

VISTEON CORP
Form 10-K/A
November 22, 2005

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

**FORM 10-K/A
(Amendment No. 1)**

(Mark One)

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

For the fiscal year ended December 31, 2004, or

**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 no.)

**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
Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|--|--|
| Common Stock, par value \$1.00 per share | New York Stock Exchange |

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 ___ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).
Yes No ___

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2004 (the last business day of the most recently completed second fiscal quarter) was approximately \$1,512 million.

As of November 14, 2005, the registrant had outstanding 128,743,368 shares of common stock.

Document Incorporated by Reference*

| Document | Where Incorporated |
|-----------------|---|
| Proxy Statement | Part III (Items 10, 11, 12, 13 and 14) |

* As stated under various Items of this Report, only certain specified portions of such document are incorporated by reference in this Report.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (Form 10-K/A) to our Annual Report on Form 10-K for the year ended December 31, 2004, initially filed with the Securities and Exchange Commission (the SEC) on March 16, 2005 (the Original Filing), is being filed to reflect restatements of our consolidated balance sheet at December 31, 2004 and 2003; and our consolidated statement of operations, consolidated statement of cash flows and consolidated statement of stockholders' equity for each of the three years in the period ended December 31, 2004, and the notes and schedule of valuation and qualifying accounts related thereto.

On May 10, 2005, Visteon announced that the Audit Committee of the Board of Directors had initiated an independent review of the accounting for certain transactions originating in the company's North American purchasing activity as a result of errors identified by management during the course of preparing Visteon's Quarterly Report on Form 10-Q for the first quarter of 2005. The errors related to the accrual for freight, raw materials and other supplier costs originating in North America that relate to prior periods. The Audit Committee engaged outside counsel to advise it regarding the review. Based upon the completion of this review and other procedures performed by management, the Audit Committee and management concluded that the aforementioned financial statements require restatement. In addition, as previously described in Visteon's Current Report on Form 8-K dated October 21, 2005, the Audit Committee's independent review also determined that many of the accounting errors resulted principally from improper conduct on the part of two former, non-executive finance employees responsible for the accounting oversight of these matters. The restatements pertain to the following matters:

Visteon is making corrections to record freight costs that should have been recorded in periods prior to December 31, 2004. The impact of the correction of these errors increased net loss by approximately \$8 million (\$0.06 per share), \$24 million (\$0.19 per share) and \$5 million (\$0.04 per share) for the years ended December 31, 2004, 2003 and 2002, respectively.

Visteon is making corrections to record raw material cost increases that should have been recorded in periods prior to December 31, 2004. The impact of the correction of these errors increased net loss by approximately \$26 million (\$0.21 per share) for the year ended December 31, 2004, reduced net loss by approximately \$3 million (\$0.02 per share) for the year ended December 31, 2003, and increased net loss by approximately \$6 million (\$0.05 per share) for the year ended December 31, 2002.

Visteon is making corrections to record other supplier costs that should have been recorded in periods prior to December 31, 2004. The impact of the correction of these errors increased net loss by approximately \$6 million (\$0.05 per share) and \$1 million (\$0.01 per share) for the years ended December 31, 2004 and 2003, respectively, and had no impact on net loss for the year ended December 31, 2002.

Visteon is making a correction for income taxes related to various foreign affiliates that should have been recognized in 2004. The impact of this correction reduced net loss by approximately \$3 million (\$0.02 per share) for the year ended December 31, 2004.

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For a more detailed description of these restatements, see Note 2, Restatement of Financial Statements to the accompanying consolidated financial statements and the section entitled Restatement in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-K/A. The decision to restate Visteon's consolidated financial statements was previously announced in a press release that was filed with the SEC as part of a Current Report on Form 8-K of Visteon dated October 21, 2005.

Although this Form 10-K/A sets forth the Original Filing in its entirety, this Form 10-K/A only amends and restates Item 1 of Part I, Items 6, 7, 8 and 9A of Part II and Exhibit 12.1 of Item 15 of Part IV of the Original Filing, in each case, solely as a result of, and to reflect, the restatement, and no other information in the Original Filing is amended hereby. The foregoing items have not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. In addition, pursuant to the rules of the SEC, Item 15 of Part IV of the Original Filing has been amended to contain the consent of our independent registered public accounting firm and currently-dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The consent of the independent registered public accounting firm and the certifications of our Chief Executive Officer and Chief Financial Officer are attached to this Form 10-K/A as Exhibits 23.1, 31.1, 31.2, 32.1 and 32.2, respectively.

Except for the foregoing amended information, this Form 10-K/A continues to describe conditions as of the date of the Original Filing, and we have not updated the disclosures contained herein to reflect events that occurred at a later date. Other events occurring after the filing of the Original Filing or other disclosures necessary to reflect subsequent events have been or will be addressed in either our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2005, June 30, 2005 or September 30, 2005 which are being filed concurrently with the filing of this Form 10-K/A, or other reports filed with the SEC subsequent to the date of this filing.

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PART I

ITEM 1. BUSINESS

Overview

Visteon Corporation is a leading global supplier of automotive systems, modules and components to global vehicle manufacturers and the automotive aftermarket. Headquartered in Van Buren Township, Michigan, we have global capabilities, with regional headquarters in Kerpen, Germany; Shanghai, China; and São Paulo, Brazil. We have a workforce of approximately 70,200 and a network of manufacturing sites, technical centers, sales offices and joint ventures located in every major region of the world.

Visteon operates in two business segments: Automotive Operations and Glass Operations.

Automotive Operations: Visteon is a leading global supplier of automotive systems, modules and components in the following product areas: climate control, interior, exterior, powertrain, chassis and electronics. Our products are featured on vehicles built by many leading automotive manufacturers, including Ford Motor Company, General Motors, Toyota, DaimlerChrysler, Volkswagen, Honda, Renault, Nissan, Hyundai, Peugeot, Mazda and BMW. The Automotive Operations segment accounted for 97% of our 2004 total sales.

Glass Operations: Our Glass Operations segment designs, produces and distributes automotive glass products for Ford and aftermarket customers, and float glass for commercial architectural and automotive applications.

Visteon was incorporated in Delaware in January 2000 as a wholly-owned subsidiary of Ford. Ford subsequently transferred to Visteon the assets and liabilities comprising its automotive components and systems business. Visteon separated from Ford on June 28, 2000 when all of the common stock of Visteon was distributed by Ford to its shareholders.

Financial Information About Business Segments

Business segment financial information can be found on pages 116-118 of this Annual Report on Form 10-K/A (Note 20, Segment Information, of our consolidated financial statements).

Automotive Parts Industry

The automotive parts industry provides systems, modules and components to vehicle manufacturers for the manufacture of new vehicles, as well as to the aftermarket for use as replacement and enhancement parts. Historically, large vehicle manufacturers operated internal divisions to provide a wide range of component parts for their vehicles. More recently, vehicle manufacturers have moved toward a competitive sourcing process for automotive parts, including increased purchases from independent suppliers, as they seek lower-priced and/or higher-technology products. Demand for aftermarket products tends to increase when vehicle owners retain their vehicles longer, as these vehicles generally have a greater need for repairs.

Industry Trends. The following key trends have been affecting the automotive parts industry over the past several years:

Ongoing Industry Consolidation. The number of automotive parts suppliers worldwide has been declining due to industry consolidation and closings. Suppliers are shifting production to locations with more flexible work rules and practices, acquiring complementary technologies, building stronger customer relationships, and following their customers as they expand globally. Visteon is responding by improving its focus on its key growth product areas. Visteon believes that it can continue to strengthen its competencies so that it can improve its leadership position in these core products.

Table of Contents**ITEM 1. BUSINESS (Continued)**

Increasing Competitive Intensity and Market Pressures on Vehicle Manufacturers. Because vehicle manufacturers are under increasing competitive intensity, they must rapidly adjust to changing consumer preferences in order to differentiate their vehicles. This has resulted in the acceleration in vehicle development and increased reliance upon parts suppliers, such as Visteon, with significant design, engineering, research and development, and assembly abilities. These market pressures inhibit the ability of vehicle manufacturers to significantly increase vehicle prices, leading vehicle manufacturers to intensify their cost-reduction efforts on their suppliers. In particular, vehicle manufacturers are increasingly searching for lower cost sources of components and systems, primarily in the Asia-Pacific region, and are establishing global benchmark pricing. Thus, automotive suppliers such as Visteon must continue to manage their supply chains globally and leverage low-cost functions to reduce costs without sacrificing quality.

Globalization of Suppliers. To serve multiple markets more efficiently, vehicle manufacturers are assembling vehicle platforms globally. With this globalization, vehicle manufacturers are increasingly interested in buying components and systems from suppliers that can serve multiple markets, address local consumer preferences, control design costs and minimize import tariffs in local markets. Visteon's presence in 24 countries, on six continents, positions it to meet this need. In addition, foreign vehicle manufacturers continue to gain market share at the expense of the domestic vehicle manufacturers. Many of these foreign vehicle manufacturers have strong existing relationships with foreign-based suppliers. This has increased the competitive pressure on domestic suppliers like Visteon. We also believe, however, that this trend could create growth opportunities for domestic suppliers, such as Visteon, with innovative and competitively priced technologies as foreign vehicle manufacturers increasingly establish additional local manufacturing and assembly facilities in North America and seek additional ways to differentiate their product offerings.

Demand for Safety-related and Environmentally-friendly Products. Consumers are increasingly interested in products and technologies that make them feel safer and more secure. Vehicle manufacturers and many governmental regulators are requiring more safety-related and environmentally-friendly products. This demand, coupled with advances in technology, have led to a number of new product opportunities for Visteon's strong innovation capabilities, such as advanced front lighting systems, driver-information technologies, emissions controls, improved fuel economy and recyclable materials. In addition, Visteon can support the technology needs of advanced systems, such as environmentally-focused power systems, which could revolutionize the automotive industry.

Increasing Electronics Integration and Technological Content. Electronics integration, which typically involves replacing bulky mechanical components with electronic ones and/or adding new electrical functions to the vehicle, allows vehicle manufacturers improved control over vehicle weight, costs and functionality. Integrated electronic solutions help auto manufacturers improve fuel economy through weight reduction and reduce emissions through improved air and engine control systems. In addition, Visteon is combining its leadership position in automotive supply with leaders in non-automotive electronics to offer vehicle manufacturers integrated technologies that meet key consumer and regulatory needs.

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ITEM 1. BUSINESS (Continued)

Products

When working with a customer, our goal is to understand the design intent and brand image for each vehicle and leverage our extensive experience and innovative technology to deliver products that enable the customer to differentiate the vehicle. We support our components, systems and modules with a full-range of styling, design, testing and manufacturing capabilities, including just-in-time and in-sequence delivery.

The global automotive parts industry is highly competitive and winning and maintaining new business requires suppliers to rapidly produce new and innovative products on a cost-competitive basis. Because of the heavy capital and engineering investment needed to maintain this competitiveness, Visteon reexamined its broad product portfolio to identify its key growth products considered core to its future success. This assessment was based on a review of a number of factors, including:

Our understanding of market trends and the changing requirements of vehicle manufacturers and end-consumer preferences

Our current portfolio of product technologies and capabilities and expected future advancements

Our operating cost structure, manufacturing capability and geographic presence

Our ability to gain and retain profitable new business with our customers

Based on this assessment the company identified interiors, climate and electronics, including lighting, as its key growth products.

The following discussion describes the major product groups within each segment that Visteon produces or offers as of the date of this report. Financial information relating to sales attributable to each of these product groups can be found in Note 20, Segment Information, of our consolidated financial statements.

Automotive Operations

Chassis Products & Systems. Visteon designs and manufactures a wide array of chassis-related products, from driveline systems for popular all-wheel drive vehicles to steering and suspension systems.

| Chassis Product Lines | Description |
|--------------------------------------|--|
| Driveline Systems | Visteon produces all of the major components for an all-wheel drive system. Major products include: front and rear independent suspension and solid-beam axles, Propshafts, Halfshafts, and Power Transfer Units. Visteon's Slip-in-Tube Propshaft is an example of our exclusive technology that reduces weight, improves noise, vibration and harshness (NVH) and performance in the event of sudden impact. |
| Steering Systems/ Steering Columns | Visteon designs and produces hydraulic power assisted steering systems, rack and pinion steering gears and recirculating ball nut steering gears. |
| Suspension Systems/ Misc. Components | Visteon's suspension products include corner and suspension modules, brake hubs and rotors, knuckles and spindles, in a variety of materials, and stabilizer bars. |
| Catalytic Converters | Visteon designs and manufactures catalytic converters. |

Table of Contents**ITEM 1. BUSINESS (Continued)**

Interior Products & Systems. Visteon is one of the leading global suppliers of cockpit modules, instrument panels, door and console modules and interior trim components.

| Interior Product Lines | Description |
|-------------------------------|---|
| Cockpit Modules | Visteon's Cockpit Modules incorporate the latest in driver information, entertainment, vehicle controls and climate control features and package a variety of structural, electronic and safety components. We provide our customers with a complete array of services including advanced engineering and computer-aided design, styling concepts and modeling and in-sequence delivery of manufactured parts. Visteon's Cockpit Modules incorporate our Instrument Panels which consist of a substrate and the optional assembly of structure, ducts, registers, passenger airbag system (integrated or conventional), finished panels and the glove box assembly. |
| Door Modules | Visteon provides a wide range of door trim panels and modules as well as a variety of interior trim products. |
| Console Modules | Visteon's consoles deliver flexible and versatile storage options to the consumer. The modules are interchangeable units and offer consumers a wide range of storage options that can be tailored to their individual needs. |

Climate Control Products & Systems. Visteon is one of the leading global suppliers in the design and manufacturing of components, modules and systems that provide automotive heating, ventilation and air conditioning and powertrain cooling.

| Climate Control Product Lines | Description |
|--------------------------------------|--|
| Climate Systems | Visteon designs and manufactures fully integrated heating, ventilation and air conditioning (HVAC) systems. Visteon's proprietary analytical tools and systems integration expertise enables the development of climate-oriented components, subsystems and vehicle-level systems. Products contained in this area include: Heat Exchangers, Climate Controls, Compressors, and Fluid Transport Systems. |
| Powertrain Cooling Systems | Cooling functionality and thermal management for the vehicle's powertrain system (engine and transmission) is provided by powertrain cooling-related technologies. |

Powertrain Products & Systems. Visteon offers innovative designs in engine management, fuel storage and delivery and electrical conversion systems. These systems are designed to provide the automotive customer with solutions that enhance powertrain performance, fuel economy and emissions control.

| Powertrain Product Lines | Description |
|---|--|
| Powertrain Electronics and Engine Induction Systems | Visteon has a complete line of products for vehicle engine and powertrain management, including the Powertrain Control |

Module. Visteon's diverse line of sophisticated powertrain products are designed to deliver improved fuel economy and reduced emissions while enhancing performance. These products include: Engine and Air Induction Systems, Torque Enhancement Systems, Intake Manifolds, Long Life Filtration Systems, Fuel Injectors and Rails, Mechanical and Electronic Throttle Bodies and Ignition Coils.

Starters, Alternators and Wiper Washer

Visteon offers a wide range of alternators and starters to meet differing needs of the automotive customer. In addition, Visteon is working to develop technologies that meet future higher-voltage vehicle architectures (including integrated starter-generators).

Fuel Delivery

Visteon manufactures systems and components to support low emissions vehicles. The principal products in these systems are plastic blow-molded and thermoformed Fuel Tanks, Fuel Pumps and Fuel Delivery Modules and Carbon Canisters.

Table of Contents**ITEM 1. BUSINESS (Continued)**

Electronic Products & Systems. Visteon is one of the leading global suppliers of high-tech in-vehicle entertainment, driver information, wireless communication, safety and security electronics.

| Electronic Product Lines | Description |
|--|--|
| Audio Systems | Visteon produces a wide range of audio systems and components, ranging from base radio head units to integrated premium audio systems and amplifiers. Examples of Visteon's latest electronics products include digital and satellite radios, HD Radio™ broadcast tuners, premium systems for audiophile enthusiasts and advanced Bluetooth®-enabled modules that incorporate Visteon Voice Technology™ capability. Visteon's MACH® Digital Signal Processing (DSP) is an integrated technology designed to improve audio performance for entertainment systems and can support branded audio solutions such as Boston Acoustics and Sony. |
| Driver Information Systems | Visteon designs and manufactures a wide range of displays, from analog-electronic to high-impact instrument clusters that incorporate Light Emitting Diode (LED) displays. |
| Infotainment Information, Entertainment and Multimedia | Visteon has developed numerous products to assist driving and provide in-vehicle entertainment. A sampling of these technologies include: MACH® Voice Link Technology, Adaptive Cruise Control and a range of Family Entertainment Systems designed to support a variety of applications and various vehicle segments |

Exterior Products & Systems. Visteon can provide exterior packages that deliver high quality and functionality to the automotive customer.

| Exterior Product Lines | Description |
|-------------------------------|--|
| Lighting | Visteon designs and builds a wide variety of headlamps (projector, reflector or Advanced Front Lighting Systems), Rear Combination Lamps, Center High-Mounted Stop Lamps (CHMSL) and Fog Lamps. Visteon's expertise in lighting enables a breadth of technology using a range of lighting sources including LED, High Intensity Discharge (HID) and Halogen-based systems. |
| Bumpers | Visteon offers bumper systems, fascias and assemblies and valance panels. |

Glass Operations

Our Glass Operations segment designs, produces, and distributes automotive glass products for Ford and aftermarket customers, and float glass for commercial architectural and automotive applications. Glass Operations accounted for about \$520 million, or 3%, of our 2004 total sales.

Customers

Visteon sells its products primarily to global vehicle manufacturers as well as to other suppliers and assemblers. In addition, we sell products for use as aftermarket and service parts to automotive original equipment manufacturers and others for resale through their own independent distribution networks.

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ITEM 1. BUSINESS (Continued)

Vehicle Manufacturers

Visteon sells to all of the world's largest vehicle manufacturers including Ford, General Motors, Toyota, DaimlerChrysler, Honda, Volkswagen, Renault, Nissan, Hyundai, Peugeot, Mazda and BMW. Ford is our largest customer, and our sales to Ford, including those sales to Auto Alliance International, a joint venture between Ford and Mazda, accounted for about 70% of our 2004 total sales. Customers other than Ford include Mazda, of which Ford owns a 33.4% equity interest. Our top five customers other than Ford accounted for approximately 13% of our total 2004 sales.

Price reductions are typically negotiated on an annual basis between suppliers and vehicle manufacturers. Such reductions are intended to take into account expected annual reductions in the overall cost to the supplier of providing products and services to the customer, through such factors as overall increases in manufacturing productivity, material cost reductions, and design-related cost improvements. We have agreed to provide specific average productivity price reductions to our largest customer, Ford, for North America sales through 2007. Visteon has an aggressive cost reduction program that focuses on reducing our total costs, which are intended to offset these customer price reductions, but there can be no assurance that such cost reduction efforts will be sufficient to do so, especially considering recent increases in the costs of steel and resins.

Aftermarket

We sell products to the worldwide aftermarket as replacement parts or as customized products, such as body appearance packages and in-car entertainment systems, for current production and older vehicles. In 2004, we had aftermarket sales of \$1,041 million, representing 6% of our total sales. We currently sell 54% of these products to the independent aftermarket and 46% to Ford's Automotive Consumer Service Group, the principal aftermarket sales organization of Ford. In 2004, aftermarket sales of our glass products were \$109 million, representing 1% of our total sales and 11% of our total aftermarket sales.

Arrangements with Ford and its Affiliates

In connection with Visteon's separation from Ford in 2000, Visteon and Ford entered into a series of agreements outlining the terms of the separation and the relationship between Visteon and Ford on an ongoing basis. In December 2003, Visteon and Ford entered into a series of agreements that modify or replace several of the agreements referred to above. On March 10, 2005, Visteon also entered into a funding agreement and a master equipment bailment agreement with Ford, as described below, which, among other things, modify certain provisions of the Hourly Employee Assignment Agreement and Purchase and Supply Agreement described below. The following summary of certain of these agreements is qualified in all respects by the actual terms of the respective agreements.

Table of Contents**ITEM 1. BUSINESS (Continued)**

Master Transfer Agreement. The master transfer agreement, effective as of April 1, 2000, and other related agreements, provided for Ford to transfer to Visteon and/or its subsidiaries, all assets used exclusively by Visteon, including but not limited to real property interests, personal property and ownership interests in subsidiaries and joint ventures. In addition, Visteon and Ford agreed to a division of liabilities relating to the assets contributed and the Visteon business, including liabilities related to product liability, warranty, recall, environmental, intellectual property claims and other general litigation claims. Specifically, Visteon and Ford agreed on a division of responsibility for product liability, warranty and recall matters as follows: (a) Ford will retain liability for all product liability, warranty or recall claims that involve parts made or sold by Visteon for 1996 or earlier model year Ford vehicles; (b) Visteon is liable for all product liability, warranty or recall claims that involve parts made or sold by Visteon for 1997 or later model year Ford vehicles in accordance with Ford's global standard purchase order terms as applied to other Tier 1 suppliers; and (c) Visteon has assumed all responsibility for product liability, warranty or recall claims relating to parts made or sold by Visteon to any non-Ford customers. Also, Visteon and Ford agreed on a division of responsibility for liabilities associated with claims that Visteon's products infringe or otherwise violate the intellectual property interests of others as follows: (a) Ford will retain liability for such claims related to Visteon's products sold or supplied to Ford or its subsidiaries on or prior to July 31, 1999; (b) Visteon has assumed liability for such claims related to Visteon's products sold or supplied to Ford or its subsidiaries after July 31, 1999 to the same extent as other Tier 1 suppliers would be liable if they had supplied such parts, components or systems to Ford; and (c) Visteon has assumed liability for such claims related to Visteon's products sold to third parties at any time. With respect to environmental matters, please see *Environmental Matters*, below.

Master Separation Agreement. Ford has provided a number of transitional services to Visteon pursuant to the master separation agreement and related arrangements, including information technology, human resources, accounting, customs, product development technology and real estate services. Visteon agreed to pay Ford amounts which reflected its fully accounted cost for these services, including a reasonable allocation of internal overhead costs, as well as any direct costs incurred from outside suppliers. Except for certain information technology services, Ford's obligation to provide these services pursuant to the master separation agreement expired in June 2002. Visteon and Ford have subsequently entered into new arrangements covering some of these services. Please see Note 14,

Arrangements with Ford and its Affiliates, of our consolidated financial statements, for information regarding the amounts that have been assessed for services rendered by Ford under the master separation agreement. During 2003, Visteon began the process of creating a separate IT environment, including the separation of certain of Ford's IT systems that had been utilized by Visteon. During December 2003, Visteon and Ford agreed on matters designed to facilitate the separation process, including Ford's agreement to provide certain limited information technology support services and Ford's agreement to share a portion of the costs associated with the separation process. The parties have agreed also to the mutual release of claims related to IT activities since their separation. The first phase of this transition was completed in October 2003, and the second phase was completed in April 2004. The migration of all remaining applications from Ford's IT systems is expected to be completed in early 2005.

Table of Contents**ITEM 1. BUSINESS (Continued)**

Hourly Employee Assignment Agreement. The hourly employee assignment agreement, as amended and restated as of December 19, 2003, sets forth a number of rights and obligations with respect to the United States hourly employees of Ford who are covered by Ford-UAW master collective bargaining agreements and are assigned to work for Visteon. Under this agreement, Visteon exercises day-to-day supervision over the covered individuals and reimburses Ford for the wage, benefit and other costs incurred by Ford related to these individuals. This includes amounts for profit sharing based on Ford's profits, which is capped at \$2,040 per worker. This cap excludes amounts that may be payable on account of employer payroll taxes or the portion of any profit sharing payment that may be attributable to Visteon's profits. About \$12 million, \$4 million and \$4 million of profit sharing expense was recognized in 2004, 2003 and 2002, respectively. The funding agreement entered into with Ford on March 10, 2005 suspends any profit sharing payment for 2005. For further information, see *Workforce* set forth below.

The amended and restated hourly employee assignment agreement also significantly reduced Visteon's obligation to reimburse Ford for the Other Post Employment Benefits (OPEB) SFAS 106 liability (the OPEB Liability) related to pre-separation service of Ford hourly employees assigned to work at Visteon, and the time period for funding Visteon's post-separation OPEB Liability to Ford for hourly employees assigned to work at Visteon was extended from 2020 to December 31, 2049. Visteon completed during 2004 the transfer of assets and obligations relating to the pensions and other benefits for those hourly employees of Visteon who become hourly employees of Ford as of December 22, 2003. See *Workforce* set forth below. Finally, the agreement provides for an agreed upon method for the transfer of benefit obligations for Visteon-assigned Ford-UAW hourly employees who return to Ford after service at Visteon. For further information, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Pension and Postretirement Benefits* set forth below.

Purchase and Supply Agreement. During the fourth quarter 2003, Visteon and Ford terminated the purchase and supply agreement and related pricing letter agreement that were entered into at or around the time of the separation and entered into a new purchase and supply agreement, dated as of December 19, 2003. This agreement governs general commercial matters relating to the supply of components in North America by Visteon to Ford, primarily relating to sourcing and pricing obligations.

Pursuant to this purchase and supply agreement, Visteon and Ford have agreed to continue to honor the terms and conditions of all existing agreements regarding the purchase and sale of currently sourced components. In addition, Ford has agreed to include Visteon on its list of suppliers receiving requests for quotations, design competitions and advanced technology development activities with respect to the sourcing of new business unless good cause or other good business reasons (each as defined in the agreement) exists to exclude Visteon. If Visteon is excluded from the list of suppliers receiving a request for quote for certain replacement new business because of other good business reasons, then Ford will compensate Visteon on account of such exclusion based on lost profits due to the discontinued sourcing of such components, as calculated in accordance with terms of the agreement. Where Visteon has been asked to quote on new business, consistent with commitments made to the UAW and Visteon to look to Visteon first, such new business will be awarded to Visteon if Visteon's quote is competitive (as defined in the agreement). Also, as a condition to sourcing Visteon with respect to most new components, Visteon must develop a competitive gap closure plan that identifies opportunities to reduce prices on the same or similar components currently sourced to Visteon to competitive levels, which plans are not intended to reduce Visteon's margins. Otherwise, Ford will treat Visteon in the same manner as it treats its other Tier 1 suppliers with respect to Ford's general sourcing policies and practices relating to new business, including new purchasing and sourcing initiatives.

Table of Contents**ITEM 1. BUSINESS (Continued)**

Ford may terminate or not renew its purchase obligations relating to a given component (each, a Purchase Order) in accordance with the terms of such Purchase Order, on account of excusable delay (as defined in the agreement), program cancellation, for good cause or for other good business reasons. If a Purchase Order is terminated or not renewed for good cause, there is no adjustment to the productivity price down percentages. If during the term of any Purchase Order, Ford elects to terminate or not renew a Purchase Order for other good business reasons, then Ford will compensate Visteon based on lost profits due to the discontinued sourcing of such components, as calculated in accordance with terms of the agreement. If during the term of any Purchase Order, Ford elects to terminate or not renew a Purchase Order because of program cancellation or excusable delay, then the terms of the applicable Purchase Order will govern the right to notification, remediation and compensation, if any.

