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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-K/A

(Mark One)

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

For the fiscal year ended December 31, 2001, or

o

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

For the transition period from _________ to _________

Commission file number 1-15827

VISTEON CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**38-3519512**
(State of incorporation)	(I.R.S. employer identification no.)
5500 Auto Club Drive, Dearborn, Michigan	**48126**
(Address or principal executive offices)	(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
7.95% Notes due August 1, 2005	Luxembourg Stock Exchange
8.25% Notes due August 1, 2010	Luxembourg 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__ü__ 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. þ

As of January 31, 2002, the registrant had outstanding 130,422,724 shares of Common Stock. The aggregate market value of such Common Stock held by non-affiliates of the registrant as of such date was $1,734,622,229, based on the closing price of the Common Stock on that date ($13.30 a share) as reported by the New York Stock Exchange.

Document Incorporated by Reference*

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

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

INTRODUCTORY NOTE

For purposes of this Form 10-K/A, we have amended and revised Part II Item 6 Selected Financial Data and Part IV Item 14 Exhibits, Financial Statements Schedules, and Reports on Form 8-K of the Annual Report on Form 10-K for the year ended December 31, 2001 that was filed on March 29, 2002. This amendment reflects the reissuance of our consolidated financial statements as described further in Note 3 to those consolidated financial statements.

PART II

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data as of December 31, 2001 and 2000, and for periods subsequent to our spin-off from Ford, reflect our financial condition, results of operations and cash flows. Selected consolidated financial data for the periods prior to our spin-off reflect the historical financial condition, results of operations and cash flows of the businesses that were considered part of the Visteon business of Ford during each respective period. The historical consolidated statement of income data set forth below for periods prior to our spin-off do not reflect many significant changes that occurred in the operations and funding of our company as a result of our spin-off from Ford.

The selected consolidated financial data should be read in conjunction with, and are qualified by reference to, Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and accompanying notes included elsewhere in this report. The consolidated statement of income, cash flow and balance sheet data, set forth below, have been derived from our audited financial statements.

The following financial information may not reflect what our results of operations, financial condition and cash flows would have been had we operated as a separate, stand-alone entity during the periods presented or what our results of operations, financial condition and cash flows will be in the future.

ITEM 6. SELECTED FINANCIAL DATA (Continued)

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(in millions, except per share amounts and percentages)				
Statement of Income Data:					
Sales:					
Ford and affiliates	$ 14,656	$ 16,448	$ 17,105	$ 16,350	$ 16,003
Other customers	3,187	3,019	2,261	1,412	1,217
Total sales	17,843	19,467	19,366	17,762	17,220
Costs and expenses:					
Costs of sales	17,148	18,025	17,503	15,969	15,794
Selling, administrative and other expenses	812	781	674	659	575
Asset impairment charge		220			
Total costs and expenses	17,960	19,026	18,177	16,628	16,369
Operating income (loss)	(117)	441	1,189	1,134	851
Interest income	55	109	79	38	17
Interest expense	131	167	143	82	82
Net interest expense	(76)	(58)	(64)	(44)	(65)
Equity in net income of affiliated companies	24	56	47	26	29
Income (loss) before income taxes	(169)	439	1,172	1,116	815
Provision (benefit) for income taxes	(72)	143	422	416	305
Income (loss) before minority interests	(97)	296	750	700	510
Minority interests in net income (loss) of subsidiaries	21	26	15	(3)	(1)
Net income (loss)	$ (118)	$ 270	$ 735	$ 703	$ 511
Basic and diluted earnings (loss) per share (based on 130,000,000 shares outstanding for periods prior to our spin-off)	$ (0.91)	$ 2.08	$ 5.65	$ 5.41	$ 3.93
Cash dividends declared per share	$ 0.24	$ 0.12			
Statement of Cash Flows Data:					
Cash provided by (used in) operating activities	$ 436	$ (526)	$ 2,482	$ 1,376	$ 1,411
Cash (used in) investing activities	(743)	(842)	(1,453)	(940)	(943)
Cash (used in) provided by financing activities	(75)	924	290	(234)	(251)
Other Financial Data:					
Depreciation and amortization	$ 666	$ 676	$ 651	$ 565	$ 590
EBITDA, as defined	741	1,337	1,840	1,699	1,441
Capital spending	752	793	876	861	917
After tax return on:					
Sales	(0.5)%	1.5%	3.9%	3.9%	3.0%
Average assets	(0.9)%	2.5%	6.8%	7.8%	6.3%

