide a sufficient amount of funds or that such actions will supply funds in a timely manner necessary to meet the Company s ongoing liquidity requirements. Accordingly, there exists substantial doubt as to the Company s ability to operate as a going concern and meet its obligations as they come due.

Pursuant to affirmative covenants contained in the agreements associated with the Company s senior secured facilities and European Securitization (the Facilities), the Company is required to provide audited annual financial statements within a prescribed period of time after the end of each fiscal year without a going concern audit report or like qualification or exception. On March 31, 2009, the Company s independent registered public accounting firm included an explanatory paragraph in its audit report on the Company s 2008 consolidated financial statements indicating substantial doubt about the Company s ability to continue as a going concern. The receipt of such an explanatory statement constitutes a default under the Facilities. On March 31, 2009, the Company entered into amendments and waivers (the Waivers) with the lenders under the Facilities, which provide for waivers of such defaults for limited periods of time, as more fully described in Note 10 Debt.

The Company is exploring various strategic and financing alternatives and has retained legal and financial advisors to assist in this regard. The Company has commenced discussions with lenders under the Facilities, including an ad hoc committee of lenders under its senior secured term loan (the Ad Hoc Committee), regarding the restructuring of the Company s capital structure. Additionally, the Company has commenced discussions with certain of its major customers to address its liquidity and capital requirements. Any such restructuring may affect the terms of the Facilities, other debt and common stock and may be affected through negotiated modifications to the related agreements or through other forms of restructurings, including under court supervision pursuant to a voluntary bankruptcy filing under Chapter 11 of the U.S. Bankruptcy Code. There can be no assurance that an agreement regarding any such restructuring will be obtained on acceptable terms with the necessary parties or at all. If an acceptable agreement is not obtained, an event of default under the Facilities would occur as of the expiration of the Waivers, excluding any extensions thereof, and the lenders would have the right to accelerate the obligations thereunder. Acceleration of the Company s obligations under the Facilities would constitute an event of default under the senior unsecured notes and would likely result in the acceleration of these obligations as well. In any such event, the Company may be required to seek protection under Chapter 11 of the U.S. Bankruptcy Code. Visteon s ability to continue operating as a going concern is, among other things, dependent on the success of discussions with the lenders under the Facilities, including the Ad Hoc Committee.

The aforementioned resulted in the classification of substantially all of the Company s long-term debt as current liabilities in the Company s consolidated balance sheets as of March 31, 2009 and December 31, 2008.

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.

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

NOTE 2. Basis of Presentation (Continued)

These interim consolidated financial statements include all adjustments (consisting of normal recurring adjustments, except as otherwise disclosed) 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. During the quarter ended March 31, 2009, the Company recorded a benefit of approximately $7 million related to amounts recorded in prior periods. The Company determined that the impact of these adjustments is not material to any period affected. 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, 2008, as filed with the SEC. Interim results are not necessarily indicative of full year results.

These financial statements have also been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company s financial statements do not include any adjustments related to assets or liabilities that may be necessary should the Company not be able to continue as a going concern.

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.

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 greater than 20% and for which the Company does not exercise control 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. Services revenues and related costs for the first quarter 2009 included $5 million of contractual reimbursement from Ford under the Amended Reimbursement Agreement for costs associated with the separation of

ACH leased employees no longer required to provide such services.

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

NOTE 3. New Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-4 (FSP FAS 157-4), Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. FSP FAS 157-4 provides guidance on estimating the fair value when the volume and level of activity have significantly decreased and on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. The Company is currently evaluating the impact of FSP FAS 157-4 on its consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1 (FSP FAS 107-1), Interim Disclosures about Fair Value of Financial Instruments. This FSP requires disclosures around the fair value of financial instruments for interim reporting periods, including (a) the fair value at the period end and (b) the methods and assumptions used to calculate the fair value. FSP FAS 107-1 is effective for interim reporting periods after June 15, 2009. The Company is currently evaluating the impact of FSP FAS 107-1 on its consolidated financial statements.

In December 2008, the FASB issued FSP No. FAS 132(R)-1 (FSP FAS 132(R)-1), Employers Disclosures about Postretirement Benefit Plan Assets. This FSP requires disclosure of (a) how pension plan asset investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies, (b) the major categories of plan assets, (c) the inputs and valuation techniques used to measure the fair value of plan assets, (d) the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period and (e) significant concentrations of risk within plan assets. FSP FAS 132(R)-1 is effective for fiscal years ending after December 15, 2009 and will be adopted by the Company for its annual consolidated financial statements for the fiscal year ending December 31, 2009.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments