

VISTEON CORP
Form 10-K
March 31, 2009

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

FORM 10-K

(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, 2008, 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(g) of the Act:

(Title of class)

Common Stock, par value \$1.00 per share

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Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2008 (the last business day of the most recently completed second fiscal quarter) was approximately \$342 million.

As of March 26, 2009, the registrant had outstanding 130,482,861 shares of common stock.

Document Incorporated by Reference*

Document	Where Incorporated
2009 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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PART I

ITEM 1. BUSINESS

The Company's Business

Visteon Corporation (Visteon or the Company) is a leading global supplier of automotive systems, modules and components to global vehicle manufacturers (OEMs) and the automotive aftermarket. The Company is headquartered in Van Buren Township, Michigan, has a workforce of approximately 33,500 employees and has a network of manufacturing sites, technical centers, sales offices and joint ventures located in every major geographic region of the world. The Company was incorporated in Delaware in January 2000 as a wholly-owned subsidiary of Ford Motor Company (Ford or Ford Motor Company). Subsequently, Ford transferred the assets and liabilities comprising its automotive components and systems business to Visteon. The Company separated from Ford on June 28, 2000 when all of the Company's common stock was distributed by Ford to its shareholders.

In September 2005, the Company transferred 23 of its North American facilities and certain other related assets and liabilities (the Business) to Automotive Components Holdings, LLC (ACH), an indirect, wholly-owned subsidiary of the Company. On October 1, 2005, the Company sold ACH to Ford for cash proceeds of approximately \$300 million, as well as the forgiveness of certain other postretirement employee benefit liabilities and other obligations relating to hourly employees associated with the Business and the assumption of certain other liabilities (together, the ACH Transactions). The transferred facilities included all of the Company's plants that leased hourly workers covered by Ford's Master Agreement with the United Auto Workers Union (UAW). The Business accounted for approximately \$6.1 billion of the Company's total product sales for 2005, the majority being products sold to Ford.

In January 2006, the Company announced a multi-year improvement plan that involved the restructuring of certain underperforming and non-strategic plants and businesses to improve operating and financial performance and to reduce costs. The multi-year improvement plan, which was initially expected to affect up to 23 facilities, was completed during 2008 and addressed a total of 30 facilities and businesses, including 7 divestitures and 14 closures. These activities resulted in sales declines of \$1 billion and \$675 million during the years ended December 31, 2008, and 2007, respectively.

During 2008, weakened economic conditions, largely attributable to the global credit crisis, and erosion of consumer confidence, negatively impacted the automotive sector on a global basis. Significant factors including the deterioration of housing values, rising fuel prices, equity market volatility, and rising unemployment levels resulted in consumers delaying purchases of durable goods, particularly highly deliberated purchases such as automobiles. Additionally, the absence of available credit hindered vehicle affordability, forcing willing consumers out of the market globally. Together these factors combined to drive a decline in demand for automobiles across substantially all geographies.

The deterioration of market conditions in 2008 was compounded by the rapid pace at which it occurred, as evidenced by double digit year-over-year declines in fourth quarter 2008 automotive sector sales in North America, Europe, China, Korea and South America. Despite actions taken by the Company to reduce its operating costs in 2008, the rate of such reductions did not keep pace with that of the rapidly deteriorating market conditions and related decline in OEM production volumes, which resulted in significant operating losses and cash flow usage by the Company, particularly in the fourth quarter of 2008.

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ITEM 1. BUSINESS (Continued)

Additionally, current credit and capital market conditions combined with the Company's credit ratings and recent history of operating losses and negative cash flows as well as projected industry conditions are likely to restrict the Company's ability to access capital markets in the near term and any such access would likely be at an increased cost and under more restrictive terms and conditions. Further, such constraints may also affect the Company's commercial agreements and payment terms. Absent access to additional liquidity from credit markets, which remain severely constrained, or other sources of external financial support, including accommodations from key customers, the Company expects to be at or near minimum levels of cash necessary to operate the business during 2009. Accordingly, the Company believes that substantial doubt exists as to its ability to meet its obligations as they come due through the normal course of business during 2009.

Pursuant to affirmative covenants contained in the agreements associated with the Company's senior secured facilities and European Securitization (the Facilities), the Company is required to provide audited annual financial statements within a prescribed period of time after the end of each fiscal year without a going concern audit report or like qualification or exception. On March 31, 2009, the Company's independent registered public accounting firm included an explanatory paragraph in its audit report on the Company's 2008 consolidated financial statements indicating substantial doubt about the Company's ability to continue as a going concern. The receipt of such an explanatory statement constitutes a default under the Facilities. On March 31, 2009, the Company entered into amendments and waivers (the Waivers) with the lenders under the Facilities, which provide for waivers of such defaults for limited periods of time, as more fully described in Item 9B Other Information of this Annual Report on Form 10-K.

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

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

On March 31, 2009, Visteon UK Limited, a company organized under the laws of England and Wales and an indirect, wholly-owned subsidiary of the Company (the UK Debtor), filed for administration (the UK Administration) under the United Kingdom Insolvency Act of 1986 with the High Court of Justice, Chancery division in London, England. The UK Administration does not include the Company or any of the Company's other subsidiaries. The UK Administration was initiated in response to continuing operating losses of the UK Debtor and mounting labor costs and their related demand on the Company's cash flows. Under the UK Administration, the UK Debtor will likely be run down. The UK Debtor has operations in Enfield, UK, Basildon, UK, and Belfast, UK and recorded sales of \$250 million for the year ended December 31, 2008. The UK Debtor had total assets of \$153 million as of December 31, 2008.

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ITEM 1. BUSINESS (Continued)

The Company's Industry

The Company supplies a range of integrated systems, modules and components to vehicle manufacturers for use in 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. 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.

In general, the automotive sector is capital and labor intensive, operates under highly competitive conditions, experiences slow growth and is cyclical in nature. Accordingly, the financial performance of the industry is highly sensitive to changes in overall economic conditions. Significant trends in the automotive industry include:

Market conditions The current economic downturn has negatively impacted the automotive sector on a global basis causing a dramatic decrease in sales and significant production cuts across substantially all OEMs during the fourth quarter of 2008. Such conditions have continued to persist into 2009 and are not expected to improve significantly in the near-term. In light of these market conditions the need to conserve and generate cash in the automotive sector is expected to remain a top priority. Elimination of excess production capacity, reduction of high fixed cost structures and limitations on capital and other investments will be required to preserve liquidity and adapt to new industry realities. Failure to do so will negatively impact the financial condition of the automotive sector, particularly domestic OEM's and automotive suppliers, resulting in heightened potential for bankruptcy.

While these market conditions are not expected to abate in the near-term, the restructuring and cost reduction efforts of the automotive sector must be carefully balanced with the need to invest in new technologies and global vehicle platforms to be prepared for the future. However, given the globally constrained liquidity conditions, the automotive sector is likely to experience further consolidation and an increase in program collaborations, vehicle assembly alliances and partnerships designed to leverage capital resources.

Globalization Given the need for cost reduction and cash preservation, the automotive sector is expected to increase the use and speed development of global vehicle platforms as a means to streamline the supply chain, speed time to market and reduce global production costs. Additionally, growth opportunities in the automotive sector exist in emerging economies and vehicle manufacturers are expanding globally into these regions through localized vehicle assembly operations.

By utilizing global vehicle platforms and localizing assembly operations, vehicle manufacturers can achieve advantages including a more efficient supply chain, low cost manufacturing capabilities, new market entry, existing market expansion, reduced exposure to currency fluctuations, and enhanced customer responsiveness. As vehicle manufacturers work to reduce costs, preserve cash and achieve global growth they are increasingly interested in buying components and systems from suppliers that can serve multiple markets, support a global vehicle platform and maintain a local presence.

Shifting consumer demand Vehicle affordability continues to drive global consumer preference towards smaller more fuel-efficient vehicles, which generally have lower profit margins. During 2008, significant and sustained increases in fuel prices resulted in a shift of U.S. consumer preference away from sport utility vehicles and trucks toward more fuel-efficient passenger cars, adding to regulatory momentum in the U.S. to improve Corporate Average Fuel Economy standards for light vehicles to 35 miles per gallon by 2020. In Europe, vehicle affordability has been challenged not only by elevated fuel prices, but by higher carbon emissions taxes. In emerging markets, vehicle affordability is driven by the entry price and consumer demand in these markets has resulted in significant

low cost vehicle development efforts. These changes in consumer behavior have resulted in an unfavorable shift in product mix towards lower margin vehicles and continue to present significant challenges for the automotive sector.

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ITEM 1. BUSINESS (Continued)

Conversely, consumers are increasingly interested in products that make them feel safer and more secure and include increased electronic and technical content such as in-vehicle communication, navigation and entertainment capabilities. To achieve sustainable profitable growth, automotive part suppliers must effectively support their customers in developing and delivering integrated products and innovative technologies at competitive prices that provide for differentiation and that address consumer preferences. Suppliers that are able to generate new products and add a greater intrinsic value to the end consumer will have a significant competitive advantage.

Shift in Original Equipment Manufacturers market share Vehicle manufacturers domiciled outside the United States continued 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 domestically domiciled suppliers like Visteon. However, the Company believes that this trend creates growth opportunities for domestically domiciled suppliers, such as Visteon, to leverage existing customer relationships to grow with vehicle manufacturers domiciled in the United States as they penetrate emerging markets and to leverage the Company's innovative and competitively priced technologies to develop new relationships with foreign vehicle manufacturers as they establish local manufacturing and assembly facilities in North America.

Customer price pressures and raw material cost inflation Downward pricing pressure from OEMs has been a historical characteristic of the automotive industry. Virtually all OEMs have aggressive price reduction initiatives and objectives each year with their suppliers, and given the difficult economic conditions such actions are expected to continue. Additionally, in recent years the automotive supply industry has experienced significant inflationary pressures, primarily in ferrous and non-ferrous metals and petroleum-based commodities, such as resins. These inflationary pressures have placed significant operational and financial burdens on automotive suppliers at all levels. Generally, the increased costs of raw materials and components used in the manufacture of the Company's products have been difficult to pass on to customers and the need to maintain a continued supply of raw materials has made it difficult to resist price increases and surcharges imposed by suppliers. Accordingly, successful suppliers must be able to reduce their operating costs in order to maintain profitability. The Company has taken steps to reduce its operating costs to offset customer price reductions through operating efficiencies, new manufacturing processes, sourcing alternatives and other cost reduction initiatives.

The Company's Business Strategy

The Company's immediate priority is to address its capital structure and liquidity requirements. However, the Company can provide no assurance that it will be able to implement any such actions in a manner or on terms that would be satisfactory to the Company. Despite these challenges, the Company aims to grow leading positions in its key climate, interiors and electronics product groups and to improve overall margins, long-term operating profitability and cash flows by leveraging the Company's extensive experience, innovative technology and geographic strengths. To achieve these goals and respond to industry factors and trends, the Company is working to reduce costs and preserve liquidity, improve its operations and grow the business.

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ITEM 1. BUSINESS (Continued)

Reduce Costs and Preserve Liquidity

Difficult economic and market conditions have increased the need to conserve and generate cash in the automotive sector. Elimination of excess production capacity, reduction of high fixed cost structures and strengthening of financial disciplines will be required to preserve liquidity and adapt to new industry realities. During 2008 the Company completed the previously announced multi-year improvement plan that was designed to sell, fix or close certain unprofitable or non-core businesses. These actions addressed 30 facilities and will result in cumulative gross savings of approximately \$500 million. During 2008 the Company reduced manufacturing employee census by 27%, including a 15% decrease in the fourth quarter. Salaried employee census was reduced by 14% during 2008, including 6% in the fourth quarter. As market conditions change, the Company's strategy to reduce costs and preserve cash includes the following:

Eliminate excess production capacity and high fixed cost structures The Company will continue to develop and execute, as appropriate, actions designed to generate liquidity including customer accommodation agreements, asset sales, cash repatriation and further cost reductions including facility closures and business exits.

Reduce administrative costs The Company continues to implement actions designed to fundamentally reorganize and streamline its administrative functions and reduce overall costs in line with lower customer volumes and weakened economic conditions. Such actions include organizational realignment and consolidation, employee salary and benefit reductions, resource relocation to more competitive cost locations, selective functional outsourcing and evaluation of third-party supplier arrangements for purchased services.

Enhance financial disciplines The Company has enhanced its financial disciplines over all spending activities including the evaluation of investment in and profitability of new customer programs to improve the Company's operating margins and related return on investment and to achieve the best use of its capital.

Improve Base Operations

The Company remains focused on driving improvement in its operations despite the turbulent production environment. During 2008 the Company maintained or improved its operational performance as measured by key metrics. Quality performance, measured in defective parts per million, improved by 36% during 2008. Premium costs decreased by 64% in 2008 reflecting significantly improved product launch performance. Employee safety metrics were maintained at best in class levels in the industry. Significant elements of the Company's strategy to improve base operations are as follows:

Achieve production efficiencies The Company continues to take actions to lower its manufacturing costs by increasing its focus on production utilization and related investment, closure and consolidation of facilities and relocation of production to lower cost environments to take further advantage of its global manufacturing footprint. The Company has consolidated its regional purchasing activities into a global commodity driven organization to provide increased spending leverage, to optimize supplier relationships and to further standardize its production and related material purchases.

Product quality The Company has increased its efforts to ensure that the products provided to its customers are of the highest quality and specification. Processes and standards continue to be implemented to prevent the occurrence of non-conforming production as measured by various industry standard quality ratings such as defective parts per million.

Health and safety of employees The health and safety of the Company's employees is of utmost importance and the Company continues to implement programs, training and awareness in all of its operations to limit safety related incidents and to improve lost time case rates.

Table of Contents**ITEM 1. BUSINESS (Continued)***Grow the Business*

As a result of the difficult market conditions in 2008, many of the Company's customers reassessed their future vehicle cycle plans, resulting in the deferral or cancellation of many programs that were set to be awarded in 2008. Despite these conditions, the Company achieved new business wins of approximately \$700 million during 2008. The wins were balanced across major geographic regions; Asia 38%; North America 32%; Europe 27%, and were balanced across product lines; Climate 47%; Electronics 32%; and Interiors - 21%. Key aspects of the Company's strategy to achieve profitable growth include the following:

Focused product portfolio The global automotive parts industry is highly competitive; winning and maintaining new business requires suppliers to rapidly produce new and innovative products on a cost-competitive basis. Accordingly, the Company has focused its resources on products core to its future success including Interiors, Electronics and Climate products. Additionally, the Company believes there are opportunities to capitalize on the continuing demand for additional electronics integration and associated products with its product portfolio and technical capabilities.

Customer and geographic diversification The Company is well positioned globally, with a diverse customer base. Although Ford remains the Company's largest customer, the Company has been steadily diversifying its sales with other OEMs. Product sales to customers other than Ford were 66% of total product sales for the year ended December 31, 2008 compared to 61% for the year ended December 31, 2007. The Company's regional sales mix has also become more balanced, with a greater percentage of product sales outside of North America. As a percent of total product sales, the Company's product sales by region for the year ended December 31, 2008 were as follows: North America 24%; Europe 41%; Asia 30%; and South America 5%. In comparison, product sales by region as a percentage of total product sales for the year ended December 31, 2007 were as follows: North America 32%; Europe 37%; Asia 27%; and South America 4%.

Financial Information about Segments

The Company's operations are organized in global product groups, including Climate, Electronics, Interiors and Other. Additionally, the Company operates a centralized administrative function to monitor and facilitate the delivery of transition services in support of divestiture transactions primarily related to the ACH Transactions. Further information relating to the Company's reportable segments can be found in Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K (Note 22, Segment Information, to the Company's consolidated financial statements).

The Company's Products and Services

The following discussion provides an overview description of the products associated with major design systems within each of the Company's global product groups and a summary description of services provided by the Company.

Electronics Product Group

The Company is one of the leading global suppliers of advanced in-vehicle entertainment, driver information, wireless communication, climate control, body and security electronics and lighting technologies and products.

Electronics Products**Description**

Audio Systems

The Company produces a wide range of audio systems and components, ranging from base radio head units to integrated premium audio systems and amplifiers. Examples of the Company's latest electronics products include digital and satellite radios, HD Radio™ broadcast tuners and premium systems.

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ITEM 1. BUSINESS (Continued)

Electronics Products

Description

Driver Information Systems

The Company designs and manufacturers a wide range of instrument clusters from analog-electronic to high-impact instrument clusters that incorporate LCD displays.

Infotainment Information, Entertainment and Multimedia

The Company has developed numerous products to assist driving and provide in-vehicle entertainment. A sampling of these technologies include: MACH(R) Voice Link Technology, connectivity solutions for portable devices, and a range of Family Entertainment Systems designed to support a variety of applications and vehicle segments.

Powertrain and Feature Control Modules

The Company designs and manufactures a wide range of powertrain and feature control modules for a worldwide customer base. Powertrain control modules cover a range of applications from single-cylinder small engine control systems to fully-integrated V8/V10 engine and transmission controllers. Feature control modules include products which manage a variety of electrical loads related to powertrain and vehicle functions, including controllers for fuel pumps, 4x4 transfer cases, intake manifold tuning valves, customer convenience features, security and voltage regulation systems.

Electronic Climate Controls

The Company designs and manufactures a complete line of climate control modules with capability to provide full system integration. The array of modules available varies from single zone manual electronic modules to fully automatic multiple zone modules. The Company also provides integrated audio and climate control assemblies allowing styling and electrical architecture flexibility for various applications.

Lighting

The Company 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. The Company utilizes a variety of light-generating sources including Light Emitting Diode (LED), High Intensity Discharge (HID) and Halogen-based systems.

Climate Product Group

The Company is one of the leading global suppliers in the design and manufacturing of components, modules and systems that provide automotive heating, ventilation, air conditioning and powertrain cooling.

Climate Products

Description

Climate Systems

The Company designs and manufactures fully integrated heating, ventilation and air conditioning (HVAC) systems. The Company 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.

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ITEM 1. BUSINESS (Continued)

Interiors Product Group

The Company is one of the leading global suppliers of cockpit modules, instrument panels, door and console modules and interior trim components.

Interiors Products

Description

Cockpit Modules	The Company's cockpit modules incorporate structural, electronic, climate control, mechanical and safety components. Customers are provided with a complete array of services including advanced engineering and computer-aided design, styling concepts and modeling and in-sequence delivery of manufactured parts. The Company's Cockpit Modules are built around its 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 Panels and Trims	The Company provides a wide range of door panels / modules as well as a variety of interior trim products.
Console Modules	The Company'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.

Other Product Group

The Company also designs and manufactures a variety of other products, including fuel products, powertrain products, as well as parts sold and distributed to the automotive aftermarket.

Services

The Company's Services operations provide various transition services in support of divestiture transactions, principally related to the ACH Transactions. Services to ACH are provided at a rate approximately equal to the Company's cost until such time the services are no longer required by ACH or the expiration of the related agreement. In addition to services provided to ACH, the Company has also agreed to provide certain transition services related to other divestiture transactions.

The Company's Customers

The Company sells its products primarily to global vehicle manufacturers as well as to other suppliers and assemblers. In addition, it sells products for use as aftermarket and service parts to automotive original equipment manufacturers and others for resale through independent distribution networks. The Company records revenue when persuasive evidence of an arrangement exists, delivery occurs or services are rendered, the sales price or fee is fixed or

determinable and collectibility is reasonably assured.

Vehicle Manufacturers

The Company sells to all of the world's largest vehicle manufacturers including BMW, Chrysler LLC, Daimler AG, Ford, General Motors, Honda, Hyundai/Kia, Mazda, Mitsubishi, Nissan, PSA Peugeot Citroën, Renault, Toyota and Volkswagen, as well as emerging new vehicle manufacturers in Asia. Ford is the Company's largest customer, and product sales to Ford, including those sales to Auto Alliance International, a joint venture between Ford and Mazda, accounted for approximately 34% of 2008 total product sales. In addition, product sales to Hyundai/Kia accounted for approximately 22% of 2008 total product sales, and product sales to Nissan and Renault accounted for approximately 9% of 2008 total product sales. Sales to customers other than Ford include sales to Mazda, of which Ford holds a 13.78% equity interest.

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ITEM 1. BUSINESS (Continued)

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. The Company has an aggressive cost reduction program that focuses on reducing its total costs, which are intended to offset customer price reductions. However, there can be no assurance that such cost reduction efforts will be sufficient to fully offset such price reductions. The Company records price reductions when specific facts and circumstances indicate that a price reduction is probable and the amounts are reasonably estimable.

Other Customers

The Company sells products to various customers in the worldwide aftermarket as replacement or enhancement parts, such as body appearance packages and in-car entertainment systems, for current production and older vehicles. The Company's services revenues relate primarily to the supply of leased personnel and transition services to ACH in connection with various agreements pursuant to the ACH Transactions and amended in 2008. The Company has also agreed to provide transition services to other customers in connection with certain other divestitures.

The Company's Competition

The Company conducts its 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. As the supplier industry consolidates, the number of competitors decreases fostering extremely competitive conditions. 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 and manufacturing capability and flexibility, customer service and overall management. A summary of the Company's primary independent competitors is provided below.

Electronics Robert Bosch GmbH; Delphi Corporation; Denso Corporation; Hella KGaA; Koito Manufacturing Co., Ltd (North American Lighting); Matsushita Electric Industrial Co., Ltd. (Panasonic); and Continental AG.

Climate Behr GmbH & Co. KG; Delphi Corporation; Denso Corporation; and Valéo S.A.

Interiors Faurecia Group; Johnson Controls, Inc.; Magna International Inc.; and International Automotive Components Group.

Other Robert Bosch GmbH; Dana Corporation; Delphi Corporation; Denso Corporation; Magna International Inc.; GKN Plc.; JTEKT Corporation; ZF Friedrichshafen AG; NTN Corporation; Kautex Textron GmbH&Co KG; Inergy Automotive Systems; and TI Automotive.

The Company's Product Sales Backlog

Anticipated net product sales for 2009 through 2011 from new and replacement programs, less net sales from phased-out and canceled programs are approximately \$550 million. The Company's estimate of anticipated net sales may be impacted by various assumptions, including vehicle production levels on new and replacement programs, customer price reductions, currency exchange rates and the timing of program launches. In addition, the Company

typically enters into agreements with its customers at the beginning of a vehicle's life for the fulfillment of a customer's purchasing requirements for the entire production life of the vehicle. These agreements generally may be terminated by customers at any time. Therefore, this anticipated net sales information does not represent firm orders or firm commitments.

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Financial information about sales and net property by major geographic region can be found in Note 22, Segment Information, to the Company's consolidated financial statements included in Item 8 of this Annual Report on Form 10-K. The attendant risks of the Company's international operations are primarily related to currency fluctuations, changes in local economic and political conditions, and changes in laws and regulations. The following table sets forth the Company's net sales, including product sales and services revenues, and net property and equipment by geographic region as a percentage of total consolidated net sales and total consolidated net property and equipment, respectively.

	Net Sales			Net Property and Equipment	
	Year Ended December 31			December 31	
	2008	2007	2006	2008	2007
Geographic region:					
United States	34%	36%	40%	33%	34%
Mexico	1%		2%	3%	2%
Canada	1%	1%	1%	1%	1%
Intra-region eliminations	(1)%		(1)%		
Total North America	35%	37%	42%	37%	37%
Germany	3%	4%	6%	2%	2%
France	8%	8%	8%	7%	9%
United Kingdom	4%	5%	4%	1%	2%
Portugal	5%	5%	5%	5%	5%
Spain	6%	6%	6%	4%	4%
Czech Republic	6%	5%	4%	10%	9%
Hungary	5%	4%	2%	4%	3%
Other Europe	2%	1%	2%	3%	2%
Intra-region eliminations	(1)%	(2)%	(2)%		
Total Europe	38%	36%	35%	36%	36%
Korea	22%	20%	16%	14%	16%
China	3%	2%	2%	4%	3%
India	2%	2%	2%	3%	2%
Japan	2%	2%	2%	1%	1%
Other Asia	2%	2%	1%	2%	2%
Intra-region eliminations	(1)%	(1)%	(1)%		
Total Asia	30%	27%	22%	24%	24%
South America	5%	5%	5%	3%	3%
Intra-region eliminations	(8)%	(5)%	(4)%		

100% 100% 100% 100% 100%

Seasonality and Cyclicity of the Company's Business

The market for vehicles is cyclical and is heavily dependent upon general economic conditions, consumer sentiment and spending and credit availability. During 2008, the automotive sector was negatively impacted by recessionary economic conditions in the United States and Western Europe exacerbated by the global credit crisis. These factors resulted in the deferral of consumer vehicle purchases, which drove a severe decline in demand for automobiles across substantially all geographies.

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ITEM 1. BUSINESS (Continued)

The Company's business is moderately seasonal because its largest North American customers typically cease production for approximately two weeks in July for model year changeovers and approximately one week in December during the winter holidays. Customers in Europe historically shut down vehicle production during a portion of August and one week in December. In addition, third quarter automotive production traditionally is lower as new vehicle models enter production. Due to the deteriorating economic conditions in 2008, vehicle production volumes did not follow this historical pattern, but instead declined throughout the year and severely during the fourth quarter of 2008.

Refer to Note 23, Summary Quarterly Financial Data to the Company's consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for information related to quarterly financial results.

The Company's Workforce and Employee Relations

The Company's workforce as of December 31, 2008 included approximately 33,500 persons, of which approximately 11,000 were salaried employees and 22,500 were hourly workers. As of December 31, 2008, the Company leased approximately 1,500 salaried employees to ACH under the terms of the Amended Salaried Employee Lease Agreement.

A substantial number of the Company's hourly workforce in the U.S. are represented by unions and operate under collective bargaining agreements. In connection with the ACH Transactions, the Company terminated its lease from Ford of its UAW Master Agreement hourly workforce. Many of the Company's European and Mexican employees are members of industrial trade unions and confederations within their respective countries. Many of these organizations operate under collectively bargained contracts that are not specific to any one employer. The Company constantly works to establish and maintain positive, cooperative relations with its unions around the world and believes that its relationships with unionized employees are satisfactory. There have been no significant work stoppages in the past five years, except for brief work stoppages by employees at several climate manufacturing facilities located in India and South Korea during June, July and August of 2008, as well as by employees represented by the IUE-CWA Local 907 at a manufacturing facility located in Bedford, Indiana during June of 2004.

The Company's Product Research and Development

The Company's research and development efforts are intended to maintain leadership positions in core product lines and provide the Company with a competitive edge as it seeks additional business with new and existing customers. The Company also works with technology development partners, including customers, to develop technological capabilities and new products and applications. Total research and development expenditures were approximately \$434 million in 2008, decreasing from \$510 million in 2007 and \$594 million in 2006. The decreases are attributable to divestitures, shifting engineering headcount from high-cost to low-cost countries as well as right-sizing efforts.

The Company's Intellectual Property

The Company 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 the Company'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 the Company that its business would be materially affected by the expiration or termination thereof. The Company's general policy is to apply for patents on an ongoing basis, in appropriate countries, on its patentable developments which are considered to have

commercial significance.

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ITEM 1. BUSINESS (Continued)

The Company also views its name and mark as significant to its business as a whole. In addition, the Company 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.

The Company's Raw Materials and Suppliers

Raw materials used by the Company in the manufacture of its products include aluminum, resins, precious metals, steel, urethane chemicals and electronics components. All of the materials used are generally available from numerous sources. In general, the Company does not carry inventories of raw materials in excess of those reasonably required to meet production and shipping schedules. To date, the Company has not experienced any significant shortages of raw materials nor does it anticipate significant interruption in the supply of raw materials. However, the possibilities of such shortages exist, especially in light of deteriorating global economic conditions, credit and capital market constraints and the weakened state of the automotive sector.

Over the past few years the automotive supply industry has experienced significant inflationary pressures with respect to raw materials, which have placed operational and financial burdens on the entire supply chain. During 2008 those inflationary pressures decreased due to the overall reduction in demand resulting from weakened economic conditions and the global credit crisis. While the costs of raw materials have receded from recent high levels, the Company continues to take actions with its customers and suppliers to mitigate the impact of these inflationary pressures in the future. Actions to mitigate inflationary pressures with customers include collaboration on alternative product designs and material specifications, contractual price escalation clauses and negotiated customer recoveries. Actions to mitigate inflationary pressures with suppliers include aggregation of purchase requirements to achieve optimal volume benefits, negotiation of cost reductions and identification of more cost competitive suppliers. While these actions are designed to offset the impact of inflationary pressures, the Company cannot provide assurance that it will be successful in fully offsetting increased costs resulting from inflationary pressures in the future.

Impact of Environmental Regulations on the Company

The Company 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. The Company 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. During 2008, the Company did not make any material capital expenditures relating to environmental compliance.

At the time of spin-off, the Company and Ford agreed on a division of liability for, and responsibility for management and remediation of environmental claims existing at that time and, further, that the Company would assume all liabilities for existing and future claims relating to sites that were transferred to it and its operation of those sites, including off-site disposal, except as otherwise specifically retained by Ford in the Master Transfer Agreement. In connection with the ACH Transactions, Ford agreed to re-assume these liabilities to the extent they arise from the ownership or operation prior to the spin-off of the locations transferred to ACH (excluding any increase in costs attributable to the exacerbation of such liability by the Company or its affiliates).

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ITEM 1. BUSINESS (Continued)

The Company is aware of contamination at some of its properties and relating to various third-party Superfund sites at which the Company or its predecessor has been named as a potentially responsible party. The Company is in various stages of investigation and cleanup at these sites and at December 31, 2008, had recorded a reserve of approximately \$5 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 the Company's control and which may change dramatically. Accordingly, although the Company believes its reserve is adequate based on current information, the Company cannot provide any assurance that its ultimate environmental investigation and cleanup costs and liabilities will not exceed the amount of its current reserve.

The Company's Website and Access to Available Information

The Company's current and periodic reports filed with the United States Securities and Exchange Commission (SEC), including amendments to those reports, may be obtained through its internet website at www.visteon.com free of charge as soon as reasonably practicable after the Company files these reports with the SEC. A copy of the Company's code of business conduct and ethics for directors, officers and employees of Visteon and its subsidiaries, entitled Ethics and Integrity Policy, the Corporate Governance Guidelines adopted by the Company's Board of Directors and the charters of each committee of the Board of Directors are also available on the Company's website. A printed copy of the foregoing documents may be requested by contacting the Company's Investor 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 1A. RISK FACTORS**

The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties, including those not presently known or that the Company believes to be immaterial, also may adversely affect the Company's results of operations and financial condition. Should any such risks and uncertainties develop into actual events, these developments could have material adverse effects on the Company's business and financial results.

The Company has obtained temporary waivers of defaults under its senior secured credit and securitization facilities, and if it is unable to achieve an acceptable negotiated restructuring with its lenders and customers, or make such waivers permanent, prior to their expiration, it may seek reorganization under the U.S. Bankruptcy Code.

Pursuant to affirmative covenants contained in the agreements associated with the Facilities, the Company is required to provide audited annual financial statements within a prescribed period of time after the end of each fiscal year without a "going concern" audit report or like qualification or exception. On March 31, 2009, the Company's independent registered public accounting firm included an explanatory paragraph in its audit report on the Company's 2008 consolidated financial statements indicating substantial doubt about the Company's ability to continue as a going concern. The receipt of such an explanatory statement constitutes a default under the Facilities. On March 31, 2009, the Company entered into the Waivers with the lenders under the Facilities, which provide for waivers of such defaults for limited periods of time, as more fully described in Item 9B "Other Information" of this Annual Report on Form 10-K.

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

The aforementioned resulted in the current classification of substantially all of the Company's long-term debt as current liabilities in the Company's consolidated balance sheet as of December 31, 2008. As of December 31, 2008, the Company had total indebtedness of approximately \$2.76 billion and interest expense in excess of \$200 million.

If the Company's cash provided by operating activities continues to be insufficient to fund its cash requirements, it could face substantial liquidity problems.

The Company's working capital requirements and cash provided by operating activities can vary greatly from quarter to quarter and from year to year, depending in part on the level, variability and timing of its customers' worldwide vehicle production and the payment terms with the Company's customers and suppliers. Prior to 2008, the Company generated cash from operating activities, albeit insufficient to fund all of the Company's cash requirements. As a result, the Company has used its cash balances accumulated primarily through asset sales and outside liquidity sources. As of

the end of 2008, the Company's cash balances decreased by approximately \$578 million from the beginning of the year, and the Company used cash in its operating activities for the year ended December 31, 2008.

Table of Contents**ITEM 1A. RISK FACTORS (Continued)**

The Company cannot provide assurance that it will be able to satisfy its cash requirements during 2009 or subsequent years, or during any particular quarter, from cash provided by operating activities. If the Company's working capital needs and capital expenditure requirements exceed its cash provided by operating activities, then the Company would again look to its cash balance and committed credit lines to satisfy those needs. However, current credit and capital market conditions combined with the Company's credit ratings and recent history of operating losses and negative cash flows, as well as projected industry conditions, are likely to restrict the Company's ability to access capital markets in the near term and any such access would likely be at an increased cost and under more restrictive terms and conditions. Further, such constraints may also affect the Company's commercial agreements and payment terms with suppliers.

Absent access to additional liquidity from credit markets, which remain severely constrained, or other sources of external financial support, including accommodations from key customers, the Company expects to be at or near minimum levels of cash necessary to operate the business during 2009. The Company may need to delay capital expenditures, curtail, eliminate or dispose of substantial assets or operations, or undertake significant restructuring measures, including protection under Chapter 11 of the U.S. Bankruptcy Code. For a discussion of these and other factors affecting the Company's liquidity, refer to Liquidity Matters in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K.

Significant declines in automotive production levels have reduced the Company's sales and harmed its operations and financial condition, and further significant declines could make it difficult for the Company to continue its operations.

Demand for the Company's products is directly related to automotive vehicle production. Automotive sales and production can be affected by general economic conditions, such as employment levels and trends, fuel prices and interest rates, labor relations issues, regulatory requirements, trade agreements and other factors. Automotive industry conditions, particularly in North America and Western Europe continue to be challenging. In North America, the domestic automotive industry is characterized by sales declines, significant overcapacity, fierce competition, high fixed cost structures and significant employee pension and health care obligations for the domestic automakers. Further declines in automotive production levels of its current and future customers would reduce the Company's sales and harm its results of operations and financial condition.

The financial distress of the Company's major customers and within the supply base could significantly affect its operating performance.

During 2007 and more severely in 2008, automotive OEMs, particularly those domiciled in the United States, continued to experience lower demand for their products, which resulted in lower production levels on several of the Company's key platforms, particularly light truck platforms. In addition, these customers have experienced declining market shares in North America and are continuing to restructure their North American operations in an effort to improve profitability. The domestic automotive manufacturers are also burdened with substantial structural costs, such as pension and healthcare costs, that have impacted their profitability and labor relations. Several other global automotive manufacturers are also experiencing operating and profitability issues as well as labor concerns. In this environment, it is difficult to forecast future customer production schedules, the potential for labor disputes or the success or sustainability of any strategies undertaken by any of the Company's major customers in response to the current industry environment. This environment may also put additional pricing pressure on their suppliers, like Visteon, to reduce the cost of its products, which would reduce the Company's margins. In addition, cuts in production schedules are also sometimes announced by customers with little advance notice, making it difficult to respond with corresponding cost reductions.

Table of Contents**ITEM 1A. RISK FACTORS (Continued)**

Given the difficult environment in the automotive industry, there is an increased risk of bankruptcies or similar events among Visteon's customers. Each of General Motors and Chrysler has reported severe liquidity concerns and the potential inability to meet short-term cash funding requirements. These domestic automakers have sought and obtained funding support from the U.S. federal government in light of the economic and credit crisis and its impact on the automotive industry. Notwithstanding any federal support provided to the domestic automotive industry, the financial prospects of certain of the Company's significant customers remain highly uncertain. It is also uncertain the extent, if any, to which any such federal support would be made available directly to automotive suppliers or the Company's ability to access such funding. Further, the terms, conditions and extent of any funding support provided by the U.S. government to the Company's customers and the supply base could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's supply base has also been adversely affected by industry conditions. Lower production levels for the global automotive OEMs and increases in certain raw material, commodity and energy costs during 2007 and 2008 have resulted in severe financial distress among many companies within the automotive supply base. Several large suppliers have filed for bankruptcy protection or ceased operations. Unfavorable industry conditions have also resulted in financial distress within the Company's supply base and an increase in commercial disputes and the risk of supply disruption. In addition, the adverse industry environment has required the Company to provide financial support to distressed suppliers or take other measures to ensure uninterrupted production. While Visteon has taken certain actions to mitigate these factors, it has offset only a portion of the overall impact on the Company's operating results. The continuation or worsening of these industry conditions would adversely affect the Company's profitability, operating results and cash flow.

The Company is highly dependent on Ford and further decreases in Ford's vehicle production volume would adversely affect the Company's results.

Ford is the Company's largest customer and accounted for approximately 34% of total product sales in 2008, 39% of total product sales in 2007 and 45% of total product sales in 2006. The Company has made significant progress in diversifying its customer base with other automakers and reducing its sales concentration with Ford. Ford will continue to be the Company's largest customer for the near future. As in the past, any change in Ford's vehicle production volume will have a significant impact on the Company's sales volume and restructuring efforts.

The Company currently leases approximately 1,500 salaried employees to ACH, a company controlled by Ford, and has an agreement with Ford to reimburse the Company for the costs related to separating any of the leased employees should they be returned to the Company for any reason. In the event that Ford is unable or unwilling to fulfill its obligations under this agreement, the Company could be adversely affected.

The discontinuation of, the loss of business with respect to, or a lack of commercial success of a particular vehicle model for which the Company is a significant supplier could affect the Company's estimates of anticipated net sales.

Although the Company has purchase orders from many of its customers, these purchase orders generally provide for the supply of a customer's annual requirements for a particular model and assembly plant and are renewable on a year-to-year basis, rather than for the purchase of a specific quantity of products. Therefore, the discontinuation, loss of business with respect to, or a lack of commercial success, of a particular vehicle model for which the Company is a significant supplier could reduce the Company's sales and affect its estimates of anticipated net sales, including new business and net new business.

Table of Contents**ITEM 1A. RISK FACTORS (Continued)*****Escalating price pressures from customers may adversely affect the Company's business.***

Downward pricing pressures by automotive manufacturers is a characteristic of the automotive industry. Virtually all automakers have aggressive price reduction initiatives and objectives each year with their suppliers, and such actions are expected to continue in the future. In addition, estimating such amounts is subject to risk and uncertainties as any price reductions are a result of negotiations and other factors. Accordingly, suppliers must be able to reduce their operating costs in order to maintain profitability. The Company has taken steps to reduce its operating costs to offset customer price reductions, in addition to other actions designed to resist such reductions; however, price reductions have impacted the Company's sales and profit margins and are expected to do so in the future. If the Company is unable to offset customer price reductions in the future through improved operating efficiencies, new manufacturing processes, sourcing alternatives and other cost reduction initiatives, the Company's results of operations and financial condition would be adversely affected.

Severe inflationary pressures impacting ferrous and non-ferrous metals and petroleum-based commodities may adversely affect the Company's profitability and the profitability of the Company's Tier 2 and Tier 3 supply base.

The automotive supply industry has experienced significant inflationary pressures, primarily in ferrous and non-ferrous metals and petroleum-based commodities, such as resins. These inflationary pressures have placed significant operational and financial burdens on automotive suppliers at all levels, and are expected to continue for the foreseeable future. Generally, it has been difficult to pass on, in total, the increased costs of raw materials and components used in the manufacture of the Company's products to its customers. In addition, the Company's need to maintain a continued supply of raw materials and/or components has made it difficult to resist price increases and surcharges imposed by its suppliers.

Further, this inflationary pressure, combined with other factors, has adversely impacted the financial condition of several domestic automotive suppliers, including resulting in several significant supplier bankruptcies. Because the Company purchases various types of equipment, raw materials and component parts from suppliers, it may be materially and adversely affected by the failure of those suppliers to perform as expected. This non-performance may consist of delivery delays, failures caused by production issues or delivery of non-conforming products, or supplier insolvency or bankruptcy. Consequently, the Company's efforts to continue to mitigate the effects of these inflationary pressures may be insufficient if conditions were to worsen, resulting in a negative impact on the Company's financial results.

The Company could be adversely affected by shortages of components from suppliers.

In an effort to manage and reduce the costs of purchased goods and services, the Company, like many suppliers and automakers, has been consolidating its supply base. As a result, the Company is dependent on single or limited sources of supply for certain components used in the manufacture of its products. The Company selects its suppliers based on total value (including price, delivery and quality), taking into consideration their production capacities and financial condition. However, there can be no assurance that strong demand, capacity limitations or other problems experienced by the Company's suppliers will not result in occasional shortages or delays in their supply of components. If the Company was to experience a significant or prolonged shortage of critical components from any of its suppliers, particularly those who are sole sources, and could not procure the components from other sources, the Company would be unable to meet its production schedules for some of its key products and to ship such products to its customers in timely fashion, which would adversely affect sales, margins and customer relations.

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ITEM 1A. RISK FACTORS (Continued)

Work stoppages or similar difficulties could significantly disrupt the Company's operations.

A work stoppage at one or more of the Company's manufacturing and assembly facilities could have material adverse effects on the business. Also, if one or more of the Company's customers were to experience a work stoppage, that customer would likely halt or limit purchases of the Company's products which could result in the shut down of the related manufacturing facilities. Further, because the automotive industry relies heavily on just-in-time delivery of components during the assembly and manufacture of vehicles, a significant disruption in the supply of a key component due to a work stoppage at one of the Company's suppliers or any other supplier could have the same consequences, and accordingly, have a material adverse effect on the Company's financial results.

Impairment charges relating to the Company's assets and possible increases to its valuation allowances may have a material adverse effect on its earnings and results of operations.

The Company recorded asset impairment charges of \$234 million, \$95 million and \$22 million in 2008, 2007 and 2006, respectively, to adjust the carrying value of certain assets to their estimated fair value. Additional asset impairment charges in the future may result in the event that the Company does not achieve its internal financial plans, and such charges could materially affect the Company's results of operations and financial condition in the period(s) recognized. In addition, the Company cannot provide assurance that it will be able to recover its remaining net deferred tax assets which is dependent upon achieving future taxable income in certain foreign jurisdictions. Failure to achieve its taxable income targets may change the Company's assessment of the recoverability of its remaining net deferred tax assets and would likely result in an increase in the valuation allowance in the applicable period. Any increase in the valuation allowance would result in additional income tax expense, would reduce stockholders' equity and could have a significant impact on the Company's earnings going forward.

The Company's pension and other postretirement employee benefits expense and funding levels of pension plans could materially deteriorate or the Company may be unable to generate sufficient excess cash flow to meet increased pension and other postretirement employee benefit obligations.

Substantially all of the Company's employees participate in defined benefit pension plans or retirement/termination indemnity plans. The Company also sponsors other postretirement employee benefit (OPEB) plans in the United States. The Company's worldwide pension and OPEB obligations exposed the Company to approximately \$893 million in unfunded liabilities as of December 31, 2008, of which approximately \$326 million and \$242 million was attributable to unfunded U.S. and Non-U.S. pension obligations, respectively and \$325 million was attributable to unfunded OPEB obligations.

The Company has previously experienced declines in interest rates and pension asset values. Future declines in interest rates or the market values of the securities held by the plans, or certain other changes, could materially deteriorate the funded status of the Company's plans and affect the level and timing of required contributions in 2009 and beyond. Additionally, a material deterioration in the funded status of the plans could significantly increase pension expenses and reduce the Company's profitability.

The Company funds its OPEB obligations on a pay-as-you-go basis; accordingly, the related plans have no assets. The Company is subject to increased OPEB cash outlays and costs due to, among other factors, rising health care costs. Increases in the expected cost of health care in excess of current assumptions could increase actuarially determined liabilities and related OPEB expenses along with future cash outlays.

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ITEM 1A. RISK FACTORS (Continued)

The Company's assumptions used to calculate pension and OPEB obligations as of the annual measurement date directly impact the expense to be recognized in future periods. While the Company's management believes that these assumptions are appropriate, significant differences in actual experience or significant changes in these assumptions may materially affect the Company's pension and OPEB obligations and future expense. For more information on sensitivities to changing assumptions, please see Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 14 Employee Retirement Benefits to the Company's consolidated financial statements included in Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

The Company's ability to generate sufficient cash to satisfy its obligations may be impacted by the factors discussed herein.

The Company's expected annual effective tax rate could be volatile and materially change as a result of changes in mix of earnings and other factors.

Changes in the Company's debt and capital structure, among other items, may impact its effective tax rate. The Company's overall effective tax rate is equal to consolidated tax expense as a percentage of consolidated earnings before tax. However, tax expense and benefits are not recognized on a global basis but rather on a jurisdictional basis. Further, the Company is in a position whereby losses incurred in certain tax jurisdictions generally provide no current financial statement benefit. In addition, certain jurisdictions have statutory rates greater than or less than the United States statutory rate. As such, changes in the mix and source of earnings between jurisdictions could have a significant impact on the Company's overall effective tax rate in future periods. Changes in tax law and rates, changes in rules related to accounting for income taxes, or adverse outcomes from tax audits that regularly are in process in any of the jurisdictions in which the Company operates could also have a significant impact on the Company's overall effective rate in future periods.

The Company may not be able to fully utilize its U.S. net operating loss carryforwards.

If Visteon were to have a change of ownership within the meaning of Section 382 of the Internal Revenue Code, under current conditions, its annual federal net operating loss (NOL) utilization could be limited to an amount equal to its market capitalization at the time of the ownership change multiplied by the federal long-term tax exempt rate. Visteon cannot provide any assurance that such an ownership change will not occur, in which case the availability of Visteon's substantial NOL carryforward and other federal income tax attributes would be significantly limited or possibly eliminated.

The Company's ability to effectively operate could be hindered if it fails to attract and retain key personnel.

The Company's ability to operate its business and implement its strategies effectively depends, in part, on the efforts of its executive officers and other key employees. In addition, the Company's future success will depend on, among other factors, the ability to attract and retain qualified personnel, particularly engineers and other employees with critical expertise and skills that support key customers and products. The loss of the services of any key employees or the failure to attract or retain other qualified personnel could have a material adverse effect on the Company's business.

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ITEM 1A. RISK FACTORS (Continued)

The Company's international operations, including Asian joint ventures, are subject to various risks that could adversely affect the Company's business, results of operations and financial condition.

The Company has operating facilities, and conducts a significant portion of its business, outside the United States. The Company has invested significantly in joint ventures with other parties to conduct business in South Korea, China and elsewhere in Asia. The Company's ability to repatriate funds from these joint ventures depends not only upon their uncertain cash flows and profits, but also upon the terms of particular agreements with the Company's joint venture partners and maintenance of the legal and political *status quo*. The Company risks expropriation in China and the instability that would accompany civil unrest or armed conflict within the Asian region. More generally, the Company's Asian joint ventures and other foreign investments could be adversely affected by changes in the political, economic and financial environments in host countries, including fluctuations in exchange rates, political instability, changes in foreign laws and regulations (or new interpretations of existing laws and regulations) and changes in trade policies, import and export restrictions and tariffs, taxes and exchange controls. Any one of these factors could have an adverse effect on the Company's business, results of operations and financial condition. In addition, the Company's consolidated financial statements are denominated in U.S. dollars and require translation adjustments, which can be significant, for purposes of reporting results from, and the financial condition of, its foreign investments.

Warranty claims, product liability claims and product recalls could harm the Company's business, results of operations and financial condition.

The Company faces inherent business risk of exposure to warranty and product liability claims in the event that its products fail to perform as expected or such failure results, or is alleged to result, in bodily injury or property damage (or both). In addition, if any of the Company's designed products are defective or are alleged to be defective, the Company may be required to participate in a recall campaign. As suppliers become more integrally involved in the vehicle design process and assume more of the vehicle assembly functions, automakers are increasingly expecting them to warrant their products and are increasingly looking to them for contributions when faced with product liability claims or recalls. A successful warranty or product liability claim against the Company in excess of its available insurance coverage and established reserves, or a requirement that the Company participate in a product recall campaign, would have adverse effects that could be material on the Company's business, results of operations and financial condition.

The Company is involved from time to time in legal proceedings and commercial or contractual disputes, which could have an adverse effect on its business, results of operations and financial position.

The Company is involved in legal proceedings and commercial or contractual disputes that, from time to time, are significant. These are typically claims that arise in the normal course of business including, without limitation, commercial or contractual disputes (including disputes with suppliers), intellectual property matters, personal injury claims and employment matters. No assurances can be given that such proceedings and claims will not have a material adverse impact on the Company's profitability and financial position.

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ITEM 1A. RISK FACTORS (Continued)

The Company could be adversely impacted by environmental laws and regulations.

The Company's operations are subject to U.S. and non-U.S. environmental laws and regulations governing emissions to air; discharges to water; the generation, handling, storage, transportation, treatment and disposal of waste materials; and the cleanup of contaminated properties. Currently, environmental costs with respect to former, existing or subsequently acquired operations are not material, but there is no assurance that the Company will not be adversely impacted by such costs, liabilities or claims in the future either under present laws and regulations or those that may be adopted or imposed in the future.

Developments or assertions by or against the Company relating to intellectual property rights could materially impact its business.

The Company owns significant intellectual property, including a large number of patents, trademarks, copyrights and trade secrets, and is involved in numerous licensing arrangements. The Company's intellectual property plays an important role in maintaining its competitive position in a number of the markets served. Developments or assertions by or against the Company relating to intellectual property rights could materially impact the business. Significant technological developments by others also could materially and adversely affect the Company's business and results of operations and financial condition.

The Company's business and results of operations could be affected adversely by terrorism.

Terrorist-sponsored attacks, both foreign and domestic, could have adverse effects on the Company's business and results of operations. These attacks could accelerate or exacerbate other automotive industry risks such as those described above and also have the potential to interfere with the Company's business by disrupting supply chains and the delivery of products to customers.

A failure of the Company's internal controls could adversely affect the Company's ability to report its financial condition and results of operations accurately and on a timely basis. As a result, the Company's business, operating results and liquidity could be harmed.

Because of the inherent limitations of any system of internal control, including the possibility of human error, the circumvention or overriding of controls or fraud, even an effective system of internal control may not prevent or detect all misstatements. In the event of an internal control failure, the Company's ability to report its financial results on a timely and accurate basis could be adversely impacted, which could result in a loss of investor confidence in its financial reports or have a material adverse affect on the Company's ability to operate its business or access sources of liquidity.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents**ITEM 2. PROPERTIES**

The Company's principal executive offices are located in Van Buren Township, Michigan. Set forth below is a listing of the Company's most significant manufacturing and/or assembly facilities that are owned or leased by the Company and its consolidated subsidiaries as of December 31, 2008.

	Interiors		Climate
Alabama	Tuscaloosa(L)	Alabama	Shorter(L)
Michigan	Benton Harbor(O)	Argentina	General Pacheco, Buenos Aires(O)
Michigan	Benton Harbor(L)	Argentina	Quilmes, Buenos Aires(O)
Michigan	Highland Park(L)	Argentina	Rio Grande, Terra del Fuego(O)
Mississippi	Canton(L)	Canada	Belleville, Ontario(O)
Mississippi	Durant(L)	China	Nanchang City(L)
Missouri	Eureka(L)	China	Dalian, Lianoning(O)
Tennessee	LaVergne(L)	China	Chongqing(L)
Belgium	Genk(L)	China	Nanchang, Jiangxi Province(O)
Brazil	Camacari, Bahia(L)	China	Beijing(L)
France	Aubergenville(L)	France	Charleville, Mezieres Cedex(O)
France	Carvin(O)	India	Chennai(L)
France	Gondecourt(O)	India	Bhiwadi(L)
France	Noyal-Chatillon-sur-Seiche(L)	India	Maharashtra(L)
France	Rougegoutte(O)	Mexico	Juarez, Chihuahua(O)
Germany	Berlin(L)	Mexico	Juarez, Chihuahua(L)
Mexico	Saltillo(L)	Mexico	Juarez, Chihuahua(L)
Philippines	Santa Rosa, Laguna(L)	Portugal	Palmela(O)
Poland	Swarzedz(L)	Slovakia	Ilava(L)
Slovakia	Nitra(L)	Slovakia	Dubnica(L)
South Korea	Choongnam, Asan(O)	South Africa	Port Elizabeth(L)
South Korea	Kangse-gu, Busan-si(L)	South Korea	Pyungtaek(O)
South Korea	Kangse-gu, Busan-si(L)	South Korea	Namgo, Ulsan(O)
South Korea	Shinam-myon, Yesan-gun, Choongnam(O)	South Korea	Taedok-Gu, Taejon(O)
South Korea	Ulsan-si, Ulsan(O)	Thailand	Amphur Pluakdaeng, Rayong(O)
Spain	Barcelona(L)	Turkey	Gebze, Kocaeli(L)
Spain	Igualada(O)	United Kingdom	Basildon(L)
Spain	Medina de Rioseco, Valladolid(O)		
Spain	Pontevedra(O)		
Thailand	Amphur Pluakdaeng, Rayong(O)		
Thailand	Bangsaothoong, Samutprakam(L)		
United Kingdom	Enfield, Middlesex(L)		

Table of Contents**ITEM 2. PROPERTIES (Continued)**

	Electronics		Other
Pennsylvania	Lansdale(L)	Ohio	Springfield(L)
Brazil	Guarulhos, Sao Paulo(O)	United Kingdom	Belfast, Northern Ireland(L)
Brazil	Manaus, Amazonas(L)		
Czech Republic	Hluk(O)		
Czech Republic	Novy Jicin(O)		
Czech Republic	Rychvald(O)		
Hungary	Szokesfehervar(O)		
Japan	Higashi, Hiroshima(O)		
Mexico	Apodaca, Nuevo Leon(O)		
Mexico	Apodaca, Nuevo Leon(O)		
Mexico	Chihuahua, Chihuahua(L)		
Portugal	Palmela(O)		
Spain	Cadiz(O)		

(O) indicates owned facilities; (L) indicates leased facilities

As of December 31, 2008, the Company also owned or leased 43 corporate and sales offices, technical and engineering centers and customer service centers in fourteen countries around the world, 38 of which were leased and 5 of which were owned. The Company considers its facilities to be adequate for its current uses. In addition, the Company's non-consolidated affiliates operate approximately 30 manufacturing and/or assembly locations, primarily in the Asia Pacific region.