	At December 31,				
	2001	2000	1999	1998	1997
	(in millions)				
Balance Sheet Data:					

Total assets (Note 3 Consolidated Financial Statements)	$ 11,162	$ 11,405	$ 12,542	$ 9,373	$ 8,471
Total debt	1,922	2,019	2,319	1,125	1,136
Total equity	3,291	3,505	1,499	1,655	1,204

EBITDA is defined as income before interest expense and interest income, provision for income taxes, depreciation and amortization, asset impairment charges, equity in net income of affiliated companies and minority interests. In addition, EBITDA for 2001 excludes costs related to restructuring actions of $192 million. EBITDA is not presented as an alternative measure of operating results or cash flow from operations, as determined in accordance with generally accepted accounting principles, but is presented because we believe it is a widely accepted indicator of our ability to incur and service debt. EBITDA does not give effect to cash used for debt service requirements and thus does not reflect funds available for dividends, reinvestment or other discretionary uses. In addition, EBITDA as presented may not be comparable to similarly titled measures reported by other companies.

Total assets at December 31, 2001, 2000 and 1999 have been adjusted for a revision made to Visteon s inventory recognition practice as discussed in Note 3 to the consolidated financial statements. Total assets at December 31, 1998 and 1997 have not been adjusted as the relevant inventory information from those years is limited and indicates that the amount of such adjustment would not be significant.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

Visteon filed the following Current Reports on Form 8-K during the quarter ended December 31, 2001:

Current Report on Form 8-K dated October 19, 2001, included information relating to Visteon s third quarter 2001 financial results.

SIGNATURE

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, Visteon has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

VISTEON CORPORATION

By: /s/ PHILIP G. PFEFFERLE

Philip G. Pfefferle
Vice President, Controller and
Chief Accounting Officer
(Principal Accounting Officer)

Date: August 12, 2002

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders

Visteon Corporation

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) on page 3 present fairly, in all material respects, the financial position of Visteon Corporation and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the company s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3, the company has revised its consolidated balance sheet at December 31, 2001 and 2000.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Detroit, Michigan

January 16, 2002, except for Note 17,
as to which the date is March 11, 2002,
and Note 3, as to which the date is
August 12, 2002.

VISTEON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	For the Years Ended December 31,		
	2001	**2000**	**1999**
		(in millions, except per share amounts)	
Sales (Notes 2 and 11)			
Ford and affiliates	$ 14,656	$ 16,448	$ 17,105
Other customers	3,187	3,019	2,261
Total sales	17,843	19,467	19,366
Costs and expenses (Notes 2, 11 and 13)			
Costs of sales	17,148	18,025	17,503
Selling, administrative and other expenses	812	781	674
Asset impairment charge (Note 13)		220	
Total costs and expenses	17,960	19,026	18,177
Operating income (loss)	(117)	441	1,189
Interest income	55	109	79
Interest expense	131	167	143
Net interest expense	(76)	(58)	(64)
Equity in net income of affiliated companies (Notes 2 and 13)	24	56	47
Income (loss) before income taxes	(169)	439	1,172
Provision (benefit) for income taxes (Note 5)	(72)	143	422
Income (loss) before minority interests	(97)	296	750
Minority interests in net income of subsidiaries	21	26	15
Net income (loss)	$ (118)	$ 270	$ 735
Average number of shares of Common Stock outstanding (Note 2)	131	130	130
Earnings (loss) and dividends per share (Note 2)			
Basic and diluted	$ (0.91)	$ 2.08	$ 5.65
Cash dividends	$ 0.24	$ 0.12	$

The accompanying notes are part of the financial statements.

