

VISTEON CORP  
Form 10-K/A  
March 16, 2005

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

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

(Mark One)

X

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

**For the fiscal year ended December 31, 2003, or**

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**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)

**One Village Center Drive, Van Buren Township, Michigan**  
(Address of principal executive offices)

**38-3519512**  
(I.R.S. employer  
identification no.)  
**48111**  
(Zip code)

Registrant's telephone number, including area code: (800)-VISTEON

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

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

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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Yes  No

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes  No

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2003 (the last business day of the most recently completed second fiscal quarter) was approximately \$853 million.

As of March 1, 2005, the registrant had outstanding 128,678,345 shares of common stock.

**Document Incorporated by Reference\***

<b>Document</b>	<b>Where Incorporated</b>
Proxy Statement	Part III (Items 10, 11, 12, 13 and 14)

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

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**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-K/A ( Form 10-K/A ) to our Annual Report on Form 10-K for the year ended December 31, 2003, initially filed with the Securities and Exchange Commission (the SEC ) on February 13, 2004 (the Original Filing ), is being filed to reflect restatements of our consolidated balance sheets at December 31, 2003 and 2002; and our consolidated statement of operations, consolidated statement of cash flows and consolidated statement of stockholders' equity for each of the three years in the period ended December 31, 2003, and the notes and schedule of valuation and qualifying accounts related thereto. The restatements primarily pertain to the following matters identified during the course of preparing Visteon's 2004 financial statements:

Effective in January 2002, Visteon amended its retiree health care benefits plan for certain of its U.S. employees. This amendment changed the eligibility requirements for participants in the plan, and, as a result, Visteon changed the expense attribution periods. We have determined that these changes in eligibility requirements were not properly communicated to affected employees, and, therefore, the revision to the expense attribution periods, which resulted in expense reductions, should not have been made. The impact of the correction of these errors increased net loss by approximately \$32 million (\$0.25 per share) and \$12 million (\$0.10 per share), for the years ended December 31, 2003 and 2002, respectively.

Visteon is making corrections for certain tooling costs originally recorded as receivables. Costs incurred for Visteon-owned tooling used in production have been adjusted to reflect such costs as long-term assets and to provide related amortization expense. Non-reimbursable costs incurred to develop customer-owned tooling have been expensed in the periods such costs were incurred. The impact of the correction of these errors increased net loss by approximately \$10 million (\$0.08 per share), \$3 million (\$0.02 per share) and \$5 million (\$0.03 per share), for the years ended December 31, 2003, 2002 and 2001, respectively.

Visteon is making corrections for certain volume related rebates, received from numerous capital equipment suppliers for purchases, which were originally recognized as a reduction to expense. Costs incurred for capital equipment have been adjusted to reflect such discounts as a reduction to long-term assets and to adjust related depreciation and amortization expense. The impact of the correction of these errors increased net loss by approximately \$7 million (\$0.05 per share) for the year ended December 31, 2003.

Visteon is making corrections for an inventory costing error during 2000 at one of Visteon's U.S. plants, which had the effect of reducing costs of sales in 2000 and increasing costs of sales in 2001 and 2002. The impact of the correction of this error decreased net loss by approximately \$6 million (\$0.04 per share) and \$2 million (\$0.01 per share) for the years ended December 31, 2002 and 2001, respectively. There was no cumulative impact to results of operations for the three year period ended December 31, 2002.

During the review of our annual United Kingdom pension valuations, we identified unrecorded pension expenses incurred as a result of special termination benefits provided under Visteon's European Plan for Growth program. The impact of the correction of these errors increased net loss by approximately \$5 million (\$0.04 per share) for the year ended December 31, 2003.

Visteon also identified unrecorded postretirement health care expenses at one of Visteon's foreign locations. The impact of the correction of these errors on net income was approximately \$1 million (\$0.01 per share) and \$1 million (\$0.01 per share), for the years ended December 31, 2002 and 2001, respectively.

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Visteon is correcting the amount and timing of the recognition of certain tax adjustments made during the periods. As Visteon expects to repatriate earnings of foreign subsidiaries, adjustments were made to provide for the tax effects of foreign currency movements against the U.S. dollar. These adjustments also impacted the timing of the recognition of deferred tax asset valuation allowances in the fourth quarter of 2003 and the third quarter of 2004. Further, Visteon recognized an additional valuation allowance for certain deferred tax assets that had previously been misclassified and not considered in Visteon's 2003 deferred tax assessment. The impact of the correction of these errors decreased net loss by approximately \$24 million (\$0.19 per share) for the year ended December 31, 2003.

For a more detailed description of these restatements, see Note 2, Restatement of Financial Statements to the accompanying audited consolidated financial statements and the section entitled Restatement in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-K/A. The decision to restate Visteon's consolidated financial statements was previously announced in a press release that was filed with the SEC as part of a Current Report on Form 8-K of Visteon dated January 31, 2005.

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

Except for the foregoing amended information, this Form 10-K/A continues to describe conditions as of the date of the Original Filing, and we have not updated the disclosures contained herein to reflect events that occurred at a later date. Other events occurring after the filing of the Original Filing or other disclosures necessary to reflect subsequent events have been or will be addressed in either our amended Quarterly Reports on Form 10-Q/A for the quarterly periods ended March 31, 2004, June 30, 2004 and/or September 30, 2004, which are being filed concurrently with the filing of this Form 10-K/A, or by our Annual Report on Form 10-K for the year ended December 31, 2004, when filed, or other reports filed with the SEC subsequent to the date of this filing.

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**PART I**

**ITEM 1. BUSINESS**

**Overview**

Visteon Corporation is a leading global supplier of automotive systems, modules and components to global vehicle manufacturers and the automotive aftermarket. Headquartered in Dearborn, Michigan, we have global capabilities, with regional headquarters in Kerpen, Germany; Shanghai, China; and São Paulo, Brazil. We have a workforce of approximately 72,000 and a network of manufacturing sites, technical centers, sales offices and joint ventures located in every major region of the world.

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

*Automotive Operations:* Visteon is a leading global supplier of automotive systems, modules and components in the following product areas: climate control, interior, exterior, powertrain, chassis and electronics. Our products are featured on vehicles built by many leading automotive manufacturers, including Ford Motor Company, General Motors, Toyota, DaimlerChrysler, Volkswagen, Honda, Renault, Nissan, Hyundai, Peugeot, Mazda and BMW. The Automotive Operations segment accounted for 97% of our 2003 total sales.

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

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

**Financial Information About Business Segments**

Business segment financial information can be found on pages 97-99 of this Annual Report on Form 10-K (Note 18, Segment Information, of our consolidated financial statements).

**Automotive Parts Industry**

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

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

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



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**ITEM 1. BUSINESS (Continued)**

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

*Globalization of Suppliers.* To serve multiple markets more efficiently, vehicle manufacturers are assembling vehicle platforms globally. With this globalization, vehicle manufacturers are increasingly interested in global suppliers that can better serve multiple markets, address local consumer preferences, control design costs and minimize import tariffs in local markets. Visteon's presence in more than 200 facilities, in 25 countries, on six continents positions it to meet this need.

*Ongoing Industry Consolidation.* The worldwide automotive parts industry is consolidating as suppliers seek to achieve operating synergies through business combinations. Suppliers are shifting production to locations with more flexible work rules and practices, acquiring complementary technologies, building stronger customer relationships, and following their customers as they expand globally. Visteon's ability to provide vehicle manufacturers with single-point sourcing of integrated systems and modules on a global basis has improved its ability to respond to this consolidation.