ITEM 3. LEGAL PROCEEDINGS

On March 31, 2009, Visteon UK Limited, a company organized under the laws of England and Wales and an indirect, wholly-owned subsidiary of the Company (the UK Debtor), filed for administration (the UK Administration) under the United Kingdom Insolvency Act of 1986 with the High Court of Justice, Chancery division in London, England. The UK Administration does not include the Company or any of the Company's other subsidiaries. The UK Administration is discussed in Note 24, Subsequent Event as included in Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Various legal actions, governmental investigations and proceedings and claims are pending or may be instituted or asserted in the future against the Company, including those arising out of alleged defects in the Company's products; governmental regulations relating to safety; employment-related matters; customer, supplier and other contractual relationships; intellectual property rights; product warranties; product recalls; and environmental matters. Some of the foregoing matters may involve compensatory, punitive or antitrust or other treble damage claims in very large amounts, or demands for recall campaigns, environmental remediation programs, sanctions, or other relief which, if granted, would require very large expenditures.

Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. Reserves have been established by the Company for matters discussed in the immediately foregoing paragraph where losses are deemed probable and reasonably estimable. It is possible, however, that some of the matters discussed in the foregoing paragraph could be decided unfavorably to the Company and could require the Company to pay damages or make other expenditures in amounts, or a range of amounts, that cannot be estimated at

December 31, 2008 and that are in excess of established reserves. The Company does not reasonably expect, except as otherwise described herein, based on its analysis, that any adverse outcome from such matters would have a material effect on the Company's financial condition, results of operations or cash flows, although such an outcome is possible.

Table of Contents**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 the Company. Ages are as of March 26, 2009:

Name	Age	Position
Donald J. Stebbins	51	Chairman, President and Chief Executive Officer
William G. Quigley III	47	Executive Vice President and Chief Financial Officer
John Donofrio	47	Senior Vice President and General Counsel
Robert Pallash	57	Senior Vice President and President, Global Customer Group
Dorothy L. Stephenson	59	Senior Vice President, Human Resources
Terrence G. Gohl	47	Vice President and President, Interiors and Lighting Product Groups
Joy M. Greenway	48	Vice President and President, Climate Product Group
Steve Meszaros	45	Vice President and President, Electronics Product Group
Michael J. Widgren	40	Vice President, Corporate Controller and Chief Accounting Officer

Donald J. Stebbins has been Visteon's Chairman, President and Chief Executive Officer since December 1, 2008 and a member of the Board of Directors since December 2006. Prior to that, he was President and Chief Executive Officer since June 2008 and President and Chief Operating Officer since joining the Company in May 2005. Before joining Visteon, Mr. Stebbins served as President and Chief Operating Officer of operations in Europe, Asia and Africa for Lear Corporation since August 2004 and prior to that he was President and Chief Operating Officer of Lear's operations in the Americas since September 2001. Mr. Stebbins is also a director of WABCO Holdings.

William G. Quigley III has been Visteon's Executive Vice President and Chief Financial Officer since November 2007. Prior to that he was Senior Vice President and Chief Financial Officer since March 2007 and Vice President, Corporate Controller and Chief Accounting Officer since joining the company in December 2004. Before joining Visteon, he was Vice President and Controller - Chief Accounting Officer of Federal-Mogul Corporation since June 2001.

John Donofrio has been Visteon's Senior Vice President and General Counsel since joining the Company in June 2005. Before joining Visteon, he was Vice President and General Counsel, Honeywell Aerospace of Honeywell International since 2000, where he also served as Vice President and Deputy General Counsel of Honeywell International from 1996 through 2005. Prior to that he was a partner at the law firm, Kirkland & Ellis LLP. Mr. Donofrio is also a director of FARO Technologies, Inc.

Robert C. Pallash has been Visteon's Senior Vice President and President, Global Customer Group since January 2008 and Senior Vice President, Asia Customer Group since August 2005. Prior to that, he was Vice President and President, Asia Pacific since July 2004, and Vice President, Asia Pacific since joining the Company in September 2001. Before joining Visteon, Mr. Pallash served as president of TRW Automotive Japan since 1999, and president of Lucas Varity Japan prior thereto. Mr. Pallash is also a director of FMC Corporation.

Dorothy L. Stephenson has been Visteon's Senior Vice President, Human Resources since joining the Company in May 2006. Prior to that, she was a human resources consultant since May 2003, and Vice President, Human Resources for Bethlehem Steel prior thereto.

Table of Contents**ITEM 4A. EXECUTIVE OFFICERS OF VISTEON (Continued)**

Terrence G. Gohl has been Visteon's Vice President and President, Interiors and Lighting Product Groups since October 2008. Prior to that he was Vice President of Interiors, Lighting and Global Manufacturing Operations since July 2007, Vice President, Global Manufacturing Operations, Quality, MP&L and Business Practices since October 2005, and Vice President, North America Manufacturing Operations since joining the Company in August 2005. Before joining Visteon, Mr. Gohl served as Senior Vice President of North American Operations for Tower Automotive since August 2004, and Vice President, North American Operations for Lear Corporation since 2001.

Joy M. Greenway has been Visteon's Vice President and President, Climate Product Group since October 2008. Prior to that, she was Vice President, Climate Product Group since August 2005, Director, Powertrain since March 2002, and Director of Visteon's Ford truck customer business group since April 2001. She joined Visteon in 2000 as Director of Fuel Storage and Delivery Strategic Business Unit.

Steve Meszaros has been Visteon's Vice President and President, Electronics Product Group since October 2008. Prior to that, he was Vice President, Electronics Product Group since August 2005, and Managing Director, China Operations and General Manager, Yanfeng Visteon since February 2001. Prior to that, he was based in Europe, where he was responsible for Visteon's interior systems business in the United Kingdom and Germany since 1999.

Michael J. Widgren has been Visteon's Vice President, Corporate Controller and Chief Accounting Officer since May 2007. Prior to that, he was Assistant Corporate Controller since joining the Company in October 2005. Before joining Visteon, Mr. Widgren served as Chief Accounting Officer for Federal-Mogul Corporation.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Prior to March 6, 2009, the Company's common stock was listed on the New York Stock Exchange (NYSE) under the trading symbol VC. On March 6, 2009, the Company's common stock was suspended from trading on the NYSE and began trading over-the-counter under the symbol VSTN.

As of March 26, 2009, the Company had 130,482,861 shares of its common stock \$1.00 par value outstanding, which were owned by 96,328 shareholders of record. The table below shows the high and low sales prices for the Company's common stock as reported by the NYSE for each quarterly period for the last two years.

	2008			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Common stock price per share				
High	\$ 4.39	\$ 5.03	\$ 3.78	\$ 2.31
Low	\$ 3.02	\$ 2.63	\$ 1.93	\$ 0.27
	2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter

Common stock price per share

High	\$ 9.24	\$ 10.08	\$ 8.08	\$ 6.35
Low	\$ 7.56	\$ 7.53	\$ 4.66	\$ 3.84

Table of Contents**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES (Continued)**

On February 9, 2005, the Company's Board of Directors suspended the Company's quarterly cash dividend on its common stock. Accordingly, no dividends were paid by the Company during the years ended December 31, 2008 or 2007. The Board evaluates the Company's dividend policy based on all relevant factors. The Company's credit agreements limit the amount of cash payments for dividends that may be made. Additionally, the ability of the Company's subsidiaries to transfer assets is subject to various restrictions, including regulatory requirements and governmental restraints. Refer to Note 10, Non-Consolidated Affiliates, to the Company's consolidated financial statements included in Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

The following table summarizes information relating to purchases made by or on behalf of the Company, or an affiliated purchaser, of shares of the Company's common stock during the fourth quarter of 2008.

Issuer Purchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased(1)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs(2)
October 1, 2008 to October 31, 2008		\$		
November 1, 2008 to November 30, 2008				
December 1, 2008 to December 31, 2008	732	0.56		1,650,000
Total	732	\$ 0.56		1,650,000

(1) This column includes only shares surrendered to the Company by employees to satisfy tax withholding obligations in connection with the vesting of restricted share awards made pursuant to the Visteon Corporation 2004 Incentive Plan and/or the Visteon Corporation Employees Equity Incentive Plan.

(2) On December 12, 2007, the Board of Directors of the Company authorized the open market purchases of up to two million shares of the Company's common stock during the subsequent 24 months to be used solely to satisfy obligations under the Company's employee benefit programs.

Table of Contents**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES (Continued)**

The following information in Item 5 is not deemed to be soliciting material or be filed with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 (Exchange Act) or to the liabilities of Section 18 of the Exchange Act, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent the Company specifically incorporates it by reference into such a filing.

The following graph compares the cumulative total return on the Company's common stock over a five year period with the cumulative total return on the Standard and Poor's 500 Composite Index and the Standard and Poor's Supercomposite Auto Parts & Equipment Index.

The graph assumes an initial investment of \$100 and reinvestment of cash dividends. The comparisons in this table are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of the Company's common stock or the referenced indices.

Comparison of Five-Year Cumulative Total Return

	December 31					
	2003	2004	2005	2006	2007	2008
Visteon Corporation	\$ 100.00	\$ 96.16	\$ 61.61	\$ 83.46	\$ 43.21	\$ 3.44
S&P 500	100.00	110.73	116.10	134.22	141.59	89.80
S&P 500 Auto Parts	100.00	100.79	80.56	84.50	102.56	48.83

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The following table presents information from the Company's consolidated financial statements for each of the five years ended December 31. This information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and Financial Statements and Supplementary Data included under Items 7 and 8, respectively, of this Annual Report on Form 10-K.

	2008	2007	2006	2005	2004
	(Dollars in Millions, Except Per Share Amounts)				
Statement of Operations Data					
Net sales	\$ 9,544	\$ 11,275	\$ 11,256	\$ 16,750	\$ 18,354
Gross margin	459	573	753	544	882
Net loss from continuing operations before change in accounting and extraordinary item	(681)	(348)	(145)	(262)	(1,537)
(Loss) income from discontinued operations, net of tax		(24)	(22)	(8)	1
Net loss before change in accounting and extraordinary item	(681)	(372)	(167)	(270)	(1,536)
Cumulative effect of change in accounting, net of tax			(4)		
Net loss before extraordinary item	(681)	(372)	(171)	(270)	(1,536)
Extraordinary item, net of tax			8		
Net loss	\$ (681)	\$ (372)	\$ (163)	\$ (270)	\$ (1,536)
Basic and diluted per share data:					
Loss from continuing operations before change in accounting and extraordinary item	\$ (5.26)	\$ (2.69)	\$ (1.13)	\$ (2.08)	\$ (12.27)
(Loss) income from discontinued operations, net of tax		(0.18)	(0.17)	(0.06)	0.01
Loss before change in accounting and extraordinary item	(5.26)	(2.87)	(1.30)	(2.14)	\$ (12.26)
Cumulative effect of change in accounting, net of tax			(0.03)		
Loss before extraordinary item	(5.26)	(2.87)	(1.33)	(2.14)	(12.26)
Extraordinary item, net of tax			0.06		
Basic and diluted loss per share	\$ (5.26)	\$ (2.87)	\$ (1.27)	\$ (2.14)	\$ (12.26)
Cash dividends per share	\$	\$	\$	\$	\$ 0.24
Balance Sheet Data					
Total assets	\$ 5,248	\$ 7,205	\$ 6,938	\$ 6,736	\$ 10,292
Total debt	\$ 2,762	\$ 2,840	\$ 2,228	\$ 1,994	\$ 2,021

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Total (deficit)/equity	\$ (887)	\$ (90)	\$ (188)	\$ (48)	\$ 320
Statement of Cash Flows Data					
Cash (used by) provided from operating activities	\$ (116)	\$ 293	\$ 281	\$ 417	\$ 418
Cash used by investing activities	\$ (208)	\$ (177)	\$ (337)	\$ (231)	\$ (782)
Cash (used by) provided from financing activities	\$ (193)	\$ 547	\$ 214	\$ (51)	\$ 135

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis (MD&A) is intended to help the reader understand the results of operations, financial condition and cash flows of Visteon Corporation (Visteon or the Company). MD&A is provided as a supplement to, and should be read in conjunction with, the Company's consolidated financial statements and related notes appearing in Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Description of the Business

Visteon is a leading global supplier of climate, interiors, electronics and other automotive systems, modules and components to vehicle manufacturers as well as the automotive aftermarket. The Company sells to the world's largest vehicle manufacturers (OEMs) including BMW, Chrysler LLC, Daimler AG, Ford, General Motors, Honda, Hyundai/Kia, Nissan, PSA Peugeot Citroën, Renault, Toyota and Volkswagen. The Company has a broad network of manufacturing, technical engineering and joint venture operations throughout the world, supported by approximately 33,500 employees dedicated to the design, development, manufacture and support of its product offering and its global customers.