Visteon also agreed to provide, beginning January 1, 2004 and on each January 1 thereafter through 2007, specified productivity price reductions for all components supplied to Ford in North America. Visteon and Ford have also agreed to negotiate in good faith price changes on supplied components resulting from design changes to such components.

During the period from January 1, 2004 through December 31, 2007, Ford has agreed to pay to Visteon an amount based on the cost differential between wages paid to Ford-UAW workers, at efficient manning levels, and workers at Tier 1 suppliers, with respect to new business sourced to Visteon at plants covered by the Ford-UAW master collective bargaining agreement. Through December 31, 2007, Ford agrees to reimburse Visteon for wages relating to Ford-UAW workers assigned to Visteon who are placed in the Guaranteed Employment Number (GEN) program, as set forth in the Ford-UAW master collective bargaining agreement, as a result of Ford's decision to exclude Visteon from the list of suppliers receiving a request for quote on new business or terminate or not renew a Purchase Order because of other good business reasons. Visteon has received no payments related to either the cost differential or the GEN program as of December 31, 2004.

Finally, Ford has agreed to reimburse Visteon for up to one-half of any capital investment spending on production facilities and equipment made by Visteon during the period from January 1, 2004 through December 31, 2007 to the extent related to the production of certain uncompetitive commodities for Ford. Because this reimbursement is calculated on the basis that the capital investment will be amortized over a period of seven years utilizing the production volumes of the applicable components, Visteon may not be reimbursed the full amount in the event that the sourcing program were cancelled or modified by Ford during such period. Visteon has received no payments related to this agreement as of December 31, 2004. Ford also agreed to accelerate the payment terms for certain payables to Visteon through 2006. As described further below, Ford has agreed to additional acceleration of payment terms for certain payables to Visteon through at least 2005.

2003 Relationship Agreement. Visteon and Ford also entered into a 2003 relationship agreement, dated as of December 19, 2003, which provides, among other things, for the establishment of a joint governance council. The governance council is intended to provide a forum in which senior members of the Ford and Visteon leadership teams can monitor the Ford-Visteon relationship on a global basis. Visteon and Ford also agreed to resolve certain outstanding commercial matters between the parties.

Table of Contents**ITEM 1. BUSINESS (Continued)**

Funding Agreement and Master Equipment Bailment Agreement. On March 10, 2005, Visteon and Ford entered into a funding agreement, effective as of March 1, 2005, under which Ford has agreed (a) to accelerate the payment on or prior to March 31, 2005 of not less than \$120 million of payables that are currently not required to be paid to Visteon until after March 31, 2005; (b) to accelerate the payment terms for certain payables to Visteon arising on or after April 1, 2005 from an average of 33 days after the date of sale to an average of 26 days; (c) to reduce the amount of wages that Visteon is currently obligated to reimburse Ford with respect to Visteon-assigned Ford-UAW hourly employees that work at Visteon facilities, which Visteon expects will result in reduced expenses and in cash savings of approximately \$25 million per month; and (d) to release Visteon from its obligation to reimburse Ford for Ford profit sharing payments with respect to Visteon-assigned Ford-UAW hourly employees that accrue in 2005. Under the funding agreement, Visteon has agreed to (a) continue to provide an uninterrupted supply of components to Ford in accordance with applicable purchase orders and to continue to comply with its other contractual agreements with Ford and the UAW, including continuing to use its best efforts to quote competitive prices for new business to be produced for Ford at certain of Visteon's plants located in North America; (b) not to request reimbursement from Ford for any material cost surcharges for any component that is produced for Ford at certain of Visteon's plants located in North America, and (c) that, except with respect to sales of inventory or the disposal of obsolete equipment in the ordinary course of business, Visteon will not sell, close or otherwise dispose of any of the assets at certain of Visteon's plants located in North America, without Ford's consent.

Also on March 10, 2005, Ford and Visteon entered into a master equipment bailment agreement, effective as of January 1, 2005, pursuant to which Ford has agreed to pay third-party suppliers for certain machinery, equipment, tooling and fixtures and related assets, which may be acquired during the term of the agreement, which are primarily used to produce components for Ford at some of Visteon's plants located in North America. This agreement is expected to reduce Visteon's 2005 capital expenditures by approximately \$150 million. Either Ford or Visteon may terminate the funding agreement or the master bailment agreement at anytime after January 1, 2006 upon 10 business days' notice or upon the occurrence of certain customary events of default, including the uncured default in the performance by a party of its obligations under the agreement or under certain other agreements between the parties.

Competition

We conduct our business in a complex and highly competitive industry. The global automotive parts industry principally involves the supply of systems, modules and components to vehicle manufacturers for the manufacture of new vehicles. Additionally, suppliers provide components to other suppliers for use in their product offerings and to the aftermarket for use as replacement or enhancement parts for older vehicles. As the supplier industry continues to consolidate, the overall number of competitors has decreased and the automotive parts industry remains extremely competitive. Vehicle manufacturers rigorously evaluate suppliers on the basis of product quality, price competitiveness, technical expertise and development capability, new product innovation, reliability and timeliness of delivery, product design capability, leanness of facilities, operational flexibility, customer service and overall management. Many of our competitors have lower cost structures, particularly with respect to wages and benefits, than Visteon.

Our overall product portfolio is extremely broad by industry standards. Very few other Tier 1 suppliers compete across the full range of our product areas. Visteon does have significant competition in each of its market segments; the most significant competitors by segment are listed below.

