

VISTEON CORP
Form 10-Q
August 08, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013,

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 001-15827

VISTEON CORPORATION

(Exact name of registrant as specified in its charter)

State of Delaware

(State or other jurisdiction of incorporation or organization)

One Village Center Drive, Van Buren Township, Michigan

(Address of principal executive offices)

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

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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 whether the registrant: has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer 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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

As of July 31, 2013, the registrant had outstanding 50,044,729 shares of common stock.

Exhibit index located on page number 51.

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FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Millions Except Per Share Amounts)
(Unaudited)

	Three Months Ended		Six Months Ended		
	June 30		June 30		
	2013	2012	2013	2012	
Sales	\$1,892	\$1,693	\$3,748	\$3,410	
Cost of sales	1,707	1,565	3,409	3,148	
Gross margin	185	128	339	262	
Selling, general and administrative expenses	91	87	177	178	
Equity in net income of non-consolidated affiliates	42	103	86	145	
Interest expense	11	10	24	22	
Interest income	2	4	5	7	
Restructuring and other expenses	2	11	38	74	
Income from continuing operations before income taxes	125	127	191	140	
Provision for income taxes	39	42	21	69	
Income from continuing operations	86	85	170	71	
(Loss) income from discontinued operations, net of tax	—	(1)	—	2
Net income	86	84	170	73	
Net income attributable to non-controlling interests	21	9	36	27	
Net income attributable to Visteon Corporation	\$65	\$75	\$134	\$46	
Basic earnings (loss) per share:					
Continuing operations	\$1.30	\$1.43	\$2.64	\$0.83	
Discontinued operations	—	(0.02)	—	0.04
Basic earnings per share attributable to Visteon Corporation	\$1.30	\$1.41	\$2.64	\$0.87	
Diluted earnings (loss) per share:					
Continuing operations	\$1.29	\$1.42	\$2.61	\$0.82	
Discontinued operations	—	(0.02)	—	0.04
Diluted earnings per share attributable to Visteon Corporation	\$1.29	\$1.40	\$2.61	\$0.86	
Comprehensive income:					
Comprehensive income	\$50	\$31	\$90	\$67	
Comprehensive income attributable to Visteon Corporation	\$38	\$29	\$79	\$40	

See accompanying notes to the consolidated financial statements.

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VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Millions)
(Unaudited)

	June 30 2013	December 31 2012
ASSETS		
Cash and equivalents	\$983	\$825
Restricted cash	25	20
Accounts receivable, net	1,206	1,162
Inventories	415	385
Other current assets	313	271
Total current assets	2,942	2,663
Property and equipment, net	1,274	1,326
Equity in net assets of non-consolidated affiliates	790	756
Intangible assets, net	298	332
Other non-current assets	118	79
Total assets	\$5,422	\$5,156
LIABILITIES AND EQUITY		
Short-term debt, including current portion of long-term debt	\$129	\$96
Accounts payable	1,174	1,027
Accrued employee liabilities	189	175
Other current liabilities	258	254
Total current liabilities	1,750	1,552
Long-term debt	670	473
Employee benefits	559	571
Deferred tax liabilities	180	181
Other non-current liabilities	166	238
Stockholders' equity:		
Preferred stock (par value \$0.01, 50 million shares authorized, none outstanding at June 30, 2013 and December 31, 2012)	—	—
Common stock (par value \$0.01, 250 million shares authorized, 54 million shares issued, 50 million and 52 million shares outstanding at June 30, 2013 and December 31, 2012, respectively)		1
Stock warrants	6	10
Additional paid-in capital	1,287	1,269
Retained earnings	400	266
Accumulated other comprehensive loss	(145)	(90)
Treasury stock	(197)	(71)
Total Visteon Corporation stockholders' equity	1,352	1,385
Non-controlling interests	745	756
Total equity	2,097	2,141
Total liabilities and equity	\$5,422	\$5,156

See accompanying notes to the consolidated financial statements.

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

	Six Months Ended		
	June 30		
	2013	2012	
OPERATING			
Net income	\$170	\$73	
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	132	132	
Equity in net income of non-consolidated affiliates, net of dividends remitted	(82)	(134))
Stock-based compensation	11	13	
Other non-cash items	(5)	29)
Changes in assets and liabilities:			
Accounts receivable	(87)	(91))
Inventories	(43)	(32))
Accounts payable	183	64	
Accrued income taxes	(56)	3)
Other assets and other liabilities	(65)	(50))
Net cash provided from operating activities	158	7	
INVESTING			
Capital expenditures	(114)	(102))
Proceeds from business divestitures and asset sales	39	80	
Other	—	(2))
Net cash used by investing activities	(75)	(24))
FINANCING			
Proceeds from issuance of debt, net of issuance costs	204	2	
Short-term debt, net	43	4	
Principal payments on debt	(5)	(4))
Payments to repurchase common stock	(125)	—)
Dividends paid to non-controlling interests	(22)	(22))
Other	1	—	
Net cash provided from (used by) financing activities	96	(20))
Effect of exchange rate changes on cash and equivalents	(21)	(5))
Net increase (decrease) in cash and equivalents	158	(42))
Cash and equivalents at beginning of period	825	723	
Cash and equivalents at end of period	\$983	\$681	

See accompanying notes to the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Basis of Presentation

Description of Business: Visteon Corporation (the “Company” or “Visteon”) is a supplier of climate, interiors and electronics systems, modules and components to global automotive original equipment manufacturers (“OEMs”). Headquartered in Van Buren Township, Michigan, Visteon has a workforce of approximately 23,000 employees and a network of manufacturing operations, technical centers and joint ventures in every major geographic region of the world.

Interim Financial Statements: The unaudited consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. These interim consolidated financial statements include all adjustments (consisting of normal recurring adjustments, except as otherwise disclosed) that management believes are necessary for a fair presentation of the results of operations, financial position and cash flows of the Company for the interim periods presented. Interim results are not necessarily indicative of full-year results.

Use of Estimates: The preparation of the financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect amounts reported herein. Management believes that such estimates, judgments and assumptions are reasonable and appropriate. However, due to the inherent uncertainty involved, actual results may differ from those provided in the Company’s consolidated financial statements.

Reclassifications: Certain prior period amounts have been reclassified to conform to the current period presentation.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and all subsidiaries that are more than 50% owned and over which the Company exercises control. Investments in affiliates of greater than 20% and for which the Company exercises significant influence but does not exercise control are accounted for using the equity method.

Discontinued Operations: On August 1, 2012, the Company completed the sale of its Lighting operations for proceeds of approximately \$70 million. The Company recorded impairment charges principally related to property and equipment of approximately \$11 million and \$13 million in the three-month and six-month periods ended June 30, 2012. The results of operations of the Lighting business have been classified to (Loss) income from discontinued operations, net of tax in the Consolidated Statements of Comprehensive Income for the three-month and six-month periods ended June 30, 2012. Discontinued operations are summarized as follows:

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
	(Dollars in Millions)	
Sales	\$ 126	\$ 265
Cost of sales	113	236
Gross margin	13	29
Selling, general and administrative expenses	3	6
Asset impairments	11	13
Interest expense	1	1
Other expense	1	3
(Loss) income from discontinued operations before income taxes	(3) 6

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(Benefit) provision for income taxes	(2) 4
(Loss) Income from discontinued operations, net of tax	\$(1) \$2

Restricted Cash: Restricted cash represents amounts designated for uses other than current operations and includes \$10 million collateral for the Letter of Credit Facility with US Bank National Association, and \$15 million related to cash collateral for other corporate purposes at June 30, 2013.

New Accounting Pronouncements: In February 2013, the Financial Accounting Standards Board ("FASB") issued ASU No. 2013-2, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". This ASU requires companies to present, either in a note or parenthetically on the face of the financial statements, the effect of the amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification.

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This ASU is effective for interim and annual reporting periods beginning after December 15, 2012. The Company adopted these new disclosure requirements with effect from January 1, 2013.

In March 2013, the FASB issued ASU 2013-5, "Foreign Currency Matters". The amendments in ASU 2013-5 resolve the diversity in practice about whether current literature applies to the release of the cumulative translation adjustment into net income when a parent either sells a part of all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. In addition, the amendments in ASU 2013-5 resolve the diversity in practice for the treatment of business combinations achieved in stages involving a foreign entity. ASU 2013-5 is effective for interim and annual reporting periods beginning after December 15, 2013. The Company is currently evaluating the impact of ASU 2013-5 and does not expect this guidance to have a material impact on its consolidated financial statements.

NOTE 2. Non-Consolidated Affiliates

The Company recorded equity in net income of non-consolidated affiliates of \$42 million and \$103 million for the three-month periods ended June 30, 2013 and 2012, respectively. For the six-month periods ended June 30, 2013 and 2012, the Company recorded \$86 million and \$145 million, respectively. Equity in net income of non-consolidated affiliates for the three and six month periods ended June 30, 2012 includes \$63 million representing Visteon's equity interest in a non-cash gain recorded by Yanfeng Visteon Automotive Trim Systems Co., Ltd. ("Yanfeng"), a 50% owned non-consolidated affiliate of the Company. The gain resulted from the excess of fair value over carrying value of a former equity investee of Yanfeng that was consolidated effective June 1, 2012 pursuant to changes in the underlying joint venture agreement. The fair value was based on estimates of enterprise value determined using certain financial analysis methodologies including the discounted cash flow analysis. The fair value measurement is classified within level 3 of the fair value hierarchy.

The Company had \$790 million and \$756 million of equity in the net assets of non-consolidated affiliates at June 30, 2013 and December 31, 2012, respectively. The following table presents summarized financial data for the Company's non-consolidated affiliates, including Yanfeng, which is considered a significant non-consolidated affiliate. Summarized financial information reflecting 100% of the operating results of the Company's equity investees are provided below:

	Three Months Ended June 30					
	Net Sales		Gross Margin		Net Income	
	2013	2012	2013	2012	2013	2012
	(Dollars in Millions)					
Yanfeng	\$1,920	\$991	\$296	\$178	\$57	\$185
All other	390	467	56	52	30	27
	\$2,310	\$1,458	\$352	\$230	\$87	\$212
	Six Months Ended June 30					
	Net Sales		Gross Margin		Net Income	
	2013	2012	2013	2012	2013	2012
	(Dollars in Millions)					
Yanfeng	\$3,736	\$1,784	\$569	\$300	\$126	\$257
All other	776	880	82	94	52	44
	\$4,512	\$2,664	\$651	\$394	\$178	\$301

Yanfeng sales and gross margin for the three months ended June 30, 2013 include approximately \$527 million and \$91 million, respectively, related to activity of a former equity investee that was consolidated effective June 1, 2012. Yanfeng sales and gross margin for the six months ended June 30, 2013 include approximately \$1,283 million and \$222 million, respectively, related to activity of the above-mentioned former equity investee. Yanfeng net income for

the three and six months ended June 30, 2012 includes approximately \$130 million associated with a non-cash gain on the consolidation of above-mentioned former equity investee.

The Company monitors its investments in the net assets of non-consolidated affiliates for indicators of other-than-temporary declines in value on an ongoing basis. If the Company determines that such a decline has occurred, an impairment loss is recorded, which is measured as the difference between carrying value and fair value. During the fourth quarter of 2012, the Company determined that an other-than-temporary decline in the value of its investment in Visteon TYC Corporation ("VTYC") had occurred

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based on anticipated sale transaction proceeds and recorded an impairment of \$5 million. In January 2013, the Company completed the sale of its 50% equity interest in VTYC for proceeds of approximately \$17 million and no subsequent gain or loss was recorded on the sale.

NOTE 3. Restructuring and Other Expenses

Restructuring and other expenses consist of the following:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2013	2012	2013	2012
	(Dollars in Millions)			
Restructuring expenses	\$3	\$1	\$23	\$42
Loss on asset contribution	—	—	—	14
Transformation costs	4	10	20	18
Gain on sale of equity interest	(5	) —	(5) —
	\$2	\$11	\$38	\$74

Restructuring Activities

During the three and six month periods ended June 30, 2013, the Company recorded \$3 million and \$23 million, respectively, of restructuring expenses under a previously announced \$100 million program designed to reduce fixed costs and to improve operational efficiency. Costs recorded during the three and six month periods ended June 30, 2013 were related to employee severance and termination benefits for approximately 40 and 180 employees, respectively.

During 2012, the Company recorded \$41 million of restructuring expenses, including \$36 million for employee severance and termination benefits and \$5 million of other exit costs in connection with the closure of the Cadiz Electronics operation in El Puerto de Santa Maria, Spain. Additional employee severance and termination benefits of approximately \$4 million were recorded during 2012 including \$3 million associated with the separation of approximately 250 employees at a South American Interiors facility and \$1 million associated with 40 voluntary employee separations associated with a Climate restructuring action announced in the fourth quarter of 2011.

At June 30, 2013 and December 31, 2012, restructuring liabilities of \$35 million and \$39 million, respectively, are classified as other current liabilities in the consolidated balance sheets. The following is a summary of the Company's restructuring reserves and related activity for the six months ended June 30, 2013.

	Interiors	Climate	Electronics	Corporate	Total
	(Dollars in Millions)				
December 31, 2012	\$34	\$1	\$1	\$3	\$39
Expenses	1	14	—	6	21
Reversals	—	—	(1	) —	(1
Exchange	(2	) —	—	—	(2
Utilization	(1	) (11	) —	(3	) (15
March 31, 2013	32	4	—	6	42
Expenses	1	2	—	—	3
Exchange	1	—	—	—	1
Utilization	(3	) (4	) —	(4	) (11
June 30, 2013	\$31	\$2	\$—	\$2	\$35

The Company anticipates that the activities associated with these reserves will be substantially completed by the end of 2013. Utilization is principally related to payments for severance and other employee termination benefits. Given

the economically-sensitive and highly competitive nature of the automotive industry, the Company continues to closely monitor current market factors and industry trends taking action as necessary, including but not limited to, additional restructuring actions. However, there can be no assurance that any such actions will be sufficient to fully offset the impact of adverse factors on the Company or its results of operations, financial position and cash flows.

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Loss on Asset Contribution

In connection with agreements reached with the labor union and the Spanish government for the closure of the Cadiz Electronics operation, the Company transferred land, building and machinery with a net book value of approximately \$14 million to the Spanish government for the benefit of the former Cadiz Electronics employees and the El Puerto de Santa Maria, Spain community.

Transformation Activities

Business transformation costs of \$4 million and \$20 million were incurred during the three-month and six-month periods ended June 30, 2013 respectively, related to financial and advisory fees associated with continued execution of the Company's comprehensive value creation plan, including the following activities.

Climate consolidation - During the first quarter of 2013, Halla Climate Control Corporation ("Halla") purchased certain subsidiaries and intellectual property of Visteon's global climate business for approximately \$410 million. With effect from February 1, 2013, this combined climate business has been operating under the name of Halla Visteon Climate Control ("HVCC"). HVCC is majority-owned by Visteon and headquartered in South Korea.

Interiors strategy - The Company continues to explore alternatives for its Interiors business including, but not limited to, divestiture, partnership or alliance. While the Company views Interiors as a non-core business, it continues to make commitments to this business and intends to divest in the future only under acceptable terms and conditions. In connection with the preparation of the June 30, 2013 financial statements, the Company determined that an indicator of impairment existed in relation to the net assets of its Interiors business, which approximated \$180 million as of June 30, 2013. Accordingly, the Company performed a recoverability test utilizing a probability weighted analysis of cash flows associated with continuing to run and operate the Interiors business and estimated cash flows associated with the potential sale of the Interiors business. As a result of the analysis, the Company concluded that the assets were not recoverable. However, no impairment was recorded as of June 30, 2013 as the fair value of the underlying assets were determined to be in excess of the respective carrying value. To the extent that a sale transaction becomes more likely to occur in future periods an impairment charge may be required and such charge could be material. As of June 30, 2013 the Company did not meet the specific criteria necessary for the Interiors assets to be considered held for sale.

Electronics optimization - The Company continued to explore opportunities to optimize the size and scale of its Electronics business with a specific focus on cockpit electronic products.

Cost reduction program - In November 2012 the Company announced a \$100 million restructuring program designed to reduce fixed costs and to improve operational efficiency by addressing certain under-performing operations. During the second quarter of 2013, the Company recorded an additional \$3 million associated with this program for total inception to date expense under the program of \$58 million. The Company anticipates recording additional restructuring charges related to this program in future periods as underlying plans are finalized.

Gain on Sale of Equity Interest

In June 2013, the Company completed the sale of its 20% equity interest in Dongfeng Visteon Automotive Trim Systems Co., Ltd. ("Dongfeng") for proceeds of approximately \$20 million. Dongfeng is an interiors joint venture based in China with 2012 revenue of \$190 million. The Company recognized a gain of approximately \$5 million during the three-months ended June 30, 2013.

NOTE 4. Inventories, net

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market.

June 30

December 31

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	2013	2012
	(Dollars in Millions)	
Raw materials	\$167	\$153
Work-in-process	182	174
Finished products	89	78
	438	405
Valuation reserves	(23) (20
	\$415) \$385

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NOTE 5. Property and Equipment

Property and equipment, net consists of the following:

	June 30 2013	December 31 2012
	(Dollars in Millions)	
Land	\$153	\$161
Buildings and improvements	266	269
Machinery, equipment and other	1,166	1,137
Construction in progress	99	100
Total property and equipment	1,684	1,667
Accumulated depreciation	(483	) (421
	1,201	1,246
Product tooling, net of amortization	73	80
Property and equipment, net	\$1,274	\$1,326

Property and equipment is depreciated principally using the straight-line method of depreciation over estimated useful lives. Generally, buildings and improvements are depreciated over a 40-year estimated useful life and machinery, equipment and other assets are depreciated over estimated useful lives ranging from 3 to 15 years. Product tooling is amortized using the straight-line method over the estimated life of the tool, generally not exceeding 6 years.

Depreciation and amortization expenses are summarized as follows:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2013	2012	2013	2012
	(Dollars in Millions)			
Depreciation	\$52	\$54	\$106	\$107
Amortization	3	3	5	5
	\$55	\$57	\$111	\$112

NOTE 6. Intangible Assets

Intangible assets, net are comprised of the following:

	June 30, 2013			December 31, 2012		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	(Dollars in Millions)					
Definite-lived intangible assets:						
Developed technology	\$196	\$69	\$127	\$209	\$60	\$149
Customer related	120	35	85	124	30	94
Other	22	7	15	22	5	17
	\$338	\$111	\$227	\$355	\$95	\$260
Goodwill and indefinite-lived intangible assets:						
Goodwill			\$46			\$46
Trade names			25			26
			71			72
Total			\$298			\$332

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The Company recorded amortization expense related to definite-lived intangible assets of \$10 million and \$21 million for the three and six-month periods ended June 30, 2013. The Company estimates amortization expense to be approximately \$42 million for the year ending December 31, 2013. Goodwill and trade names, substantially all of which relate to the Company's Climate reporting unit, are not amortized but are assessed for impairment annually, or earlier when events and circumstances indicate that it is more likely than not that such assets have been impaired. The Company performs its annual impairment testing as of the first day of the fourth quarter of each year. No impairment was identified during the periods presented.

NOTE 7. Debt

As of June 30, 2013, the Company had total debt outstanding of \$799 million, of which \$129 million and \$670 million was classified as short-term debt and long-term debt, respectively. The Company's debt consists of the following:

	June 30 2013	December 31 2012
	(Dollars in Millions)	
Short-term debt		
Current portion of long-term debt	\$2	\$3
Other – short-term	127	93
Total short-term debt	\$129	\$96
Long-term debt		
6.75% senior notes due April 15, 2019	446	445
HVCC USD term loan due May 30, 2016	100	—
HVCC KRW term loan due May 30, 2016	87	—
Other	37	28
Total long-term debt	\$670	\$473

During the first quarter of 2013, Halla Visteon Climate Control ("HVCC") entered into two unsecured bilateral term loan credit agreements with aggregate available borrowings of approximately \$195 million, and as of June 30, 2013, the USD equivalent of these agreements was \$187 million. Both credit agreements mature in May 2016 and are subject to financial covenants requiring total debt to EBITDA of not greater than 3.2x and a net interest coverage test of more than 3x. The Company was in compliance with such covenants at June 30, 2013.

Other short and long-term debt is primarily related to the Company's non-U.S. operations and are payable in various currencies. As of June 30, 2013 the Company had international affiliate debt outstanding of \$166 million with \$129 million and \$37 million classified in short-term and long-term debt, respectively. Approximately \$139 million of the affiliate debt is related to HVCC of which \$108 million and \$31 million are classified in short-term and long-term debt, respectively. Short-term affiliate debt also includes an arrangement through a subsidiary in France to sell accounts receivable with recourse on an uncommitted basis. The amount of financing available is dependent on the amount of receivables less customary reserves. At June 30, 2013, the Company had outstanding borrowings under this facility of \$20 million with \$61 million of receivables pledged as security, which are recorded as Other current assets on the consolidated balance sheet. At December 31, 2012, the Company had outstanding borrowings under this facility of \$15 million and \$49 million of receivables pledged as security.

NOTE 8. Employee Retirement Benefits

Defined Contribution Plans

Most U.S. salaried employees and certain non-U.S. employees are eligible to participate in defined contribution plans by contributing a portion of their compensation, which is partially matched by the Company. Effective January 1, 2012, matching contributions for the U.S. defined contribution plan are 100% on the first 6% of pay contributed. The expense related to matching contributions was approximately \$2 million and \$3 million for the three-month periods ended June 30, 2013 and 2012, respectively. The expense related to matching contributions was approximately \$6 million and \$8 million for the six-month periods ended June 30, 2013 and 2012, respectively.

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Defined Benefit Plans

Net periodic benefit costs for the three-month periods ended June 30, 2013 and 2012 were as follows:

	U.S. Plans		Non-U.S. Plans	
	2013	2012	2013	2012
	(Dollars in Millions)			
Service cost	\$—	\$—	\$6	\$5
Interest cost	12	18	7	7
Expected return on plan assets	(15	) (20	) (5	) (5
Net pension (benefit) expense	\$ (3	) \$ (2	) \$ 8	\$ 7

Net periodic benefit costs for the six-month periods ended June 30, 2013 and 2012 were as follows:

	U.S. Plans		Non-U.S. Plans	
	2013	2012	2013	2012
	(Dollars in Millions)			
Service cost	\$—	\$—	\$12	\$9
Interest cost	24	35	14	14
Expected return on plan assets	(31	) (39	) (10	) (9
Amortization of actuarial losses	—	—	1	—
Net pension (benefit) expense	\$ (7	) \$ (4	) \$ 17	\$ 14

During the six-month period ended June 30, 2013, cash contributions to the Company's U.S. and non-U.S. retirement plans were \$2 million and \$5 million, respectively. The Company anticipates additional 2013 cash contributions to its U.S. and non-U.S. retirement plans of \$1 million and \$25 million, respectively. The Company's expected 2013 contributions may be revised.

NOTE 9. Income Taxes

During the three and six-month periods ended June 30, 2013 the Company recorded provision for income taxes of \$39 million and \$21 million, respectively. The Company's provision for income taxes includes income tax expense in countries where the Company is profitable, withholding taxes, changes in uncertain tax benefits, and the inability to record a tax benefit for pre-tax losses in the U.S. and certain other jurisdictions to the extent not offset by other categories of income. Pre-tax losses in jurisdictions where valuation allowances are maintained and no income tax benefits are recognized totaled \$36 million and \$68 million, respectively, for the three-month periods ended June 30, 2013 and 2012. The Company provides for U.S. and non-U.S. income taxes and non-U.S. withholding taxes on the projected future repatriations of the earnings from its non-U.S. operations at each tier of the legal entity structure. During both the three-month periods ended June 30, 2013 and 2012, the Company recognized expense of \$6 million, reflecting the Company's forecasts which contemplate numerous financial and operational considerations that impact future repatriations.

The Company's provision for income taxes in interim periods is computed by applying an estimated annual effective tax rate against income before income taxes, excluding equity in net income of non-consolidated affiliates for the period. Effective tax rates vary from period to period as separate calculations are performed for those countries where the Company's operations are profitable and whose results continue to be tax-effected and for those countries where full deferred tax valuation allowances exist and are maintained. The Company is also required to record the tax impact of certain other non-recurring tax items, including changes in judgments about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur.

The need to maintain valuation allowances against deferred tax assets in the U.S. and other affected countries will continue to cause variability in the Company's quarterly and annual effective tax rates. Full valuation allowances against deferred tax assets in the U.S. and applicable foreign countries will be maintained until sufficient positive evidence exists to reduce or eliminate them. In this regard, it is reasonably possible that existing valuation allowances on approximately \$11 million of deferred tax assets related to unutilized Korean foreign tax credit carryforwards could be eliminated during 2013 as the Company continues to monitor whether certain tax planning strategies that would require further corporate restructuring is ultimately prudent and feasible.

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The amount of income tax expense or benefit allocated to continuing operations is generally determined without regard to the tax effects of other categories of income or loss, such as other comprehensive income. However, an exception to the general rule is provided when there is a pre-tax loss from continuing operations and net pre-tax income from other categories in the current year. In such instances, net pre-tax income from other categories must offset the current loss from operations, the tax benefit of such offset being reflected in continuing operations even when a valuation allowance has been established against the deferred tax assets. In instances where a valuation allowance is established against current year operating losses, net pre-tax income from other sources, including other comprehensive income, is considered when determining whether sufficient future taxable income exists to realize the deferred tax assets.

Unrecognized Tax Benefits

The Company operates in multiple jurisdictions throughout the world and the income tax returns of its subsidiaries in various tax jurisdictions are subject to periodic examination by respective tax authorities. The Company regularly assesses the status of these examinations and the potential for adverse and/or favorable outcomes to determine the adequacy of its provision for income taxes. The Company believes that it has adequately provided for tax adjustments that it believes are more likely than not to be realized as a result of any ongoing or future examination. Accounting estimates associated with uncertain tax positions require the Company to make judgments regarding the sustainability of each uncertain tax position based on its technical merits. If the Company determines it is more likely than not a tax position will be sustained based on its technical merits, the Company records the largest amount that is greater than 50% likely of being realized upon ultimate settlement. These estimates are updated at each reporting date based on the facts, circumstances and information available. Due to the complexity of these uncertainties, the ultimate resolution may result in a payment that is materially different from the Company's current estimate of the liabilities recorded.

Gross unrecognized tax benefits were \$80 million at June 30, 2013 and \$117 million at December 31, 2012, of which approximately \$30 million and \$71 million, respectively, represent the amount of unrecognized benefits that, if recognized, would impact the effective tax rate. The gross unrecognized tax benefit differs from that which would impact the effective tax rate due to uncertain tax positions embedded in other deferred tax attributes carrying a full valuation allowance. Since the uncertainty is expected to be resolved while a full valuation allowance is maintained, these uncertain tax positions should not impact the effective tax rate in current or future periods. The Company records interest and penalties related to uncertain tax positions as a component of income tax expense and related amounts accrued at June 30, 2013 and December 31, 2012 were \$21 million and \$36 million, respectively.

During the second quarter of 2013, the IRS commenced the audit of the Company's U.S. tax returns for the 2010 and 2011 tax years. At this early stage in the audit, the Company is not aware of any proposed income tax adjustments that would have a material impact on the Company's effective tax rate due to the valuation allowances maintained against the Company's U.S. tax attributes. During the first quarter of 2013, the tax authorities in Spain completed an income tax examination related to the tax years 2006 through 2009 and the Company reached an agreement regarding its transfer pricing methodology resulting in a cash settlement of \$2 million. During the second quarter of 2013, the Company paid \$2 million to settle other tax matters (primarily in Mexico). Other decreases in the Company's gross unrecognized tax benefits that impact the effective tax rate total approximately \$40 million and primarily relate to reevaluating prior year uncertain tax positions associated with the examination in Spain which further validated the transfer pricing methodologies to allocate income and expense among jurisdictions in Europe and the United States.