The Company conducts its business in the automotive sector, which is a labor and capital intensive industry that is characterized by highly competitive conditions, low growth and cyclicity. Accordingly, the financial performance of the industry is highly sensitive to changes in overall economic conditions. During 2008, weakened economic conditions, largely attributable to the global credit crisis and erosion of consumer confidence, negatively impacted the automotive sector on a global basis. Significant factors including the deterioration of housing values, elevated fuel prices, equity market volatility, and rising unemployment levels resulted in delayed purchases of durable consumer goods, particularly highly deliberated purchases such as automobiles. Additionally, the absence of available credit hindered vehicle affordability, forcing willing consumers out of the market globally. Together these factors combined to drive a decline in demand for automobiles across substantially all geographies. The dramatic decrease in sales resulted in significant production cuts across substantially all OEMs during the fourth quarter of 2008, which continued to persist into the first quarter of 2009.

Market Conditions and Overview of 2008 Financial Results

Vehicle sales in North America were negatively impacted by severe declines in the United States, where seasonally adjusted annual sales fell by 18% to 13.2 million units in 2008 compared to 16.1 million units in 2007. Sales in the U.S. started to slow during the first quarter of 2008 due to high fuel prices and the weakness intensified in each successive quarter as crude oil prices reached all time highs during 2008 and the economic picture worsened through the fourth quarter in connection with the credit crisis. Additionally, increases in fuel prices during 2008 resulted in a shift of U.S. consumer preference away from sport utility vehicles and trucks toward more fuel-efficient passenger cars. These changes in consumer behavior not only contributed to lower volumes in 2008, but also resulted in a shift of product mix during 2008 to smaller and more fuel efficient vehicles with lower margins.

In Europe, new vehicle registrations were 14.7 million units in 2008 compared to 16 million units in 2007, for an 8% decrease. During December 2008 new vehicle registrations in Europe were down 18% when compared to December 2007, despite two additional working days in 2008. In addition to recessionary economic conditions and the credit crisis, auto demand in Europe has been negatively impacted by reduced vehicle affordability resulting from elevated fuel prices and higher carbon emissions taxes, while uncertainty related to pending national emissions tax schemes has resulted in further delays in purchase decisions.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The global credit crisis and weakening global economy also impacted Asia, but the impact was tempered in comparison to North America and Europe. In China, the sales growth rate of passenger cars and commercial vehicles declined in 2008, representing the slowest rate of growth in 5 years. In Japan, 2008 vehicle sales also decreased compared with 2007. Both China and Japan experienced double digit declines in the month of December 2008 as compared to December 2007. South Korean automakers were able to offset lower sales in their domestic markets with higher export sales.

During 2008, the Company's product sales were \$9.1 billion, representing a decrease of \$1.6 billion or 15% when compared to product sales for the same period of 2007. This decline was due to the impact of divestitures, plant closures and lower customer production volumes, particularly during the fourth quarter of 2008. During 2008, the Company's product sales were down across all regions including 33% in North America, 11% in Europe and 4% in Asia. The Company's product sales in North America were significantly impacted by lower Ford and Nissan production in the region for 2008. Ford North America production declined 605,000 units or 21% during 2008, including a decline of 212,000 units in the fourth quarter alone. Nissan North America truck production declined 148,000 units or 47% for 2008, including a decline of 67,000 units in the fourth quarter of 2008. In Europe, the Company's product sales were significantly impacted by lower PSA production in the region for 2008. PSA Europe production declined 202,000 units or 11% for 2008, including 141,000 units in the fourth quarter of 2008. The decline in the Company's product sales for Asia was primarily due to overall softening of the global economy driven by the global credit crisis.

The Company's gross margin was \$459 million in 2008 compared with \$573 million in 2007, representing a decrease of \$114 million. Lower customer production volume and unfavorable product mix, primarily in North America and Europe, resulted in a \$299 million gross margin reduction, while plant divestitures and closures further reduced gross margin by \$135 million. These reductions were partially offset by net cost performance of \$232 million reflecting efficiencies achieved through restructuring actions, cost reduction efforts and commercial agreements. Additional partial offsets include favorable currency of \$46 million and gains associated with pension and other postretirement employee benefits (OPEB) curtailments and settlements. During the fourth quarter of 2008, the Company's gross margin was negative \$10 million, principally due to the rapid and significant decrease in OEM production volumes, which outpaced the Company's substantial cost reduction efforts.

The Company concluded that significant operating losses resulting from the deterioration of market conditions and related production volumes in the fourth quarter of 2008 represented an indicator that the carrying amount of the Company's long lived assets may not be recoverable. Based on the results of the Company's assessment, which was based upon the fair value of the affected assets using appraisals, management estimates and discounted cash flow calculations, the Company recorded an impairment charge of approximately \$200 million to reduce the net book value of Interiors long-lived assets considered to be held for use to their estimated fair value. Additionally, the Company recorded a valuation allowance of \$22 million for deferred tax assets in Brazil. Further deterioration of market conditions resulting in a sustained adverse impact on the global automotive sector could reduce the Company's sales and harm its results of operations, cash flows and financial position including, but not limited to, significant operating losses, asset impairments, deferred tax asset valuation allowances and reduced availability under asset-backed credit arrangements.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Liquidity Matters

The Company's cash and liquidity needs are impacted by the level, variability and timing of its customers' worldwide vehicle production, which varies based on economic conditions and market shares in major markets. Current industry and market conditions pose significant challenges to the whole of the global automotive sector, particularly with respect to liquidity. Pressures associated with rapidly decreasing sales, growing inventories, severely constrained credit markets, rising costs, global competition and changing consumer preferences have resulted in significant cash usage and evaporation of available liquidity sources.

The deterioration in market conditions in 2008 was compounded by the rapid pace at which it occurred, as evidenced by double digit year-over-year declines in fourth quarter 2008 automotive sector sales in North America, Europe, China, Korea and South America. Additionally, during the fourth quarter of 2008 two of the three largest North America domiciled OEMs forecasted that they would reach minimum operating levels of cash by the end of December 2008 and would likely run out of cash in 2009 absent U.S. Government financial assistance.

In December 2008 the executive branch of the U.S. government extended \$17.4 billion of bridge loans to General Motors and Chrysler, subject to various terms and conditions that, if not met by March 31, 2009, may require repayment of the bridge loan funds. On February 17, 2009 and in accordance with the terms of the bridge loans, General Motors and Chrysler submitted updated restructuring plans for the period 2009-2014 designed to demonstrate long-term viability to the U.S. Department of Treasury. On March 30, 2009, the U.S. government declined to provide further long-term financial support to General Motors and Chrysler, instead granted a 60 day extension to General Motors to submit an acceptable restructuring plan and a 30 day extension to Chrysler to complete a combination with Fiat SpA. The U.S. government offered to provide working capital support to General Motors during the 60 day extension period and offered to provide up to an additional \$6 billion of federal loan funding to Chrysler to support the merger with Fiat SpA, if such merger discussions are successful within the 30 day extension period. Additionally, the U.S. government announced that it will guarantee General Motors and Chrysler product warranties to reassure consumers. Failure of these companies to secure necessary funding to support ongoing operations may cause significant disruption in the automotive sector and have a severe negative impact on the U.S. economy.

The Company's consolidated net sales during the year ended December 31, 2008 decreased \$1.7 billion or 15% when compared to the same period of 2007, which included a decrease in net sales for the fourth quarter of 2008 of \$1.2 billion. The Company's gross margin for the year ended December 31, 2008 decreased by \$114 million or 20% when compared to the same period of 2007, which included a decrease in gross margin for the fourth quarter of 2008 of \$212 million. Visteon used \$116 million of cash for operating activities for the year ended December 31, 2008 representing additional use of \$409 million as compared to 2007, which includes an incremental use of operating cash in the fourth quarter of 2008 of approximately \$300 million. The significant deterioration of financial results in the fourth quarter of 2008 including net sales, gross margin, and operating cash primarily represents the impact of significantly lower OEM production volumes. The Company does not anticipate that these conditions will improve significantly in the near term.

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

During 2008, the Company continued to execute restructuring actions designed to reduce costs and improve related cash flows, including activities under the multi-year improvement plan and other cost reduction plans. The multi-year improvement plan, which commenced in 2006, was completed during 2008 and addressed a total of 30 underperforming and non-strategic facilities and businesses. In September 2008, the Company commenced a program designed to reduce its salaried employee census by upwards of 800 positions, to reduce hourly headcount by about 2,000 and to eliminate certain pension and other postretirement employee benefits. In November 2008, the Company implemented additional employee cost reductions including a freeze on hiring and travel; suspension of 401(k) company match; elimination of salary increases for 2009; elimination of car program benefits for executives and reduction of such benefits for other eligible employees; mandatory unpaid shutdown in the U.S. for December 22 and 23, 2008; and elimination of paid 2009 winter holidays from December 28 through December 31, 2009.

Despite aggressive actions taken to reduce costs in 2008, the rate of such reductions did not keep pace with that of the rapidly deteriorating market conditions and related decline in automotive sales and production volumes in the fourth quarter of 2008. Therefore, in January 2009, the Company implemented a short workweek schedule for about 2,000 U.S. salaried employees and a corresponding 20% decrease in regular base salaries. Starting February 1, 2009 U.S. salaried employees resumed a standard five-day work schedule and, as a further cost-savings action, regular base salaries as of December 31, 2008 were reduced by an amount ranging from 10% to 2% based on level. Certain of the actions implemented in the fourth quarter of 2008 and in January 2009 are intended to preserve cash in light of the difficult market and industry conditions. However, the full effect of these actions may not be realized until later in 2009, and may not be sufficient or timely enough to address the negative financial impacts associated with the current and projected market conditions.

Due to the global credit crisis, the current state of credit and capital markets is severely constrained and access to additional sources of funding are significantly limited. Additionally, access to and the cost of borrowing, depend, in part, on the Company's credit ratings, which are currently below investment grade. Moody's current corporate rating of the Company is Ca with a negative outlook, and the SGL rating is 4. The rating on the 2010 and 2014 senior unsecured debt is C, the rating on the 2016 senior guaranteed unsecured debt is Ca and the rating on the senior secured term loan is Caa2. The current corporate rating of the Company by S&P is CCC with a negative outlook. S&P's rating on the senior unsecured debt is CCC- and the rating on the senior secured term loan is B-. Fitch's current rating on the Company's senior secured debt is C with a negative outlook.

Current credit and capital market conditions combined with the Company's credit ratings and recent history of operating losses and negative cash flows as well as projected industry conditions are likely to significantly restrict the Company's ability to access capital markets in the near term and any such access would likely be at an increased cost and under more restrictive terms and conditions. Further, such constraints may also affect the Company's commercial arrangements and payment terms. Absent access to additional liquidity from credit markets, which remain severely constrained, or other sources of external financial support, the Company expects to be at or near minimum levels of cash required to operate the business.

As of December 31, 2008, the Company's consolidated cash balances totaled \$1.2 billion and approximately 59% of these consolidated cash balances were held within the U.S. As the Company's operating profitability has become more concentrated with its foreign subsidiaries and joint ventures, the Company's cash generated from operations and related balances located outside of the U.S. continue to be significant. The Company's ability to efficiently access cash balances in certain foreign jurisdictions is subject to local regulatory and statutory requirements.

The Company had additional sources of liquidity available as of December 31, 2008 of \$352 million under various financial arrangements, as described below.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Amended escrow account In connection with the ACH Transactions, Ford paid \$400 million into an escrow account for use by the Company to restructure its businesses subject to the terms and conditions of the Escrow Agreement, dated October 1, 2005, among the Company, Ford and Deutsche Bank Trust Company Americas. Cash in the escrow account is invested, at the direction of the Company, in high quality, short-term investments and related investment earnings are credited to the account as earned.

The Escrow Agreement provides that the Company will be reimbursed from the escrow account for the first \$250 million of reimbursable restructuring costs, as defined in the Escrow Agreement, and up to one half of the next \$300 million of such costs. Investment earnings of \$28 million became available to reimburse the Company's restructuring costs following the use of the first \$250 million of available funds. In August 2008 and pursuant to the Amended Escrow Agreement, Ford contributed an additional \$50 million into the escrow account. The Amended Escrow Agreement provides that such additional funds are available to fund restructuring and other qualified costs on a 100% basis. As of December 31, 2008, the Company had received cumulative reimbursements from the escrow account of \$417 million and \$68 million was available for reimbursement pursuant to the terms of the Amended Escrow Agreement.

Asset securitization Availability of funding under the Company's European Securitization facility depends primarily upon the amount of trade account receivables, reduced by outstanding borrowings under the program and other characteristics of those receivables that affect their eligibility (such as bankruptcy or the grade of the obligor, delinquency and excessive concentration). As of December 31, 2008, approximately \$98 million of the Company's transferred receivables were considered eligible for borrowing under this facility, \$92 million was outstanding and \$6 million was available for funding.

U.S. asset-backed lending facility (ABL Facility) The Company's ABL Facility allows for available borrowings of up to \$350 million. The amount of availability at any time is dependent upon various factors, including outstanding letters of credit, the amount of eligible receivables, inventory and property and equipment. Borrowings under the ABL Facility bear interest based on a variable rate interest option selected at the time of borrowing. The ABL Facility expires on August 14, 2011. As of December 31, 2008, the ABL Facility availability was \$174 million, with \$50 million of available borrowings after \$75 million of borrowings and \$49 million of obligations under letters of credit. In January 2009, the Company borrowed an additional \$30 million under the ABL Facility.

Pursuant to the terms and conditions of the ABL Facility, the Administrative Agent is permitted, at its discretion, to reduce the borrowing base under the ABL Facility. On March 17, 2009, the Company was notified by the Administrative Agent, at its sole discretion, of a \$30 million reduction to the Company's borrowing base to reflect the impairment of long-lived assets. Accordingly, the Company had no available liquidity under the ABL Facility effective March 17, 2009.