*Design of Several Model Derivatives Off of a Single Vehicle Platform.* Vehicle manufacturers are designing and producing several vehicle models off of a single vehicle platform. With this method, vehicle manufacturers will vary the design of some components to create the different vehicle models and standardize other components across the platform, helping to reduce the overall cost of design and manufacture of each model. Suppliers such as Visteon, with its broad product line of innovative new systems, are well positioned to assist vehicle manufacturers in differentiating their vehicle models.

*Increased Competitive Intensity and Market Pressures on Vehicle Manufacturers.* Because vehicle manufacturers are under increasing pressure to adjust to changing consumer preferences and to incorporate technological advances, they are shortening product development times. These shorter development times allow vehicle manufacturers to effectively introduce vehicles and features that match prevailing consumer preferences. To simplify the vehicle design and assembly processes and reduce their costs, vehicle manufacturers are experimenting with opportunities for their suppliers to provide fully engineered, pre-assembled systems rather than individual components. By offering sophisticated systems and modules rather than individual components, automotive suppliers such as Visteon are well positioned to capture value from the design, engineering, research and development, and assembly functions vehicle manufacturers are increasingly looking to outsource.

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

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

The following discussion describes the major product groups within each segment. Financial information relating to sales attributable to each of these product groups can be found in Note 18, Segment Information, of our consolidated financial statements.

**Automotive Operations**

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

Chassis Product Lines	Description
Driveline Systems	Visteon produces all of the major components for an all-wheel drive system. Major products include front and rear independent suspension and solid-beam axles, propshafts, halfshafts, and power transfer units. Visteon's slip-in-tube propshaft is an example of our exclusive technology that reduces weight and improves noise, vibration and harshness ( NVH ) and vehicle crash performance.
Steering Systems/Steering Columns	Visteon designs and produces hydraulic power assisted steering systems, rack and pinion steering gears, recirculating ball nut steering gears, and power steering pumps. We have also developed electric power assisted steering ( EPAS ) systems, which use electric motors rather than conventional hydraulics.
Suspension Systems/Misc. Components	Visteon's suspension products include corner and suspension modules, brake hubs and rotors, knuckles and spindles, in a variety of materials, and stabilizer bars.
Catalytic Converters	Visteon designs and manufactures catalytic converters and other exhaust system products.

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

Interior Product Lines	Description
Cockpit Systems	Visteon's cockpits incorporate the latest in driver information, entertainment, vehicle controls and climate control features and package a variety of structural, electronic and safety components. We provide our customers with a complete array of services including advanced engineering and computer aided design, styling concepts and modeling and in-sequence delivery of manufactured parts. Visteon's cockpit systems incorporate our instrument panels which consist of a substrate and the optional assembly of structure, ducts, registers, passenger airbag system (integrated or conventional), finished panels and the glove box assembly.
Door/Trim/Modules & Seat Systems	Visteon provides a wide range of door trim panels and modules as well as a variety of interior trim products.
Console	Visteon's console modules expand the functionality of today's console offerings, delivering 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.



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

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

Climate Control Product Lines	Description
HVAC Systems	Visteon designs and manufactures fully integrated heating, air conditioning and powertrain cooling systems consisting of heat exchangers, air handling modules, heater and A/C controls, compressors, and front end modules. Heat exchangers provide the mechanism of heat transfer for automotive air conditioning and powertrain cooling systems. Included in the offering are radiators, condensers, evaporator and heater cores, integrated heat exchangers, cooling modules and intercoolers. Visteon's air handling modules heat and cool air and distribute it throughout the passenger cabin. Visteon designs and manufactures mechanical and electronic A/C and heater controls. These controls allow passengers to select various air temperature, speed and distribution combinations for optimal comfort. Compressors pump refrigerant through the air conditioning systems. Compressor technologies include fixed and variable displacement swashplate designs, as well as fixed and variable capacity scroll designs. The front end module integrates structural, exterior cooling, electrical and lighting components and subsystems in order to achieve improvements in packaging and vehicle thermal and front-end structure performance.
Powertrain Cooling Systems	Cooling functionality and thermal management for the vehicle powertrain system (engine and transmission) is provided by powertrain cooling.

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

Powertrain Product Lines	Description
Powertrain Electronics, Ignition, Engine Air/Fuel Systems, Air Induction Systems and other Powertrain	Visteon has a complete line of products for vehicle engine and powertrain management, including the powertrain control module. Visteon's diverse line of sophisticated powertrain products are designed to deliver improved fuel economy and reduced emissions while enhancing performance. These products include air charging assemblies and air induction systems, torque enhancement systems, intake manifolds, long life filtration systems, fuel injectors and rails, mechanical and electronic throttle bodies, and ignition coils.
Starters, Alternators and Wiper Washer	Visteon offers a wide range of alternators and starters to meet differing needs of the automotive customer. In addition, Visteon is working to develop technologies that meet future higher-voltage vehicle architectures (including integrated starter-generators).
Fuel Tanks, Fuel Delivery, and Carbon Canisters	Visteon manufactures systems and components to support low emissions vehicles. The principal products in these systems are plastic blow-molded and thermoformed fuel tanks, fuel pumps and delivery modules, and fuel vapor storage systems.

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

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

Electronic Product Lines	Description
Audio Systems	Visteon produces a wide range of audio systems and components, including integrated cassette/ CD/ MP3 radios and amplifiers. Examples of Visteon's latest electronics products include digital and satellite radios, HD Radio broadcast tuners, audiophile systems and advanced bluetooth interface modules integrated with Visteon Voice capability. Visteon's MACH® digital signal processing ( DSP ) is an integrated technology providing improved performance for entertainment systems and can support branded audio systems such as Boston Acoustics and Sony.
Driver Information Systems	Visteon designs and builds a wide range of displays, from analog electronic to high impact clusters and light emitting diode ( LED ) displays.
Integrated Electronics and Infotainment Systems	Visteon has developed numerous products to assist driving and enhance safety. These include Visteon Voice Technology , adaptive cruise control, anti-theft systems, remote keyless entry systems and tire pressure monitoring. Visteon is working with United States Department of Transportation ( USDOT ) to develop lane departure warning systems. Visteon delivers in-vehicle entertainment that provides consumers with DVD and wireless headphone systems capable of interacting with other plug and play multimedia.

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

Exterior Product Lines	Description
Lighting	Visteon designs and builds a wide variety of headlamps, rear lamps, high-mount stop lamps and foglamps using leading edge technologies such as LED, HID, AFS and projector headlamps.
Bumpers	Visteon offers bumper systems, fascias and assemblies and valance panels.

**Glass Operations**

Our Glass Operations segment designs, produces, and distributes automotive glass products for Ford and aftermarket customers, and float glass for commercial architectural and automotive applications. Glass Operations accounted for about \$563 million, or 3%, of our 2003 total sales. The following table provides a description of the Glass Operations segment product lines:

Glass Product Lines	Description
Glass	Products include windshields, backlites, moonroofs and side windows. Capabilities include glass design, development and manufacturing. Aftermarket replacement glass products are distributed under the Carlite® brand name. Visteon also produces float glass for commercial architectural and automotive markets. Architectural glass is distributed under the Versalux® brand name.

**Customers**

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



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**ITEM 1. BUSINESS (Continued)**

*Vehicle Manufacturers*

Visteon sells to all of the world's largest vehicle manufacturers including Ford, General Motors, Toyota, DaimlerChrysler, Honda, Volkswagen, Renault, Nissan, Hyundai, Peugeot, Mazda and BMW. Ford is our largest customer, and our sales to Ford accounted for about 76% of our 2003 total sales. Our top five customers other than Ford accounted for approximately 10% of our total 2003 sales, which includes certain sales to Mazda Motor Corporation, of which Ford owns a 33.4% equity interest.