VISTEON CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	December 31, 2001	December 31, 2000
	(restated) (in millions)	
Assets		
Cash and cash equivalents	$ 1,024	$ 1,412
Marketable securities	157	65
Total cash and marketable securities	1,181	1,477
Accounts receivable Ford and affiliates	1,560	1,333
Accounts receivable other customers	834	857
Total receivables	2,394	2,190
Inventories (Note 3)	942	1,028
Deferred income taxes	167	192
Prepaid expenses and other current assets	153	198
Total current assets	4,837	5,085
Equity in net assets of affiliated companies	158	142
Net property (Note 4)	5,329	5,497
Deferred income taxes	322	100
Other assets	516	581
Total assets	$ 11,162	$ 11,405
Liabilities and Stockholders Equity		
Trade payables (Note 3)	$ 1,915	$ 2,029
Accrued liabilities (Note 6)	945	1,086
Income taxes payable	30	65
Debt payable within one year (Note 8)	629	622
Total current liabilities	3,519	3,802
Long-term debt (Note 8)	1,293	1,397
Postretirement benefits other than pensions (Note 7)	2,079	1,829
Other liabilities (Note 6)	967	854
Deferred income taxes	13	18
Total liabilities	7,871	7,900
Stockholders equity		
Capital stock (Note 9)		
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
Capital in excess of par value of stock	3,311	3,311
Accumulated other comprehensive income	(231)	(179)
Other	(25)	(12)
Earnings retained for use in business	105	254

Total stockholders equity	3,291	3,505
Total liabilities and stockholders equity	$ 11,162	$ 11,405

The accompanying notes are part of the financial statements.

VISTEON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Years Ended December 31,		
	2001	**2000**	**1999**
		(in millions)	
Cash and cash equivalents at January 1	$ 1,412	$ 1,849	$ 542
Cash flows provided by (used in) operating activities (Note 14)	436	(526)	2,482
Cash flows from investing activities			
Capital expenditures	(752)	(793)	(876)
Acquisitions and investments in joint ventures, net	(7)	(28)	(579)
Purchases of securities	(346)	(126)	
Sales and maturities of securities	260	61	
Other	102	44	2
Net cash used in investing activities	(743)	(842)	(1,453)
Cash flows from financing activities			
Cash distributions from (to) prior owner		85	(558)
Commercial paper issuances, net	8	352	
Payments on short-term debt	(1)	(1,775)	
Proceeds from issuance of short-term debt	1	1,374	493
Proceeds from issuance of other debt	114	1,279	816
Principal payments on other debt	(144)	(290)	(361)
Purchase of treasury stock	(25)		
Cash dividends	(31)	(16)	
Other	3	(85)	(100)
Net cash (used in) provided by financing activities	(75)	924	290
Effect of exchange rate changes on cash	(6)	7	(12)
Net (decrease) increase in cash and cash equivalents	(388)	(437)	1,307
Cash and cash equivalents at December 31	$ 1,024	$ 1,412	$ 1,849

The accompanying notes are part of the financial statements.

VISTEON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

	Common Stock Shares	Common Stock Amount	Capital In Excess of Par Value	Earnings Retained for Use in Business	Accumulated Other Comprehensive Income	Prior Owner s Net Investment	Other Treasury Stock	Other Unearned Stock Compensation	Total
					(in millions)				
Year Ended December 31, 1999									
Beginning balance		$	$	$	$ (25)	$ 1,680	$	$	$ 1,655
Comprehensive income									
Net income						735			735
Foreign currency translation					(42)				(42)
Comprehensive income									693
Net transfers to prior owner						(849)			(849)
Ending balance		$	$	$	$ (67)	$ 1,566	$	$	$ 1,499
Year Ended December 31, 2000									
Beginning balance		$	$	$	$ (67)	$ 1,566	$	$	$ 1,499
Comprehensive income									
Net income				270					270
Foreign currency translation					(112)				(112)
Comprehensive income									158
Net transfers and settlements of balances with prior owner						1,864			1,864
Capitalization/ reclassification of prior owner s net investment	130	130	3,300			(3,430)			0
Deferred stock-based compensation	1	1	11					(12)	0
Cash dividends				(16)					(16)
Ending balance	131	$ 131	$ 3,311	$ 254	$ (179)	$ 0	$	$ (12)	$ 3,505
Year Ended December 31, 2001									
Beginning balance	131	$ 131	$ 3,311	$ 254	$ (179)	$ 0	$	$ (12)	$ 3,505
Comprehensive income									
Net (loss)				(118)					(118)
Foreign currency translation					(53)				(53)
Realized and unrealized gains/losses on derivatives, net of tax					5				5
Change in unrealized loss on marketable securities, net of tax					(2)				(2)
Minimum pension liability, net of tax					(2)				(2)
Comprehensive (loss)									(170)
Purchase of treasury stock							(25)		(25)
Deferred stock-based compensation							13	(13)	0
Amortization and adjustment of deferred stock-based								9	9

compensation, net									
Exercise of common stock options							3		3
Cash dividends				(31)					(31)
Ending balance	131	$ 131	$ 3,311	$ 105	$ (231)	$ 0	$ (9)	$ (16)	$ 3,291

The accompanying notes are part of the financial statements.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 1. Background and Basis of Presentation

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

In connection with Visteon s separation from Ford, Visteon and Ford entered into a series of agreements outlining the business relationship between the two companies following the spin-off which are further discussed in Note 11.

Basis of Presentation

The consolidated financial statements as of December 31, 2001 and 2000 and for periods subsequent to the spin-off include the accounts of Visteon and its wholly-owned and majority-owned subsidiaries. The consolidated financial statements of Visteon for periods prior to the spin-off reflect the historical results of operations and cash flows of the businesses that were considered part of the Visteon business of Ford. Certain amounts for prior periods were reclassified to conform with present period presentation.

Operating costs and expenses for periods prior to the spin-off from Ford include allocations of general corporate overhead related to Ford s corporate headquarters and common support activities including information systems, product development, accounting and finance, corporate insurance programs, treasury, facilities, legal and human resources. These costs were assessed to Visteon based on usage or similar allocation methodologies. Although Visteon believes the allocations and charges for such services were reasonable, the costs of these services charged to Visteon are not necessarily indicative of the costs that would have been incurred if Visteon had been a stand-alone entity or what they would be in the future.

NOTE 2. Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the company and its majority-owned subsidiaries. Intra-Visteon transactions have been eliminated in consolidation. Companies that are 20% to 50% owned by Visteon are accounted for on an equity basis. Use of estimates and assumptions as determined by management are required in the preparation of financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates and assumptions.

Revenue Recognition

Sales are recognized when there is evidence of a sales agreement, the delivery of goods has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. Significant retroactive price adjustments are recognized in the period when such amounts become probable. Visteon generally records sales upon shipment of product to customers and transfer of title under standard commercial terms.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2. Accounting Policies (Continued)

Other Costs

Advertising and sales promotion costs are expensed as incurred. Advertising costs were $19 million in 2001, $29 million in 2000 and $42 million in 1999.

Research and development costs are expensed as incurred and were $1,119 million in 2001, $1,198 million in 2000 and $1,115 million in 1999.

Pre-production design and development costs relating to long-term supply arrangements are expensed as incurred.

Income (Loss) Per Share of Common Stock

Basic income per share of common stock is calculated by dividing the income attributable to common stock by the average number of shares of common stock outstanding during the applicable period, adjusted for restricted stock. The average number of shares of restricted stock outstanding was about 1,390,000 and 460,000 shares in 2001 and 2000, respectively. The calculation of diluted income per share takes into account the effect of dilutive potential common stock, such as stock options and restricted stock. For the year ended December 31, 2001 potential common stock of about 343,000 shares are excluded as the effect would have been antidilutive. For purposes of the earnings per share calculations, 130 million shares of common stock are treated as outstanding for periods prior to the spin-off from Ford.

Derivative Financial Instruments

Visteon has operations in every major region of the world and is exposed to a variety of market risks, including the effects of changes in foreign currency exchange rates, interest rates and commodity prices. These financial exposures are monitored and managed by the company as an integral part of the company s overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effect on the company s results. Visteon s primary commodity-price exposures are aluminum, copper and natural gas, which are managed primarily through fixed-price contracts with suppliers. The company uses derivative financial instruments to manage the exposures in exchange rates, interest rates and commodity prices. All derivative financial instruments are classified as held for purposes other than trading. Company policy specifically prohibits the use of leveraged derivatives or use of any derivatives for speculative purposes.

Visteon s primary foreign currency exposures, in terms of net corporate exposure are in the euro, Mexican peso and British pound. Agreements to manage foreign currency exposure typically would include forward contracts, swaps and options. The company uses these derivative instruments to hedge expected future cash flows in foreign currencies and firm commitments. Gains and losses on cash flow hedges are initially reported as a component of other comprehensive income (outside earnings) and subsequently reclassified into earnings when the forecasted transaction affects earnings. All other gains and losses are recognized in costs of sales. These instruments usually mature in two years or less, consistent with the underlying transactions. The effect of changes in exchange rates may not be fully offset by gains or losses on currency derivatives, depending on the extent to which the exposures are hedged.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2. Accounting Policies (Continued)

During 2001, the company entered into interest rate swaps to manage its interest rate risk. As a result of these swaps, approximately 45% of the company s borrowings are on a fixed rate basis, with the balance on a variable rate basis, subject to changes in short term interest rates.

Visteon adopted Statement of Financial Accounting Standards No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities, on January 1, 2001. SFAS 133 (as amended by SFAS 137 and 138) establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires recognition of all derivatives as either assets or liabilities on the balance sheet and measurement of the instruments at fair value. The change in fair value of a derivative is required to be recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction and if so, the type of hedge transaction.

The impact of implementing this new standard on Visteon s results of operations and financial condition for the year ended December 31, 2001, was not material.

Foreign Currency Translation

Assets and liabilities of Visteon s non-U.S. businesses generally are translated to U.S. Dollars at end-of-period exchange rates. The effects of this translation for Visteon are reported in other comprehensive income. Remeasurement of assets and liabilities of Visteon s non-U.S. businesses that use the U.S. Dollar as their functional currency are included in income as transaction gains and losses. Income statement elements of Visteon s non-U.S. businesses are translated to U.S. Dollars at average-period exchange rates and are recognized as part of revenues, costs and expenses. Also included in income are gains and losses arising from transactions denominated in a currency other than the functional currency of the business involved. Net transaction gains and losses, as described above, increased net income $6 million in 2001 and $2 million in 2000 and decreased net income $24 million in 1999.

Cash and Cash Equivalents

Visteon considers all highly liquid investments purchased with a maturity of three months or less, including short-term time deposits and government agency and corporate obligations, to be cash equivalents. For periods prior to the spin-off, cash and cash equivalents consisted primarily of a share of Ford s cash and cash equivalents.

Marketable Securities

Marketable securities are classified as available-for-sale. The fair value of substantially all securities is determined by quoted market prices. The estimated fair value of securities, for which there are no quoted market prices, is based on similar types of securities that are traded in the market. Book value approximates fair value for all securities.

Impairment of Long-Lived Assets and Certain Identifiable Intangibles

Visteon periodically evaluates the carrying value of long-lived assets and long-lived assets to be disposed of for potential impairment. Visteon considers projected future undiscounted cash flows, trends and other circumstances in making such estimates and evaluations.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2. Accounting Policies (Continued)

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies and is amortized using the straight-line method for periods up to 20 years. Total goodwill included in other assets was $357 million and $394 million at December 31, 2001 and 2000, respectively, net of accumulated amortization of $79 million and $58 million as of those same dates.

Visteon evaluates the carrying value of goodwill for potential impairment on an ongoing basis. Such evaluations compare operating income before amortization of goodwill to the amortization recorded for the operations to which the goodwill relates. Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets, was issued by the Financial Accounting Standards Board in July 2001. SFAS 142 establishes a new accounting standard for goodwill acquired in a business combination. SFAS 142 would continue to require recognition of goodwill as an asset but would no longer permit amortization of goodwill. In addition, SFAS 142 establishes a new method of testing goodwill and other intangible assets for impairment by using a fair-value based approach. Under this statement, existing intangible assets will be evaluated for possible impairment on the date of transition and periodically, thereafter. In accordance with the provisions of SFAS 142, goodwill shall no longer be amortized starting in the first quarter of 2002. We have not yet determined the effect of adopting SFAS 142 on Visteon s results of operations and financial condition. Amortization expense related to goodwill for the year ended December 31, 2001 was $23 million.

NOTE 3. Inventories

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

	As Restated December 31,		As Originally Reported December 31,	
	2001	2000	2001	2000
	(in millions)			
Inventories	$ 942	$ 1,028	$ 858	$ 948
Trade Payables	1,915	2,029	1,831	1,949

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3. Inventories (Continued)

The following quarterly information is presented for informational purposes as of the following dates:

	As Restated	As Originally Reported
	(unaudited) (in millions)	
March 31, 2001		
Inventories	$ 1,054	$ 940
Trade Payables	2,252	2,138
June 30, 2001		
Inventories	$ 1,017	$ 908
Trade Payables	2,188	2,079
September 30, 2001		
Inventories	$ 1,128	$ 1,022
Trade Payables	1,975	1,869

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

	As Restated December 31,	
	2001	2000
	(in millions)	
Raw materials, work-in-process and supplies	$ 812	$ 909
Finished products	130	119
Total inventories	$ 942	$ 1,028
U.S. inventories	$ 589	$ 642

Inventories are stated at the lower of cost or market. The cost of most U.S. inventories is determined by the last-in, first-out (LIFO) method. The cost of the remaining inventories is determined primarily by the first-in, first-out (FIFO) method.

If the FIFO method had been used instead of the LIFO method, inventories would have been higher by $86 million and $83 million at December 31, 2001 and 2000, respectively.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4. Net Property, Depreciation and Amortization

	December 31, 2001	December 31, 2000
	(in millions)	
Land	$ 117	$ 117
Buildings and land improvements	1,495	1,389
Machinery, equipment and other	8,162	8,512
Construction in progress	306	306
Total land, plant and equipment	10,080	10,324
Accumulated depreciation	(5,090)	(5,130)
Net land, plant and equipment	4,990	5,194
Special tools, net of amortization	339	303
Net property	$ 5,329	$ 5,497

Property, equipment and special tools are depreciated principally using the straight-line method of depreciation over the estimated useful life of the asset. On average, buildings and land improvements are depreciated based on a 30-year life; machinery and equipment are depreciated based on a 14-year life. Special tools are amortized using the straight-line method over periods of time representing the estimated life of those tools.

Depreciation and amortization expenses related to property, equipment and special tools, excluding amortization expense of goodwill and other intangible assets, were as follows:

	2001	2000	1999
		(in millions)	
Depreciation	$ 562	$ 585	$ 572
Amortization	79	68	66
Total	$ 641	$ 653	$ 638

Maintenance, repairs and rearrangement costs are expensed as incurred. Expenditures that increase the value or productive capacity of assets are capitalized. Pre-production costs related to new facilities are expensed as incurred.

At December 31, 2001 Visteon had the following minimum rental commitments under non-cancelable operating leases (in millions): 2002 $80; 2003 $50; 2004 $35; 2005 $27; 2006 $19; thereafter $85.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5. Income Taxes

Income (loss) before income taxes for U.S. and non-U.S. operations, excluding equity in net income of affiliated companies, was as follows:

	2001	2000	1999
		(in millions)	
U.S.	$ (343)	$ 104	$ 974
Non-U.S.	150	279	151
Total income (loss) before income taxes	$ (193)	$ 383	$ 1,125

The provision (benefit) for income taxes was calculated as follows:

	2001	2000	1999
		(in millions)	
Current tax provision (benefit)			
U.S. federal	$ (6)	$ 127	$ 264
Non-U.S.	77	91	112
State and local		12	26
Total current	71	230	402
Deferred tax provision (benefit)			
U.S. federal	(115)	(91)	47
Non-U.S.	(24)	7	(27)
State and local	(4)	(3)	
Total deferred	(143)	(87)	20
Total provision (benefit)	$ (72)	$ 143	$ 422

A reconciliation of the provision (benefit) for income taxes compared with amounts at the U.S. statutory tax rate is shown below:

	2001	2000	1999
Tax provision (benefit) at U.S. statutory rate of 35%	(35)%	35%	35%
Effect of:			
Tax on non-U.S. income			2
State and local income taxes	(2)	2	2
Tax credits	(6)	(3)	(1)
Other	6	3	
Provision (benefit) for income taxes	(37)%	37%	38%

Deferred taxes are provided for earnings of non-U.S. subsidiaries. Deferred tax assets and liabilities reflect the estimated tax effect of accumulated temporary differences between assets and liabilities for financial reporting purposes and those amounts as measured by tax laws and regulations.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5. Income Taxes (Continued)

The components of deferred income tax assets and liabilities at December 31 were as follows:

	December 31,	
	2001	**2000**
	(in millions)	
Deferred tax assets		
Employee benefit plans	$ 961	$ 902
Customer allowances and claims	34	30
Net operating losses and other carryforwards	245	36
All other	202	148
Total deferred tax assets	1,442	1,116
Deferred tax liabilities		
Depreciation and amortization	724	713
Employee benefit plans	10	10
All other	232	119
Total deferred tax liabilities	966	842
Net deferred tax assets	$ 476	$ 274

The anticipated tax benefit of U.S. net operating loss carryforwards is $118 million at December 31, 2001. These losses will expire in 2021. U.S. tax credit carryforwards are $24 million at December 31, 2001. These credits will expire in 2021. The anticipated tax benefit of non-U.S. net operating loss carryforwards is $103 million at December 31, 2001. The majority of these losses have indefinite carryforward periods. For financial statement purposes, the tax benefit of net operating loss and credit carryforwards is recognized as a deferred tax asset, subject to appropriate valuation allowances when it is determined that recovery of the deferred tax asset is unlikely. The company evaluates the tax benefits of operating loss carryforwards on an ongoing basis. Such evaluations include a review of historical and projected future operating results, the eligible carryforward period and other circumstances.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6. Liabilities

Current Liabilities

Included in accrued liabilities at December 31 were the following:

	December 31,	
	2001	2000
	(in millions)	
Salaries, wages and employer taxes	$ 105	$ 338
Employee benefits	308	321
Postretirement benefits other than pensions	38	32
Other	494	395
Total accrued liabilities	$ 945	$ 1,086

Noncurrent Liabilities

Included in other liabilities at December 31 were the following:

	December 31,	
	2001	2000
	(in millions)	
Employee benefits	$ 418	$ 423
Minority interests in net assets of subsidiaries	109	93
Other	440	338
Total other liabilities	$ 967	$ 854

NOTE 7. Employee Retirement Benefits

Employee Retirement Plans

In the U.S., Visteon hourly employees represented by the UAW and other collective bargaining groups earn noncontributory benefits based on employee service. Visteon salaried employees earn similar noncontributory benefits as well as contributory benefits related to pay and service. In accordance with the separation agreements, Ford retained the past service obligations for those transferred salaried employees who were eligible to retire in 2000 as well as those whose combined age and years of service was at least 60 at the date of the separation from Ford. For all other transferred salaried employees, Visteon assumed the pension obligations as well as assets with a fair value at least equal to the related projected benefit obligation but no less than the amount required to be transferred under applicable laws and regulations. Certain of the non-U.S. subsidiaries sponsor separate plans that provide similar types of benefits to their employees. For these non-U.S. plans, Visteon has assumed all plan benefit obligations for Visteon employees as well as assets that approximate the benefit obligations for funded plans.