Other As of December 31, 2008, the Company had availability on various other credit facilities of approximately \$228 million. Certain of these facilities are related to a number of the Company's non-U.S. operations, a portion of which are payable in non-U.S. currencies including, but not limited to, the Euro, Korean Won and Brazilian Real.

During February 2009, auto suppliers in North America, represented by two trade groups, requested financial support from the U.S. government. On March 19, 2009 the U.S. Treasury Department announced that it will provide up to \$5 billion in financing to certain auto parts suppliers under the government's Troubled Assets Relief Program. The financing program will be run through U.S. automakers and suppliers to those companies would have to agree to terms of the government-backed protection and pay a fee for the right to participate. The timing, amount and

long-term impact of the Company's participation in such financing program, if any, is highly uncertain as is the extent to which such financing will be made available on terms commercially acceptable to the Company.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The Company continues to develop and execute, as appropriate, additional actions designed to generate liquidity including customer accommodation agreements, asset sales, cash repatriation and further cost reductions including employee census reductions, facility closures and business exits. The success of the Company's liquidity plans depends on global economic conditions, levels of automotive sales and production, trade creditor business conduct and occurrence of no other material adverse developments. The Company's liquidity plans are also subject to a number of risks and uncertainties, including those identified above and those identified under Item 1A Risk Factors of this Annual Report on Form 10-K.

In consideration of current and projected market conditions, overall automotive sector instability and Visteon's recent history of operating losses and cash usage, projections indicate that, even with the successful implementation of additional liquidity actions, the Company's liquidity will be at or near minimum cash levels required to operate the business during 2009. Additionally, various macro-level factors outside of the Company's control may further negatively impact the Company's ability to meet its obligations as they come due. Such factors include, but are not limited to, the following:

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

Continued automotive sales and production at levels consistent with or lower than fourth quarter 2008.

Failure of U.S. OEMs to meet the necessary terms and conditions of U.S. government bridge loans.

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

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

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

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

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

Going Concern Considerations

Pursuant to affirmative covenants contained in the agreements associated with the Company's senior secured facilities and European Securitization (the Facilities), the Company is required to provide audited annual financial statements within a prescribed period of time after the end of each fiscal year without a going concern audit report or like qualification or exception. On March 31, 2009, the Company's independent registered public accounting firm included an explanatory paragraph in its audit report on the Company's 2008 consolidated financial statements indicating substantial doubt about the Company's ability to continue as a going concern. The receipt of such an explanatory

statement constitutes a default under the Facilities. On March 31, 2009, the Company entered into amendments and waivers (the "Waivers") with the lenders under the Facilities, which provide for waivers of such defaults for limited periods of time, as more fully described in Item 9B "Other Information" of this Annual Report on Form 10-K.

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

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

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

Results of Operations

2008 Compared with 2007

	2008	Sales 2007	Change	2008	Gross Margin 2007	Change
	(Dollars in Millions)					
Climate	\$ 2,994	\$ 3,370	\$ (376)	\$ 207	\$ 233	\$ (26)
Electronics	3,251	3,646	(395)	193	276	(83)
Interiors	2,748	3,183	(435)	27	75	(48)
Other	505	1,178	(673)	29	3	26
Eliminations	(421)	(656)	235			
Total products	9,077	10,721	1,644	456	587	(131)
Services	467	554	(87)	3	6	(3)
Total segments	9,544	11,275	1,731	459	593	(134)
<u>Reconciling Items</u>						
Corporate					(20)	20
Total consolidated	\$ 9,544	\$ 11,275	\$ 1,731	\$ 459	\$ 573	\$ (114)

Net Sales

The Company's consolidated Net Sales during the year ended December 31, 2008 decreased \$1.7 billion or 15% when compared to the same period of 2007. Plant divestitures and closures accounted for \$1.0 billion of the decline while production volume and mix further deteriorated sales by \$0.8 billion, primarily in North America and Europe across all key customers. Favorable currency offset net customer pricing changes.

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Net sales for Climate were \$2.99 billion in 2008, compared with \$3.37 billion in 2007, representing a decrease of \$376 million or 11%. This decrease included \$147 million related to the closure of the Company's Connersville, Indiana facility, unfavorable production volumes related to key customers in North America of \$95 million and net customer price reductions. Additionally, unfavorable currency of \$153 million in Asia Pacific, primarily related to the Korean Won, resulted in a sales reduction. These decreases were partially offset by net new business and vehicle production volume and mix in Asia of \$148 million, primarily related to Hyundai/Kia and favorable currency in Europe of \$48 million, primarily due to the strengthening of the Euro.

Net sales for Electronics were \$3.25 billion in 2008, compared with \$3.65 billion in 2007, representing a decrease of \$395 million or 11%. This decrease included a \$565 decline related to production volumes and mix and the impact of past customer sourcing decisions, across all regions and key customers, and net customer price reductions. Favorable currency of \$213 million, primarily related to the strengthening of the Euro, was a partial offset.

Net sales for Interiors were \$2.75 billion in 2008, compared with \$3.18 billion in 2007, representing a decrease of \$435 million or 14%. This decrease includes lower customer production volumes and mix of \$411 million primarily related to Nissan in North America and Nissan/Renault and PSA in Europe, \$91 million related to the Halewood Divestiture and closure of the Company's Chicago, Illinois facility, \$76 million due to unfavorable currency in Asia and net customer price reductions. These decreases were partially offset by favorable currency of \$121 million in Europe, and revenue associated with customer agreements at certain of the Company's UK operations.

Net sales for Other were \$505 million in 2008, compared with \$1.18 billion in 2007, representing a decrease of \$673 million or 57%. The decrease was primarily attributable to divestitures and plant closures of \$635 million, including the divestiture of the Company's chassis operations, the Bedford, Indiana plant closure, the Visteon Powertrain Control Systems India divestiture, and the North America Aftermarket divestiture. Customer production volumes and mix and the impact of past sourcing decisions further reduced sales. This reduction was partially offset by revenue associated with customer agreements at certain of the Company's UK operations.

Services revenues primarily relate to information technology, engineering, administrative and other business support services provided by the Company to ACH, under the terms of various agreements with ACH. Such services are generally provided at an amount that approximates cost. Total services revenues were \$467 in 2008, compared with \$554 million in 2007. Services revenues and related costs include approximately \$33 million related to contractual reimbursement from Ford under the Amended Reimbursement Agreement for costs associated with the separation of ACH leased employees no longer required to provide such services. The decrease in services revenue represents lower ACH utilization of the Company's services in connection with the terms of various agreements.

Gross Margin

The Company's gross margin was \$459 million in 2008 compared with \$573 million in 2007, representing a decrease of \$114 million. Lower production volume and unfavorable product mix, primarily in North America and Europe, resulted in a \$299 million gross margin reduction. Gross margin declines also included \$135 million related to plant closures, divestitures and past customer sourcing decisions and \$14 million of net commercial and other settlements. These reductions were partially offset by net cost performance of \$240 million reflecting efficiencies achieved through restructuring actions, cost reduction efforts and commercial agreements. Additional partial offsets include \$46 million of favorable currency, \$34 million of gains associated with pension and OPEB curtailments and settlements and a \$13 million reduction in accelerated depreciation year-over-year.

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Gross margin for Climate was \$207 million in 2008 compared with \$233 million in 2007, representing a decrease of \$26 million. This decrease included the non-recurrence of \$51 million of 2007 OPEB curtailment gains, \$34 million related to lower customer production volumes primarily in North America and Europe and \$17 million related to the closure of the Connersville, Indiana facility. These decreases were partially offset by \$31 million related to net cost efficiencies achieved through manufacturing performance, purchasing improvement efforts and restructuring activities; \$17 million related to the non-recurrence of 2007 accelerated depreciation and amortization; \$17 million of 2008 building sales; and \$8 million of 2008 pension and OPEB curtailments.

Gross margin for Electronics was \$193 million in 2008 compared with \$276 million in 2007, representing a decrease of \$83 million. This decrease includes \$169 million related to lower production volumes across all regions and past customer sourcing decisions. These reductions were partially offset by \$36 million related to net cost efficiencies achieved through manufacturing performance and restructuring efforts, \$27 million related to 2008 OPEB curtailments and \$24 million related to favorable currency.

Gross margin for Interiors was \$27 million in 2008 compared with \$75 million in 2007, for a reduction of \$48 million. This reduction included \$103 million from lower customer production volumes, primarily in North America and Europe and \$43 million for the non-recurrence of 2007 favorable customer settlements and building sales. These reductions were partially offset by \$70 million of net cost efficiencies achieved through manufacturing performance, restructuring savings and purchasing improvement efforts; \$11 million related to a 2008 customer settlement; \$10 million related to favorable currency; \$11 million related to lower accelerated depreciation and other costs and revenue associated with customer agreements at certain of the Company's UK operations.

Gross margin for Other was \$29 million in 2008 compared with \$3 million in 2007, for an increase of \$26 million. The effect of divestitures, plant closures and lower production volumes was more than offset by the restructuring savings resulting from those actions and revenue associated with customer agreements at certain of the Company's UK operations.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$553 million in 2008 compared with \$636 million in 2007, representing a reduction of \$83 million. The improvement is primarily attributable to \$77 million of cost efficiencies resulting from the Company's ongoing restructuring activities, net of economics and the implementation costs associated with those restructuring activities. Additional decreases in selling, general and administrative expenses included a \$20 million decrease in compensation expense related to incentive compensation programs and lower costs associated with the European Securitization facility. These improvements were partially offset by the non-recurrence of a \$15 million favorable customer bad debt recovery in 2007.

Restructuring Expenses and Reimbursement from Escrow Account

The Company recorded restructuring expenses of \$147 million for the year ended December 31, 2008, compared to \$152 million for the same period in 2007. The Company recorded reimbursement for such costs of \$113 million and \$142 million for the years ended December 31, 2008 and 2007, respectively, pursuant to the terms of the Amended Escrow Agreement.

The following is a summary of the Company's consolidated restructuring reserves and related activity for the year ended December 31, 2008, including amounts related to its discontinued operations. Substantially all of the Company's

restructuring expenses are related to employee severance and termination benefit costs.

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

	Interiors	Climate	Electronics	Other	Total
	(Dollars in Millions)				
December 31, 2007	\$ 58	\$ 23	\$ 7	\$ 24	\$ 112
Expenses	42	20	3	82	147
Exchange	(3)				(3)
Utilization	(48)	(40)	(6)	(98)	(192)
December 31, 2008	\$ 49	\$ 3	\$ 4	\$ 8	\$ 64

Included in the 2008 expense is \$107 million for additional actions under the previously announced multi-year improvement plan. Significant actions under the multi-year improvement plan include the following:

\$33 million of employee severance and termination benefit costs associated with approximately 290 employees to reduce the Company's salaried workforce in higher cost countries.

\$23 million of employee severance and termination benefit costs associated with approximately 20 salaried and 250 hourly employees at a European Interiors facility.

\$18 million of employee severance and termination benefit costs associated with 55 employees at the Company's Other products facility located in Swansea, UK.

\$9 million of employee severance and termination benefit costs related to approximately 100 hourly and salaried employees at certain manufacturing facilities located in the UK.

\$6 million of employee severance and termination benefit costs associated with approximately 40 employees at a European Interiors facility.

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

\$5 million of employee severance and termination benefit costs related to the closure of a European Interiors facility.

Utilization for 2008 includes \$131 million of payments for severance and other employee termination benefits, \$46 million of special termination benefits reclassified to pension and other postretirement employee benefit liabilities, where such payments are made from the Company's benefit plans and \$15 million in payments related to contract termination and equipment relocation costs.

The Company has incurred \$382 million in cumulative restructuring costs related to the multi-year improvement plan including \$156 million, \$129 million, \$66 million and \$31 million for the Other, Interiors, Climate and Electronics product groups respectively. Substantially all restructuring expenses recorded to date relate to employee severance and termination benefit costs and are classified as "Restructuring expenses" on the consolidated statements of operations. As of December 31, 2008, restructuring reserves related to the multi-year improvement plan are approximately \$54 million, including \$35 million and \$19 million classified as "other current liabilities" and "other non-current liabilities," respectively. The Company estimates that the total cost associated with the multi-year improvement plan

will be approximately \$475 million.

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

In September 2008, the Company commenced a program designed to fundamentally realign, consolidate and rationalize the Company's administrative organization structure on a global basis through various voluntary and involuntary employee separation actions. Related employee severance and termination benefit costs of \$26 million were recorded during 2008 associated with approximately 320 salaried employees in the United States and 100 salaried employees in other countries, for which severance and termination benefits were deemed probable and estimable. The Company expects to record additional costs related to this global program in future periods when elements of the plan are finalized and the timing of activities and the amount of related costs are not likely to change. The Company also recorded \$9 million of employee severance and termination benefit costs associated with approximately 850 hourly and 60 salaried employees at a North American Climate facility. As of December 31, 2008, restructuring reserves related to these programs were approximately \$10 million.

Impairment of Long-Lived Assets

The Company concluded that significant operating losses resulting from the deterioration of market conditions and related production volumes in the fourth quarter of 2008 represented an indicator that the carrying amount of the Company's long lived assets may not be recoverable. Based on the results of the Company's assessment, which was based upon the fair value of the affected assets using third party appraisals, management estimates and discounted cash flow calculations, the Company recorded an impairment charge of approximately \$200 million to reduce the net book value of Interiors long-lived assets considered to be held for use to their estimated fair value.