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

*Aftermarket*

We sell products to the worldwide aftermarket as replacement parts or as customized products, such as body appearance packages and in-car entertainment systems, for current production and older vehicles. In 2003, our aftermarket sales were \$992 million, representing 6% of our total sales. We currently sell 58% of these products to the independent aftermarket and 42% to Ford's Automotive Consumer Service Group, the principal aftermarket sales organization of Ford. In 2003, aftermarket sales of our glass products were \$155 million, representing 1% of our total sales and 16% of our total aftermarket sales.

**Arrangements with Ford and its Affiliates**

In connection with Visteon's separation from Ford in 2000, Visteon and Ford entered into a series of agreements outlining the terms of the separation and the relationship between Visteon and Ford on an ongoing basis. In December 2003, Visteon and Ford entered into a series of agreements that modify or replace several of the agreements referred to above. The following summary of certain of these agreements is qualified in all respects by the actual terms of the respective agreements.

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**ITEM 1. BUSINESS (Continued)**

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

*Master Separation Agreement.* Ford has provided a number of transitional services to Visteon pursuant to the master separation agreement and related arrangements, including information technology, human resources, accounting, customs, product development technology and real estate services. Visteon agreed to pay Ford amounts which reflected its fully accounted cost for these services, including a reasonable allocation of internal overhead costs, as well as any direct costs incurred from outside suppliers. Except for certain information technology services, Ford's obligation to provide these services pursuant to the master separation agreement expired in June 2002. Visteon and Ford have subsequently entered into new arrangements covering some of these services. Please see Note 12, Arrangements with Ford and its Affiliates, of our consolidated financial statements, for information regarding the amounts that have been assessed for services rendered by Ford under the master separation agreement. During 2003, Visteon began the process of creating a separate IT environment, including the separation of certain of Ford's IT systems that had been utilized by Visteon. During December 2003, Visteon and Ford agreed on matters designed to facilitate the separation process, including Ford's agreement to provide certain limited information technology support services and Ford's agreement to share a portion of the cost associated with the separation process. The parties have agreed also to the mutual release of claims related to IT activities since their separation.



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

*Hourly Employee Assignment Agreement.* The hourly employee assignment agreement, as amended and restated as of December 19, 2003, sets forth a number of rights and obligations with respect to the United States hourly employees of Ford who are covered by Ford-UAW master collective bargaining agreements and are assigned to work for Visteon. Under this agreement, Visteon exercises day-to-day supervision over the covered individuals and reimburses Ford for the wage, benefit and other costs incurred by Ford related to these individuals. This includes amounts for profit sharing based on Ford's profits, which is capped at \$2,040 per worker. This cap excludes amounts that may be payable on account of employer payroll taxes or the portion of any profit sharing payment that may be attributable to Visteon's profits. About \$4 million of profit sharing expense was recognized in each of 2003 and 2002, and no profit sharing expense was recognized in 2001. For further information, see *Workforce* set forth below.

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

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

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

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**ITEM 1. BUSINESS (Continued)**

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

Furthermore, Visteon has agreed to pay Ford \$150 million in lieu of additional productivity price reductions on components supplied by Visteon in North America during 2003, which amount is to be paid in three equal installments commencing no later than December 31, 2003 and ending on or before March 1, 2004. Visteon also will provide specified productivity price reductions for all components supplied to Ford beginning January 1, 2004 and on each January 1 thereafter through 2007. Visteon and Ford have also agreed to negotiate in good faith price changes on supplied components resulting from design changes to such components.

During the period from January 1, 2004 through December 31, 2007, Ford has agreed to pay to Visteon an amount based on the cost differential between wages paid to Ford-UAW workers, at efficient manning levels, and workers at Tier 1 suppliers, with respect to new business sourced to Visteon at plants covered by the Ford-UAW master collective bargaining agreement. Through December 31, 2007, Ford agrees to reimburse Visteon for wages relating to Ford-UAW workers assigned to Visteon who are placed in Guaranteed Employment Number (GEN) program, as set forth in the Ford-UAW master collective bargaining agreement, as a result of Ford's decision to exclude Visteon from the list of suppliers receiving a request for quote on new business or terminate or not renew a Purchase Order because of other good business reasons.