With few exceptions, the Company is no longer subject to U.S. federal tax examinations for years before 2008 or state and local, or non-U.S. income tax examinations for years before 2002. Although it is not possible to predict the timing of the resolution of all ongoing tax audits with accuracy, it is reasonably possible that certain tax proceedings in Asia (including Korea) could conclude within the next twelve months and result in a significant increase or decrease in the balance of gross unrecognized tax benefits. Given the number of years, jurisdictions and positions subject to

examination, the Company is unable to estimate the full range of possible adjustments to the balance of unrecognized tax benefits. A reconciliation of unrecognized tax benefits is as follows:

	Six Months Ended June 30, 2013 (Dollars in Millions)	
Beginning balance	\$117	
Additions to tax positions related to current period	5	
Additions to tax positions related to prior periods	4	
Reductions to tax positions related to prior periods	(40))
Settlements with tax authorities	(4))
Lapses in statute of limitations	(2))
Ending balance	\$80	

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During 2012 Korean tax authorities commenced a review of the Company's Korean affiliates (including Halla) for tax years 2007 through 2012 and issued formal notice of assessments, including penalties, of approximately \$25 million for alleged underpayment of withholding tax on dividends paid and other items, including certain management service fees charged by Visteon. During the six months ended June 30, 2013, the Company's Korean affiliates have paid approximately \$22 million to the Korean tax authorities, as required under Korean tax regulations, to pursue the appeals process. The Company believes that it is more likely than not that it will receive a favorable ruling when all of the available appeals have been exhausted. These appeal payments and contingent income tax refund claims associated with other jurisdictions total \$30 million as of June 30, 2013 and are included in Other non-current assets on the consolidated balance sheet.

NOTE 10. Stockholders' Equity and Non-controlling Interests

Changes in Visteon equity including non-controlling interests ("NCI") for the three and six-months ended June 30, 2013 and 2012 are as follows.

	2013			2012		
	Visteon	NCI	Total	Visteon	NCI	Total
	(Dollars in Millions)					
Three Months Ended June 30:						
Stockholders' equity beginning balance	\$ 1,306	\$ 733	\$ 2,039	\$ 1,398	\$ 693	\$ 2,091
Income from continuing operations	65	21	86	76	9	85
Loss from discontinued operations	—	—	—	(1)	—	(1)
Net income	65	21	86	75	9	84
Other comprehensive loss						
Foreign currency translation adjustments	(23)	(10)	(33)	(47)	(9)	(56)
Benefit plans	1	2	3	(3)	—	(3)
Unrealized hedging (loss) gains	(5)	(1)	(6)	4	2	6
Total other comprehensive loss	(27)	(9)	(36)	(46)	(7)	(53)
Stock-based compensation, net	5	—	5	6	—	6
Warrant exercises	3	—	3	—	—	—
Stockholders' equity ending balance	\$ 1,352	\$ 745	\$ 2,097	\$ 1,433	\$ 695	\$ 2,128
Six Months Ended June 30:						
Stockholders' equity beginning balance	\$ 1,385	\$ 756	\$ 2,141	\$ 1,307	\$ 690	\$ 1,997
Income from continuing operations	134	36	170	44	27	71
Income from discontinued operations	—	—	—	2	—	2
Net income	134	36	170	46	27	73
Other comprehensive loss						
Foreign currency translation adjustments	(54)	(20)	(74)	(19)	(3)	(22)
Benefit plans	10	—	10	(1)	—	(1)
Unrealized hedging (loss) gains	(11)	(5)	(16)	14	3	17
Total other comprehensive loss	(55)	(25)	(80)	(6)	—	(6)
Stock-based compensation, net	10	—	10	13	—	13
Warrant exercises	3	—	3	—	—	—
Common stock contribution to U.S. pension plans	—	—	—	73	—	73
Share repurchase	(125)	—	(125)	—	—	—
Dividends to non-controlling interests	—	(22)	(22)	—	(22)	(22)
Stockholders' equity ending balance	\$ 1,352	\$ 745	\$ 2,097	\$ 1,433	\$ 695	\$ 2,128

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Non-controlling interests in the Visteon Corporation economic entity are comprised of the following:

	June 30 2013	December 31 2012
	(Dollars in Millions)	
Halla Visteon Climate Control Corporation	\$711	\$723
Visteon Interiors Korea Ltd	19	20
Other	15	13
Total non-controlling interests	\$745	\$756

During the first half of 2013, Halla purchased certain subsidiaries and intellectual property relating to Visteon's global climate business for a total purchase price of \$410 million. In connection with the transaction, Visteon is providing transition services and leases certain U.S. based employees to HVCC. The transfer of Visteon's Climate operations to HVCC qualifies as a common control transaction. Accordingly, the assets and liabilities were transferred at their respective carrying value and no gain or loss was recorded by the Company.

Accumulated Other Comprehensive Income (Loss)

Changes in Accumulated other comprehensive income (loss) ("AOCI") and reclassifications out of AOCI by component includes:

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in Millions)			
Changes in AOCI:				
Beginning balance	\$(118)	\$15	\$(90)	\$(25)
Other comprehensive loss before reclassification, net of tax	(25)	(46)	(56)	(6)
Amounts reclassified from AOCI	(2)	—	1	—
Ending balance	\$(145)	\$(31)	\$(145)	\$(31)
Changes in AOCI by component:				
Foreign currency translation adjustments				
Beginning balance	\$(20)	\$(13)	\$11	\$(41)
Other comprehensive loss before reclassification, net of tax (a)	(22)	(47)	(52)	(19)
Amounts reclassified from AOCI (b)	(1)	—	(2)	—
Ending balance	(43)	(60)	(43)	(60)
Benefit plans				
Beginning balance	(99)	27	(108)	25
Other comprehensive income (loss) before reclassification, net of tax (c)	1	(3)	11	(1)
Amounts reclassified from AOCI (d)	—	—	(1)	—
Ending balance	(98)	24	(98)	24
Unrealized hedging gains (loss)				
Beginning balance	1	1	7	(9)
Other comprehensive (loss) income before reclassification, net of tax (e)	(4)	4	(15)	14
Amounts reclassified from AOCI (f)	(1)	—	4	—
Ending balance	(4)	5	(4)	5
AOCI ending balance	\$(145)	\$(31)	\$(145)	\$(31)

- (a) Tax benefit of \$2 million is related to foreign currency translation adjustments for the three months ended June 30, 2012.
- (b) Amount included in Other expense in Consolidated Statement of Comprehensive Income.
- (c) Tax expenses of \$1 million and \$3 million are related to benefit plans for the three and six month periods ended June 30, 2013, respectively.
- (d) Amount included in the computation of net periodic pension cost. (See Note 8 Employee retirement benefits for additional details.)
- (e) Tax benefit of \$2 million and tax expense of \$3 million are related to unrealized hedging gains (loss) for the three months ended June 30, 2013 and 2012, respectively.
- (f) Amount is included in Cost of sales in Consolidated Statement of Comprehensive Income.