On June 30, 2008, Visteon UK Limited, an indirect, wholly-owned subsidiary of the Company, transferred certain assets related to its chassis manufacturing operation located in Swansea, United Kingdom to Visteon Swansea Limited, a company incorporated in England and a wholly-owned subsidiary of Visteon UK Limited. Effective July 7, 2008, Visteon UK Limited sold the entire share capital of Visteon Swansea Limited to Linamar UK Holdings Inc., a wholly-owned subsidiary of Linamar Corporation for nominal cash consideration. The Swansea operation, which was included within the Other product group, generated negative gross margin of approximately \$40 million on sales of approximately \$80 million during 2007. The Company recorded asset impairment and loss on divestiture of approximately \$23 million in connection with the transaction, including \$16 million of losses on the Visteon Swansea Limited share capital sale and \$7 million of asset impairment charges.

During the first quarter of 2008, the Company announced the sale of its North American-based aftermarket underhood and remanufacturing operations (NA Aftermarket) including facilities located in Sparta, Tennessee and Reynosa, Mexico (together the NA Aftermarket Divestiture). The NA Aftermarket manufactured starters and alternators, radiators, compressors and condensers and also remanufactured steering pumps and gears. These operations recorded sales for the year ended December 31, 2007 of approximately \$133 million and generated a negative gross margin of approximately \$16 million. The Company recorded total losses of \$46 million on the NA Aftermarket Divestiture, including an asset impairment charge of \$21 million and losses on disposition of \$25 million. The Company also recorded asset impairments and loss on divestitures of \$6 million during 2008 in connection with other divestiture activities, including the sale of its Interiors operation located in Halewood, UK.

Interest

Interest expense was \$215 million for the year ended December 31, 2008 compared to \$225 million for the year ended December 31, 2007. Interest expense decreased \$10 million due to lower borrowing rates partially offset by higher debt levels when compared to 2007. Interest income was \$46 million for the year ended December 31, 2008 compared to \$61 million for the year ended December 31, 2007. Interest income decreased \$15 million due to lower investment

rates partially offset by higher average cash balances in 2008.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Income Taxes

The income tax provisions for the years ended December 31, 2008 and 2007 reflect income tax expense related to those countries where the Company is profitable, accrued withholding taxes, certain non-recurring and other discrete items and the inability to record a tax benefit for pre-tax losses in the U.S. and certain foreign countries to the extent not offset by other categories of income in those jurisdictions. The company's 2008 provision for income taxes of \$116 million represents a net increase of \$96 million when compared with 2007, as follows:

Non-recurrence of \$91 million tax benefit recorded in 2007 related to offsetting pre-tax operating losses against current year net pre-tax income from other categories of income or loss, in particular pre-tax other comprehensive income attributable to pension and OPEB obligations and foreign currency translation.

\$38 million attributable to changes in earnings between jurisdictions where the Company is profitable and accrues income and withholding tax, and, beginning in 2008, includes withholding tax related to the Company's undistributed earnings not considered permanently reinvested from its non-U.S. unconsolidated affiliates.

\$22 million attributable to a deferred tax asset valuation allowance related to the Company's operations in Brazil recorded in consideration of negative evidence associated with the Company's ability to generate the necessary taxable earnings to recover such deferred tax assets.

Non-recurrence of \$18 million net tax benefit recorded in 2007 resulting from the Company's redemption of its ownership interest in a newly formed Korean company as part of a legal restructuring of its climate control operations in Asia. In connection with this redemption, the Company concluded that a portion of its earnings in Halla Climate Control Korea, a 70% owned affiliate of the Company, were permanently reinvested resulting in a \$30 million reduction of previously accrued withholding taxes. This benefit was partially offset by \$12 million of income tax expense related to a taxable gain from the restructuring.

These 2008 year-over-year increases in tax expense items were partially offset by decreases attributable to the following items:

\$60 million decrease in unrecognized tax benefits, including interest and penalties, reflects ongoing process improvements in connection with the Company's transfer pricing initiatives, as well the receipt of an advance pricing agreement from Hungary during the fourth quarter of 2008, both of which contributed to the overall decrease in unrecognized tax benefits year-over-year.

Favorable tax law changes in 2008 resulted in tax benefits of \$6 million, which includes U.S. legislation enacted in July 2008 allowing the Company to record certain U.S. research tax credits previously subject to limitation as refundable. In 2007, favorable tax law changes in Portugal which resulted in an \$11 million tax benefit were more than offset by unfavorable tax law changes in Mexico which resulted in \$18 million of additional tax expense.

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)***2007 Compared with 2006*

	2007	Sales 2006	Change	Gross Margin		
				2007	2006	Change
	(Dollars in Millions)					
Climate	\$ 3,370	\$ 3,123	\$ 247	\$ 233	\$ 170	\$ 63
Electronics	3,646	3,514	132	276	373	(97)
Interiors	3,183	3,059	124	75	65	10
Other	1,178	1,658	(480)	3	68	(65)
Eliminations	(656)	(648)	(8)			
Total products	10,721	10,706	15	587	676	(89)
Services	554	550	4	6	5	1
Total segments	11,275	11,256	19	593	681	(88)
<u>Reconciling Items</u>						
Corporate				(20)	72	(92)
Total consolidated	\$ 11,275	\$ 11,256	\$ 19	\$ 573	\$ 753	\$ (180)

Net Sales

The Company's consolidated net sales during the year ended December 31, 2007 were essentially flat when compared to the same period of 2006. Changes in currency resulted in an increase of \$569 million, primarily related to the strengthening of the Euro, Korean Won, Brazil Real and British Pound during 2007. Divestitures and closures, reduced sales by \$675 million and included the Company's chassis operations, the Chennai, India operation and the Chicago, Illinois facility. North America sales volumes decreased by \$434 million related to lower Ford and Nissan volumes in North America and the result of customer sourcing actions, primarily in the Electronics product group. Sales in Asia increased \$537 million, including \$269 million of directed source content related to Hyundai/Kia production and net new business wins. Higher Ford and Premium Auto Group production volumes in Europe contributed to an increase in sales of \$136 million.

Net sales for Climate were \$3.4 billion in 2007, compared with \$3.1 billion in 2006, representing an increase of \$247 million or 8%. Sales increased in Asia by \$237 million, principally attributable to new business and higher production volumes, primarily Hyundai/Kia. Climate sales increased in Europe by \$68 million principally related to higher Ford vehicle production volumes. Sales were lower in North America by \$121 million due to lower Ford North America vehicle production volume and unfavorable product mix partially offset by new business. Net customer price reductions were more than offset by favorable currency of \$153 million.

Net sales for Electronics were \$3.6 billion in 2007, compared with \$3.5 billion in 2006, representing an increase of \$132 million or 4%. Sales in 2007 included higher sales in Europe of \$178 million due to increased Ford vehicle production volumes, partially offset by lower Ford North American vehicle production volumes and adverse product

mix related to past customer sourcing actions of \$191 million. Net customer price reductions were more than offset by favorable currency of \$198 million.

Net sales for Interiors were \$3.2 billion in 2007, compared with \$3.1 billion in 2006, representing an increase of \$124 million or 4%. Increased sales in Asia of \$298 million, primarily due to an increase in directed source content for Hyundai/Kia production, were partially offset by lower sales in North America of \$297 million, primarily due to lower Ford and Nissan vehicle production volumes as well as the impact of lost volume related to the closure of the Chicago, Illinois facility. Net customer price reductions were more than offset by customer commercial settlements and favorable currency of \$165 million.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Net sales for Other were \$1.2 billion in 2007, compared with \$1.7 billion in 2006, representing a decrease of \$480 million or 29%. The decrease is largely attributable to the divestiture of the Company's chassis operations, which resulted in a decrease of \$390 million and the Chennai, India divestiture, which resulted in a decrease of \$35 million. Sales decreased by \$95 million with reductions in all regions related to lower vehicle production volumes and adverse product mix. Net customer price reductions were more than offset by favorable currency of \$53 million.

Services revenues relate to information technology, engineering, administrative and other business support services provided by the Company under the terms of various transition agreements. Such services are generally provided at an amount that approximates cost. Services revenues totaled \$554 million for the year ended December 31, 2007 compared with \$550 million for the year ended December 31, 2006.

Gross Margin

The Company's gross margin was \$573 million for the year ended December 31, 2007, compared with \$753 million for the year ended December 31, 2006, representing a decrease of \$180 million or 24%. The decrease resulted from the following items:

Non-recurrence of certain benefits recorded in 2006, including \$72 million of postretirement benefit relief related to the transfer of certain Visteon salaried employees to Ford, commercial agreements of \$39 million and non-income tax reserve adjustments of \$27 million.

Non-recurrence of certain expense items recorded in 2006, including \$11 million of employee benefit curtailment expense included in cost of sales but reimbursed from the escrow account and a \$9 million litigation settlement.

Certain 2007 benefits, including OPEB curtailment gains related to restructuring activities of \$58 million, commercial agreements of \$35 million, and gains on the sale of land and buildings in the UK of \$24 million.

Certain 2007 expense items, including accelerated depreciation of \$50 million resulting from the Company's restructuring activities, \$23 million of employee benefit curtailment and settlement expense included in cost of sales but reimbursed from the escrow account and \$20 million of pension settlement expenses related to a previously closed Canadian facility.

The divestiture of the Company's chassis operations resulted in a reduction in gross margin of \$33 million.

The remainder was related to vehicle production volume and mix, past sourcing actions and customer pricing partially offset by improved operating performance.

Gross margin for Climate was \$233 million in 2007, compared with \$170 million in 2006, representing an increase of \$63 million or 37%. Material and manufacturing cost reduction activities, lower OPEB expenses and restructuring savings were partially offset by customer pricing and increases in raw material costs resulting in a net increase in gross margin of \$101 million. Favorable currency increased gross margin by \$9 million. These increases were partially offset by \$47 million of unfavorable vehicle and product mix, lower vehicle production volumes, in North America and accelerated depreciation.

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Gross margin for Electronics was \$276 million in 2007, compared with \$373 million in 2006, representing a decrease of \$97 million or 26%. Vehicle production volume and mix was unfavorable \$125 million in North America primarily related to lower Ford vehicle production volumes and the impact of past Ford sourcing actions. However, vehicle production volume and mix was favorable \$54 million in other regions, primarily in Europe reflecting increased Ford Europe vehicle production volume. Accelerated depreciation related to restructuring activities reduced gross margin by \$20 million. Material and manufacturing cost reduction activities, lower OPEB expenses and restructuring savings were more than offset by premium launch costs, net customer price reductions and increased raw material costs resulting in a decrease in gross margin of \$28 million. Favorable currency increased gross margin by \$22 million.

Gross margin for Interiors was \$75 million in 2007, compared with \$65 million in 2006, representing an increase of \$10 million or 15%. Customer commercial settlements, material and manufacturing cost reduction activities, lower OPEB expenses and restructuring savings were partially offset by customer pricing and increases in raw material costs, which resulted in a net increase in gross margin of \$8 million. Additionally, the Company's Interiors operations recorded a gain on the sale of a building located in the UK, which increased gross margin by \$12 million. Favorable currency further increased gross margin by \$11 million. These increases were partially offset by vehicle production volume and mix of \$15 million reflecting lower Ford and Nissan vehicle production volumes in North America facility, partially offset by increases in Europe related to Ford production volume and in Asia related to net new business. Accelerated depreciation related to restructuring activities reduced gross margin by \$6 million.

Gross margin for Other was \$3 million in 2007, compared with \$68 million in 2006, representing a decrease of \$65 million or 96%. This decrease includes unfavorable customer vehicle production volume and product mix of \$58 million, \$33 million related to the divestiture of the Company's chassis operations and \$12 million of net pension curtailment and settlement expense included in cost of sales but reimbursed from the escrow account. These decreases were partially offset by \$16 million related to the net of material and manufacturing cost reduction activities, lower OPEB expense, and restructuring savings, partially offset by customer price reductions and increases in raw material costs. Additionally, the gross margin decrease for Other was partially offset by the non-recurrence of a 2006 litigation settlement of \$9 million and the 2007 sale of buildings in the UK for \$13 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$636 million in 2007, compared with \$713 million in 2006, representing a decrease of \$77 million or 11%. The decrease resulted from \$60 million in efficiency actions, primarily related to salaried headcount reductions implemented during the fourth quarter of 2006 and the first quarter of 2007; lower stock-based compensation expense of \$22 million; and \$12 million of lower bad debt and other expenses, partially offset by \$17 million of unfavorable currency

Restructuring Expenses and Reimbursement from Escrow Account

The Company recorded restructuring expenses of \$162 million for the year ended December 31, 2007, compared to \$95 million for the same period in 2006. The Company recorded reimbursement for such costs of \$142 million and \$104 million for the years ended December 31, 2007 and 2006, respectively, pursuant to the terms of the Escrow Agreement. The following is a summary of the Company's consolidated restructuring reserves and related activity as of and for the year ended December 31, 2007, including amounts related to discontinued operations. Substantially all of the Company's restructuring expenses are related to employee severance and termination benefit costs.

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

	Interiors	Climate (Dollars in Millions)	Electronics	Other	Total
December 31, 2006	\$ 18	\$ 21	\$ 2	\$ 12	\$ 53
Expenses	66	27	9	60	162
Utilization	(26)	(25)	(4)	(48)	(103)
December 31, 2007	\$ 58	\$ 23	\$ 7	\$ 24	\$ 112

Substantially all restructuring expenses recorded in 2007 were related to the multi-year improvement plan. Significant restructuring actions under the multi-year improvement plan for the year ended December 31, 2007 included the following:

\$31 million of employee severance and termination benefit costs associated with the elimination of approximately 300 salaried positions.

\$27 million of employee severance and termination benefit costs for approximately 300 employees at a European Interiors facility related to the announced 2008 closure of that facility.

\$21 million of employee severance and termination benefit costs for approximately 600 hourly and 100 salaried employees related to the announced 2008 closure of a North American Other facility.

\$14 million was recorded related t