Finally, Ford has agreed to reimburse Visteon for up to one-half of any capital investment spending on production facilities and equipment made by Visteon during the period from January 1, 2004 through December 31, 2007 to the extent related to the production of certain uncompetitive commodities for Ford. Because this reimbursement is calculated on the basis that the capital investment will be amortized over a period of seven years utilizing the production volumes of the applicable components, Visteon may not be reimbursed the full amount in the event that the sourcing program were cancelled or modified by Ford during such period. Ford has also agreed to accelerate the payment terms for certain payables to Visteon through 2006.

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

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### **ITEM 1. BUSINESS (Continued)**

#### **Competition**

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

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

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

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

#### **International**

Financial information about sales and net property by major geographic area can be found on page 99 of this Annual Report on Form 10-K (Note 18, Segment Information, of our consolidated financial statements).

#### **Seasonality**

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

#### **Product Research and Development**

Visteon's research and development efforts are intended to maintain our leadership position in the industry and provide us with a competitive edge as we seek additional business with new and existing customers. Total research and development expenditures were approximately \$913 million in 2003, \$911 million in 2002 and \$1,037 million in 2001. We have realigned resources to focus on our growth businesses and discontinued work on products where revenues and margins were not in line with investments. Visteon also works with technology development partners, including customers, to develop technological capabilities and system enhancements.

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**ITEM 1. BUSINESS (Continued)**

**Intellectual Property**

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

Visteon also views its name and mark as significant to its business as a whole. In addition, the company owns 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.

**Raw Materials**

Raw materials used by Visteon in the manufacture of our products primarily include steel, aluminum, resins, precious metals and urethane chemicals. All of the materials used are generally readily available from numerous sources except precious metals. Precious metals (for catalytic converter production) are purchased from Ford, and Ford assumes the risk of assuring supply and accepts market price risk. We do not anticipate significant interruption in the supply of raw materials that would have a material impact on our business.

**Workforce**

Visteon's workforce as of December 31, 2003 included approximately 72,000 persons, of which approximately 17,100 were salaried employees and 54,900 were hourly workers.

Of the hourly workforce, approximately 19,800 are Ford employees covered under the Ford-UAW master collective bargaining agreement. Pursuant to an hourly employee assignment agreement, as amended and restated, between Visteon and Ford, Ford has indefinitely assigned these Ford-UAW workers to work at Visteon facilities, and Visteon has agreed to reimburse Ford for the wage, benefit and other costs incurred by Ford related to these workers. Further, effective as of December 22, 2003, approximately 600 hourly employees of Visteon who worked in UAW-represented facilities of Visteon at the effective date but were covered by a separate collective bargaining agreement between the UAW and Visteon have been converted to Ford-UAW employees and designated as Visteon-assigned workers under the hourly employee assignment agreement. In addition, as part of the current Ford-UAW master collective bargaining agreement, Ford has agreed to offer transfers to Ford-UAW workers assigned to Visteon facilities to positions at Ford facilities as they become available and to prohibit the transfer of Ford-UAW workers to positions at Visteon facilities. The present Ford-UAW master collective bargaining agreement expires in September 2007. Although we have the right to participate in future negotiations as well as the planning and strategy development concerning the terms of, and issues arising under, the current and future Ford-UAW collective bargaining agreements, Ford reserves the right to handle such matters if a joint course of action cannot be agreed upon.