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Share Repurchase Program

In July 2012, the board of directors authorized the repurchase of up to \$100 million of the Company's common stock. In January 2013, the board of directors reauthorized the current \$100 million and increased the repurchase amount an additional \$200 million, bringing the total share repurchase authorization to \$300 million. On March 5, 2013, the Company entered into an accelerated share repurchase program with a third-party financial institution to purchase shares of common stock for an aggregate purchase price of \$125 million. Under the program, the Company paid the financial institution \$125 million and received an initial delivery of 1,713,502 shares of common stock. The value of those shares on the date of delivery was \$100 million at \$58.36 per share and is included in common stock held in treasury. On April 17, 2013, the program concluded and the Company received an additional 495,576 shares. The final settlement was based on a negotiated discount to the volume weighted average price of the Company's common stock over the term of the share repurchase program agreement. As of June 30, 2013, \$125 million remains authorized for repurchase over the next two years.

NOTE 11. Earnings (Loss) Per Share

The Company uses the two-class method in computing basic and diluted earnings per share. Basic earnings per share is calculated by dividing net income attributable to Visteon, after deducting undistributed income allocated to participating securities, by the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common and potential dilutive common shares outstanding after deducting undistributed income allocated to participating securities. Performance based share units are considered contingently issuable shares, and are included in the computation of diluted earnings per share based on the number of shares that would be issuable if the reporting date were the end of the contingency period and if the result would be dilutive.

The table below provides details underlying the calculations of basic and diluted earnings (loss) per share.

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in Millions, Except Per Share Amounts)			
Numerator:				
Income from continuing operations	\$65	\$76	\$134	\$44
(Loss) income from discontinued operations	—	(1	) —	2
Net income attributable to Visteon	\$65	\$75	\$134	\$46
Denominator:				
Average common stock outstanding	50.0	53.3	50.8	53.1
Dilutive effect of warrants and Performance Stock Units	0.5	0.4	0.5	0.4
Diluted shares	50.5	53.7	51.3	53.5
Basic and Diluted Earnings (Loss) Per Share Data:				
Basic earnings (loss) per share				
Continuing operations	\$1.30	\$1.43	\$2.64	\$0.83
Discontinued operations	—	(0.02	) —	0.04
Basic earnings per share attributable to Visteon	\$1.30	\$1.41	\$2.64	\$0.87
Diluted earnings (loss) per share				
Continuing operations	\$1.29	\$1.42	\$2.61	\$0.82
Discontinued operations	—	(0.02) —	0.04
Diluted earnings per share attributable to Visteon	\$1.29	\$1.40	\$2.61	\$0.86

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The effect of certain common stock equivalents including warrants and stock options was excluded from the computation of weighted average diluted shares outstanding as inclusion of such items would be anti-dilutive. A summary of common stock equivalents excluded from the computation of weighted average diluted shares outstanding is as follows.

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(In Millions, Except Per Share Amounts)		(In Millions, Except Per Share Amounts)	
Stock Warrants:				
Number of stock warrants	—	1.5	1.5	1.5
Exercise price	\$—	\$58.80	\$58.80	\$58.80
Stock Options:				
Number of stock options	0.3	0.5	0.3	0.5
Exercise price	\$44.55 - \$74.08	\$44.55 - \$74.08	\$44.55 - \$74.08	\$44.55 - \$74.08

NOTE 12. Fair Value Measurements and Financial Instruments

Financial assets and liabilities are categorized, based on the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to the quoted prices in active markets for identical assets and liabilities and lowest priority to unobservable inputs.

- Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the Company has the ability to access.
- Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability.
- Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The fair value of the Company's debt was approximately \$819 million at June 30, 2013 and \$600 million at December 31, 2012. Fair value estimates were based on quoted market prices or current rates for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities. Accordingly, the Company's debt is classified as Level 1, "Market Prices" and Level 2, "Other Observable Inputs" in the fair value hierarchy, respectively.

Financial Instruments

The Company's net cash inflows and outflows exposed to the risk of changes in foreign currency exchange rates arise from the sale of products in countries other than the manufacturing source, foreign currency denominated supplier payments, debt and other payables, subsidiary dividends and investments in subsidiaries. Where possible, the Company utilizes derivative financial instruments, including forward and option contracts, to protect the Company's cash flow from changes in exchange rates. Foreign currency exposures are reviewed monthly and natural offsets are considered prior to entering into a derivative financial instrument.

The Company's primary foreign currency exposures include the Euro, Korean Won, Czech Koruna, Hungarian Forint, Indian Rupee and Mexican Peso. Where possible, the Company utilizes a strategy of partial coverage for transactions in these currencies. As of June 30, 2013 and December 31, 2012, the Company had forward contracts to hedge changes in foreign currency exchange rates with notional amounts of approximately \$502 million and \$554 million, respectively. Fair value estimates of these contracts are based on quoted market prices. A portion of these instruments has been designated as cash flow hedges with the effective portion of the gain or loss reported in the Accumulated other comprehensive income (loss) component of Stockholders' equity in the Company's consolidated balance sheets

and the ineffective portion recorded as Cost of sales in the Company's consolidated statements of comprehensive income.

Foreign currency hedge instruments are measured at fair value on a recurring basis under an income approach using industry-standard models that consider various assumptions, including time value, volatility factors, current market and contractual prices for the underlying and non-performance risk. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Accordingly, the Company's foreign currency instruments are classified as Level 2, "Other Observable Inputs" in the fair value hierarchy.