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ITEM 1. BUSINESS (Continued)

Automotive Operations. Our principal competitors in the Automotive Operations segment include the following: American Axle & Manufacturing Holdings, Inc.; Behr GmbH & Co. KG; Robert Bosch GmbH; Dana Corporation; Delphi Corporation; Denso Corporation; Faurecia Group; Johnson Controls, Inc.; Lear Corporation; Magna International Inc.; Siemens VDO Automotive AG; TRW Automotive Holdings Corp.; and Valéo S.A.

Glass Operations. Our principal competitors in the Glass Operations segment include the following: Asahi Glass Co., Ltd.; AFG Industries, Inc.; Guardian Industries Corp.; Pilkington plc; and PPG Industries, Inc.

International

Financial information about sales and net property by major geographic area can be found on page 117 of this Annual Report on Form 10-K/A (Note 20, Segment Information, of our consolidated financial statements).

Seasonality

Our business is moderately seasonal because our largest North American customers typically halt operations for about two weeks in July for model year changeovers and about one week in December during the winter holidays. In addition, third quarter automotive production traditionally is lower as new models enter production. Accordingly, our third and fourth quarter results may reflect these trends.

Product Research and Development

Visteon's research and development efforts are intended to maintain our leadership position in the industry and provide us with a competitive edge as we seek additional business with new and existing customers. Total research and development expenditures were approximately \$896 million in 2004, \$913 million in 2003 and \$911 million in 2002. Visteon also works with technology development partners, including customers, to develop technological capabilities and system enhancements.

Intellectual Property

Visteon owns significant intellectual property, including a large number of patents, copyrights, proprietary tools and technologies and trade secrets, and is involved in numerous licensing arrangements. Although Visteon's intellectual property plays an important role in maintaining its competitive position, no single patent, copyright, proprietary tool or technology, trade secret or license, or group of related patents, copyrights, proprietary tools or technologies, trade secrets or licenses, is, in the opinion of management, of such value to Visteon that its business would be materially affected by the expiration or termination thereof. Visteon's general policy is to apply for patents on an ongoing basis, in appropriate countries, on its patentable developments which are considered to have business significance.

Visteon also views its name and mark as significant to its business as a whole. In addition, Visteon holds rights in a number of other trade names and marks applicable to certain of its businesses and products that it views as important to such businesses and products.

Table of Contents**ITEM 1. BUSINESS (Continued)****Raw Materials**

Raw materials used by Visteon in the manufacture of our products primarily include steel, aluminum, resins, precious metals and urethane chemicals. All of the materials used are generally readily available from numerous sources except precious metals. Precious metals (for catalytic converter production) are purchased from Ford, and Ford assumes the risk of assuring supply and accepts market price risk. Although we do not anticipate significant interruption in the supply of raw materials, the cost of ensuring this continued supply of certain raw materials, in particular steel and resins, has risen dramatically recently. This increase has had an adverse impact on our results of operations and will continue to adversely affect our results of operations unless our customers share in these increased costs. To date, we have not been able to fully recover these costs from our customers, and we cannot assure you that we will be able to recover those costs in the future.

Workforce

Visteon's workforce as of December 31, 2004 included approximately 70,200 persons, of which approximately 17,100 were salaried employees and 53,100 were hourly workers.

Of the hourly workforce, approximately 18,600 were workers assigned to 15 U.S. manufacturing facilities covered by master collective bargaining agreements with the United Auto Workers union (UAW). These workers include approximately 17,700 employees of Ford who, pursuant to an agreement between Visteon and Ford, have been indefinitely assigned to work at Visteon's facilities. Visteon has agreed to reimburse Ford for the wage, benefit and other costs incurred by Ford related to these workers. On March 10, 2005, Ford and Visteon entered into a funding agreement which, among other things, reduces this reimbursement obligation, beginning with the pay period commencing February 21, 2005 through at least December 31, 2005. In addition, as part of the current Ford-UAW master collective bargaining agreement, Ford has agreed to offer transfers to Ford-UAW workers assigned to Visteon facilities to positions at Ford facilities as they become available. The present Ford-UAW master collective bargaining agreement expires in September 2007. Although we have the right to participate in future negotiations as well as the planning and strategy development concerning the terms of, and issues arising under, the current and future Ford-UAW collective bargaining agreements, Ford reserves the right to handle such matters if a joint course of action cannot be agreed upon. In May 2004, Visteon and the UAW entered into a seven-year supplement to their master collective bargaining agreement, which provides for wage and benefit levels for most new hires in covered facilities that are significantly below those in place for Ford-UAW workers.

In Europe, all Ford employees (both hourly and salaried) working in Visteon facilities at the time of the spin-off became Visteon employees. In the spin-off agreement, it was agreed that Visteon would provide these employees with wages, benefits and other terms of employment that closely reflect those provided by Ford to its employees in the respective countries. Many of our European employees are members of industrial trade unions and confederations within their respective countries. Many of these organizations operate under collective contracts that are not specific to any one employer.

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ITEM 1. BUSINESS (Continued)

We constantly work to establish and maintain positive, cooperative relations with our unions around the world and we believe that our relationships with unionized employees are satisfactory. There have been no significant work stoppages in the past three years, except for a brief work stoppage by employees represented by the IUE-CWA Local 907 at a manufacturing facility located in Bedford, Indiana during June 2004.

Environmental Matters

Visteon is subject to the requirements of federal, state, local and foreign environmental and occupational safety and health laws and regulations. These include laws regulating air emissions, water discharge and waste management. Visteon is also subject to environmental laws requiring the investigation and cleanup of environmental contamination at properties it presently owns or operates and at third-party disposal or treatment facilities to which these sites send or arranged to send hazardous waste. Further, in connection with our spin-off from Ford, Visteon and Ford have generally agreed that Visteon would assume all liabilities for existing and future claims relating to sites that were transferred to us and our operation of those sites, including off-site disposal, except as otherwise specifically retained by Ford in the master transfer agreement. At the time of spin-off, Visteon and Ford also agreed on a division of liability for, and responsibility for management and remediation of, environmental claims existing at that time.