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**ITEM 1. BUSINESS (Continued)**

Visteon, Ford and the UAW have also entered into a memorandum of understanding, which provides, among other things, that Visteon and the UAW will enter into a new collective bargaining agreement covering employees hired by Visteon at its UAW-represented facilities in the future and that the parties will enter into discussions for the purpose of negotiating a supplement to such new Visteon-UAW collective bargaining agreement that provides for competitive wage and benefit levels for such future hires. We expect to conclude negotiations of this supplement during the first quarter of 2004; however, we cannot anticipate at this time the expected impact that this new arrangement may have on our results of operations or financial condition. Further, in the event the parties are unable to agree to the terms of the supplement, the Visteon-UAW collective bargaining agreement will mirror the Ford-UAW collective bargaining agreement.

In Europe, all Ford employees (both hourly and salaried) working in Visteon facilities at the time of the spin-off became Visteon employees. In the spin-off agreement with the employee representatives, it was agreed that, during their employment and retirement, Visteon would provide these employees with wages, benefits and other terms of employment that closely reflect those provided by Ford to its employees in the respective countries. The majority of our European employees are members of industrial trade unions and confederations within their respective countries. Many of these organizations operate under collective contracts that are not specific to any one employer. Visteon's national agreement with the British trade unions will expire in November 2004. Visteon's collective agreement with the German trade unions expired on December 31, 2003; negotiations for a new agreement are continuing.

We constantly work to establish and maintain positive, cooperative relations with our unions around the world and we believe that our relationships with unionized employees to be satisfactory. There have been no significant work stoppages in the past three years.

**Environmental Matters**

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

We are aware of contamination at some of our properties and have agreed to an allocation of liability with Ford relating to various third-party superfund sites at which Ford has been named as a potentially responsible party. We are in various stages of investigation and cleanup at these sites. At December 31, 2003, Visteon had recorded a reserve of approximately \$13 million for this environmental investigation and cleanup. However, estimating liabilities for environmental investigation and cleanup is complex and dependent upon a number of factors beyond our control and which may change dramatically. Accordingly, although we believe our reserves to be adequate based on current information, we cannot assure you that our eventual environmental investigation and cleanup costs and liabilities will not exceed the amount of our current reserve. During 2003, we did not incur any material capital expenditures relating primarily to environmental compliance.

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**ITEM 1. BUSINESS (Continued)**

**Available Information**

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

**Table of Contents****ITEM 2. PROPERTIES**

Our principal executive offices are currently located in Dearborn, Michigan. We expect to relocate our principal executive offices, as well as several other facilities located in Southeast Michigan, to Van Buren Township, Michigan during 2004. We also maintain regional headquarters in Kerpen, Germany; in Shanghai, China; and in São Paulo, Brazil.

We and our joint ventures maintain 69 technical facilities/sales offices and 135 plants in 25 countries throughout the world, of which approximately 94 facilities are owned in fee simple and 109 are leased. The following table shows the approximate total square footage of our principal owned and leased manufacturing facilities by region as of December 31, 2003:

Region	Number of Manufacturing Sites	Total Manufacturing Sites Square Footage
		(in millions)
North America	60	29.7
Europe	44	13.1
South America	7	0.8
Asia-Pacific	24	6.4
Total	135	50.0

In some locations, we have combined a manufacturing facility, technical center and/or customer service center and sales office at a single multi-purpose site. The following table shows the approximate number of various types of facilities by region and segment as of December 31, 2003:

Region	Manufacturing Sites	Technical Centers	Customer Centers and Sales Offices
North America			
Automotive Operations	56	25	4
Glass Operations	4	1	2
Europe			
Automotive Operations	44	9	15
Glass Operations			
South America			
Automotive Operations	7		
Glass Operations			
Asia-Pacific			
Automotive Operations	24	8	5
Glass Operations			
Totals			
Total Automotive Operations	131	42	24
Total Glass Operations	4	1	2
Total company	135	43	26

We believe that our facilities are suitable and adequate, and have sufficient productive capacity, to meet our present needs. The majority of our facilities are operating at normal levels based on their respective capacities except those facilities that are in the process of being closed or transferred.





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

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

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

None.