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VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7. Employee Retirement Benefits (Continued)

In general, the company s plans are funded with the exception of certain supplemental benefit plans for executives and a plan in Germany; in such cases the unfunded liability is recorded. The company s policy for funded plans is to contribute annually, at a minimum, amounts required by applicable law, regulation or union agreement. Plan assets consist principally of investments in stocks, and government and other fixed income securities.

Visteon-assigned Ford-UAW employees, comprising about 23,000 people, participate in the Ford-UAW Retirement Plan, sponsored by Ford. By agreement, Visteon compensates Ford for the pension expense incurred by Ford for Visteon-assigned employees.

Most U.S. salaried employees are eligible to participate in a defined contribution plan (Visteon Investment Plan) by contributing a portion of their compensation which is partially matched by Visteon. Matching contributions were $31 million in 2001 and were suspended effective January 1, 2002.

Postretirement Health Care and Life Insurance Benefits

In the U.S., Visteon has a financial obligation for the cost of providing selected health care and life insurance benefits to its employees, as well as Visteon-assigned Ford-UAW employees who retire after July 1, 2000. The estimated cost for these benefits is accrued over periods of employee service on an actuarially determined basis. Ford retained the financial obligation and related prepayments for postretirement health care and life insurance benefits to its employees who retired on or before July 1, 2000.

Under the terms of the separation agreements with Ford and in addition to regular benefit payments, Visteon is required to pre-fund postretirement health care and life insurance benefit obligations related to Visteon-assigned Ford-UAW hourly employees as well as many transferred salaried employees. The required pre-funding is over a 15 year period beginning in 2006 for the Visteon-assigned Ford-UAW hourly employees, and over a 10 year period beginning in 2011 for those salaried employees. The annual pre-funding requirement during this period will be determined based upon amortization of the unfunded liability at the beginning of the period, plus annual expense**.** The unfunded liability at December 31, 2001 of about $1.6 billion is included in our recorded postretirement health care and life insurance benefit liability. Based upon estimates of the unfunded liabilities and the related expense, the first required pre-funding annual payment will be about $410 million in 2006, which is about $340 million higher than payments on a pay-as-you-go basis. In December 2000, the company pre-funded a portion of this obligation by contributing $25 million to a Voluntary Employees Beneficiary Association (VEBA) trust.

Effective January 1, 2002, the company revised the eligibility requirement for retiree health insurance coverage for most U.S. employees to 10 years of service after attaining the age of 45.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7. Employee Retirement Benefits (Continued)

The company s expense for retirement benefits was as follows:

	Retirement Plans						Health Care and Life Insurance Benefits		
	U.S. Plans			Non-U.S. Plans					
	2001	2000	1999	2001	2000	1999	2001	2000	1999
	(in millions, except percentages)								
Costs Recognized in Income									
Service cost	$ 45	$ 55	$ 72	$ 19	$ 37	$ 34	$ 28	$ 26	$ 29
Interest cost	50	82	167	34	41	67	53	61	75
Expected return on plan assets	(64)	(106)	(248)	(49)	(58)	(95)			
Amortization of:									
Transition (asset) obligation	(4)	(7)	(16)			(1)		1	
Plan amendments	8	12	18	6	6	13	(1)		(1)
(Gains) losses and other	(3)	(9)	11	(8)		12	2		6
Special termination benefits	52			1	7		19		
Curtailments	(3)			1					
Expense for Visteon-assigned Ford-UAW employees	58	74	53				181	170	206
Net pension/postretirement expense	$ 139	$ 101	$ 57	$ 4	$ 33	$ 30	$ 282	$ 258	$ 315