We are aware of contamination at some of our properties. We also have agreed to an allocation of liability with Ford relating to various third-party superfund sites at which Visteon and/or Ford has been named as a potentially responsible party. We are in various stages of investigation and cleanup at these sites. At December 31, 2004, Visteon had recorded a reserve of approximately \$17 million for this environmental investigation and cleanup. However, estimating liabilities for environmental investigation and cleanup is complex and dependent upon a number of factors beyond our control and which may change dramatically. Accordingly, although we believe our reserves to be adequate based on current information, we cannot assure you that our eventual environmental investigation and cleanup costs and liabilities will not exceed the amount of our current reserve. During 2004, we did not incur any material capital expenditures relating primarily to environmental compliance.

Available Information

Our current and periodic reports filed with the Securities and Exchange Commission, including amendments to those reports, may be obtained through our internet website at www.visteon.com free of charge as soon as reasonably practicable after we file these reports with the SEC. A copy of our code of business conduct and ethics for directors, officers and employees of Visteon and its subsidiaries, entitled "A Pledge of Integrity," the Corporate Governance Guidelines adopted by Visteon's Board of Directors and the charters of each committee of the Board of Directors are available on our website at www.visteon.com. You may also request a printed copy of the foregoing documents by contacting our Shareholder Relations department in writing at One Village Center Drive, Van Buren Township, MI 48111; by phone (877) 367-6092; or via email at vcstock@visteon.com.

Table of Contents**ITEM 2. PROPERTIES**

Our principal executive offices are currently located in Van Buren Township, Michigan. We also maintain regional headquarters in Kerpen, Germany; in Shanghai, China; and in São Paulo, Brazil.

We and our joint ventures maintain 71 technical facilities/sales offices and 136 plants in 24 countries throughout the world, of which approximately 125 facilities are owned in fee simple and 75 are leased. The following table shows the approximate total square footage of our principal owned and leased manufacturing facilities by region as of December 31, 2004:

| Region | Number of Manufacturing Sites | Total Manufacturing Sites Square Footage |
|---------------|--|---|
| | | (in millions) |
| North America | 61 | 27.6 |
| Europe | 43 | 12.7 |
| South America | 7 | 0.8 |
| Asia-Pacific | 25 | 7.3 |
| Total | 136 | 48.4 |

In some locations, we have combined a manufacturing facility, technical center and/or customer service center and sales office at a single multi-purpose site. The following table shows the approximate number of various types of facilities by region and segment as of December 31, 2004:

| Region | Manufacturing Sites | Technical Centers | Customer Centers and Sales Offices |
|-----------------------------|------------------------|----------------------|---|
| North America | | | |
| Automotive Operations | 57 | 23 | 4 |
| Glass Operations | 4 | 3 | |
| Europe | | | |
| Automotive Operations | 43 | 13 | 14 |
| Glass Operations | | | |
| South America | | | |
| Automotive Operations | 7 | | |
| Glass Operations | | | |
| Asia-Pacific | | | |
| Automotive Operations | 25 | 8 | 6 |
| Glass Operations | | | |
| Totals | | | |
| Total Automotive Operations | 132 | 44 | 24 |
| Total Glass Operations | 4 | 3 | |
| Total Visteon | 136 | 47 | 24 |

Although we believe that our facilities are suitable and adequate, and have sufficient productive capacity to meet our present needs, additional facilities will be needed to meet future needs in growth products and regions. The majority of our facilities are operating at normal levels based on their respective capacities except those facilities that are in the process of being closed.

Table of Contents**ITEM 3. LEGAL PROCEEDINGS**

In February 2005, a shareholder lawsuit was filed in the U.S. District Court for the Eastern District of Michigan against Visteon and Messrs. Pestillo, Johnston, Coulson and Palmer and Ms. Minor, each a current or former officer of the company. The lawsuit alleges, among other things, that Visteon made misleading statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. The named individual plaintiff seeks to represent a class consisting of purchasers of Visteon's securities during the period between January 23, 2004 and January 31, 2005. Class action status has not yet been certified in this litigation. Visteon is in the process of evaluating the claims in this lawsuit, and Visteon and its current and former officers intend to contest the lawsuit vigorously. The lawsuit is in a very preliminary stage and at this time, management is unable to assess the impact this litigation may have on its results of operations and financial position.

Except as described above, we are involved in routine litigation incidental to the conduct of our business. Except as described above, we do not believe that any litigation to which we are currently a party would, if determined adversely to us, have a material adverse effect on our financial condition, results of operations or cash flows, although such an outcome is possible.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 4A. EXECUTIVE OFFICERS OF VISTEON

The following table shows information about the executive officers of Visteon. All ages are as of March 1, 2005:

| Name | Age | Position |
|---------------------|------------|--|
| Peter J. Pestillo | 66 | Chairman of the Board |
| Michael F. Johnston | 57 | Director, President and Chief Executive Officer |
| James C. Orchard | 54 | Executive Vice President and President, North America |
| James F. Palmer | 55 | Executive Vice President and Chief Financial Officer |
| Heinz Pfannschmidt | 57 | Executive Vice President and President, Europe and South America |
| Lorie J. Buckingham | 47 | Senior Vice President and Chief Information Officer |
| Stacy L. Fox | 51 | Senior Vice President, General Counsel and Secretary |
| John F. Kill | 55 | Senior Vice President Product Development |
| Robert H. Marcin | 59 | |