**ITEM 4A. EXECUTIVE OFFICERS OF VISTEON**

The following table shows information about the executive officers of our company. All ages are as of February 1, 2004:

Name	Age	Position
Peter J. Pestillo	65	Chairman of the Board and Chief Executive Officer
Michael F. Johnston	56	Director, President and Chief Operating Officer
Daniel R. Coulson	60	Executive Vice President and Chief Financial Officer
James C. Orchard	53	Executive Vice President and President, North America and Asia
Anjan Chatterjee	52	Senior Vice President, Strategy and Business Planning
Stacy L. Fox	50	Senior Vice President, General Counsel and Secretary
Robert H. Marcin	58	Senior Vice President, Corporate Relations
Thomas A. Burke	46	Senior Vice President, North America and Asia Manufacturing
Lorie J. Buckingham	46	Vice President and Chief Information Officer
John F. Kill	54	Vice President of Product Development
Jonathan K. Maples	46	Vice President of Quality and Materials Management
Heinz Pfannschmidt	56	Vice President and President, Europe and South America

Peter J. Pestillo has been Visteon's Chairman of the Board and Chief Executive Officer since the company's formation in January 2000. Before that, Mr. Pestillo had been the Vice Chairman and Chief of Staff of Ford, and previously Ford's Executive Vice President, Corporate Relations. Mr. Pestillo had been, prior to the Visteon spin-off in June 2000, a Ford employee since 1980. Mr. Pestillo is also a director of Rouge Industries, Inc. and Sentry Insurance.

Michael F. Johnston has been Visteon's President and Chief Operating Officer since September 2000 and was elected to the company's Board of Directors in May 2002. Before that, Mr. Johnston had been President, e-business for Johnson Controls, Inc., and previously President-North America and Asia of Johnson Control's Automotive Systems Group, and President of its automotive interior systems and battery operations. Mr. Johnston is also a director of Flowserve Corporation and Whirlpool Corporation.

Daniel R. Coulson has been Executive Vice President and Chief Financial Officer of Visteon since the company's formation in January 2000. Before that, he was Ford's Director of Accounting. Mr. Coulson had been, prior to the Visteon spin-off in June 2000, a Ford employee since 1965.

James C. Orchard has been Executive Vice President and President, North America and Asia of Visteon since August 2001. Before that, Mr. Orchard had been Chief Executive Officer, ZF Group North America and South America, and a member of the ZF Board of Management.

Anjan Chatterjee has been Senior Vice President, Strategy and Business Planning since joining Visteon in August 2003. Prior to that, Mr. Chatterjee was director, North American automotive sector and head of the Detroit office at McKinsey and Company. Mr. Chatterjee has also served as a partner at A.T. Kearney in the automotive, electronics, and technology areas.

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

Stacy L. Fox has been Senior Vice President, General Counsel and Secretary of Visteon since the company's formation in January 2000. Before that, she was Group Vice President and General Counsel of the Automotive Systems Group of Johnson Controls, Inc.

Robert H. Marcin has been Visteon's Senior Vice President, Corporate Relations since January 2003 and, prior to that, he served as the company's Senior Vice President of Human Resources since the company's formation in January 2000. Before that, he was Executive Director Labor Affairs for Ford and Ford's Director, U.S. Union Affairs. Mr. Marcin had been, prior to the Visteon spin-off in June 2000, an employee of Ford or its subsidiaries since 1973.

Thomas A. Burke has been Vice President, North America and Asia Manufacturing of Visteon since November 2002, and prior to that he was Vice President of Europe and South America Manufacturing Operations. Mr. Burke has also served the company as Director of Engineering for Visteon's Ford Account; and as Director of Climate Control Systems for Europe, South America and India, until 1996. Mr. Burke joined Ford Motor Company in 1983, and he has held a number of engineering, manufacturing and management positions, including appointments in North America and Mexico for Ford's Climate Control division.