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Financial Statement Presentation

The Company presents its derivative positions and any related material collateral under master netting agreements on a net basis. Derivative financial instruments designated and non-designated as hedging instruments are as follows:

Assets			Liabilities			
Classification	June 30 2013 (Dollars in Millions)	December 31 2012	Classification	June 30 2013 (Dollars in Millions)	December 31 2012	
Designated:			Designated:			
Other current assets	\$1	\$16	Other current assets	\$—	\$1	
Other current liabilities	1	1	Other current liabilities	9	1	
Non-designated:			Non-designated:			
Other current assets	1	6	Other current assets	—	—	
Other current liabilities	—	—	Other current liabilities	4	—	
	\$3	\$23		\$13	\$2	
			Gross Amounts offset in the Statement of Financial Position		Net Amounts Presented in the Statement of Financial Position	
			June 30 2013 (Dollars in Millions)	December 31 2012	June 30 2013	December 31 2012
Foreign currency derivatives						
Assets:						
Designated	\$1	\$17	\$—	\$1	\$1	\$16
Non-designated	1	6	—	—	1	6
	\$2	\$23	\$—	\$1	\$2	\$22
Liabilities:						
Designated	\$9	1	\$1	\$—	\$8	\$1
Non-designated	4	—	—	—	4	—
	\$13	\$1	\$1	\$—	\$12	\$1

Gains and loss associated with derivative financial instruments recorded in Cost of sales for the three and six-month periods ended June 30, 2013 and 2012 are presented in the table below.

	Recorded in AOCI, net of tax		Reclassified from AOCI into Income		Recorded in Income	
	2013	2012	2013	2012	2013	2012
	(Dollars in Millions)					
Three Months Ended June 30:						
Cash flow hedges	\$(5)	\$4	\$(1)	\$—	\$—	\$—
	\$(5)	\$4	\$(1)	\$—	\$—	\$—
Six Months Ended June 30:						
Cash flow hedges	\$(11)	\$14	\$4	\$—	\$—	\$—
Non-designated cash flow hedges	—	—	—	—	1	(1)
	\$(11)	\$14	\$4	\$—	\$1	\$(1)

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Concentrations of Credit Risk

Financial instruments, including cash equivalents, marketable securities, derivative contracts and accounts receivable, expose the Company to counterparty credit risk for non-performance. The Company's counterparties for cash equivalents, marketable securities and derivative contracts are banks and financial institutions that meet the Company's requirement of high credit standing. The Company's counterparties for derivative contracts are with investment and commercial banks with significant experience using such derivatives and is assessed on a net basis. The Company manages its credit risk through policies requiring minimum credit standing and limiting credit exposure to any one counterparty and through monitoring counterparty credit risks. The Company's concentration of credit risk related to derivative contracts at June 30, 2013 and December 31, 2012 is not significant. With the exception of the customers below, the Company's credit risk with any individual customer does not exceed ten percent of total accounts receivable at June 30, 2013 and December 31, 2012, respectively.

	June 30 2013	December 31 2012
Ford and affiliates	26%	19%
Hyundai Mobis Company	14%	16%
Hyundai Motor Company	9%	10%

Management periodically performs credit evaluations of its customers and generally does not require collateral.

NOTE 13. Commitments and Contingencies

Guarantees and Commitments

The Company has guaranteed approximately \$47 million of subsidiary lease payments under various arrangements generally spanning between one to ten years in duration, and \$5 million for affiliate credit lines and other credit support agreements. In connection with a 2009 agreement with the Pension Benefit Guarantee Corporation ("PBGC"), the Company previously agreed to provide a guarantee of contingent pension obligations of up to \$30 million. The guarantee expired on June 30, 2013.

Litigation and Claims

On March 29, 2012, the Korean Supreme Court ruled that fixed bonuses should be included for purposes of calculating the ordinary wage of applicable employees, which was contrary to previous legal precedent and the position of the Korean Ministry of Employment and Labor. The Company is evaluating the potential financial impact of this new court ruling, and is not able to determine at this time whether it will have a material impact on the results of operations and cash flows of its South Korean subsidiaries. In addition, on May 24, 2013, Halla Visteon Climate Control Union in Korea, representing 891 hourly employees of Halla Visteon Climate Control Corp., filed a legal petition with Seoul Southern District Court, claiming unpaid statutory benefits for the past three years based on the recent Supreme Court ruling. The Company is in the process of evaluating these claims but at this time is not able to estimate the possible loss or range of loss in connection with this matter.

In February 2013, three putative class action complaints were filed in the Superior Courts of Justice in Ontario against the Company and several other global suppliers of automotive instrument panel clusters, heater control panels and electronic control units alleging violations of Canadian laws related to competition. Plaintiffs purport to be direct and indirect purchasers of automotive instrument panel clusters, heater control panels and electronic control units supplied by the Company and/or the other defendants during the relevant period. The complaints allege, among other things, that the defendants conspired to fix prices and allocate the market and customers for instrument panel clusters, heater control panels and/or electronic control units in North America resulting in plaintiffs paying supra-competitive prices for instrument panel clusters, heater control panels and electronic control units or vehicles containing instrument panel

clusters, heater control panels and electronic control units. The plaintiffs in these proceedings seek injunctive relief and recovery of an unspecified amount of damages, as well as investigative costs and costs relating to the proceedings. On June 18, 2013, the court ordered these proceedings discontinued as against the Company, on a without costs and without prejudice basis.

The Company's operations in Brazil are subject to highly complex labor, tax, customs and other laws. While the Company believes that it is in compliance with such laws, it is periodically engaged in litigation regarding the application of these laws. As of June 30, 2013, the Company maintained accruals of approximately \$6 million for claims aggregating approximately \$149 million. The amounts accrued represent claims that are deemed probable of loss and are reasonably estimable based on the Company's assessment of the claims and prior experience with similar matters.

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Several current and former employees of Visteon Deutschland GmbH (“Visteon Germany”) filed civil actions against Visteon Germany in various German courts beginning in August 2007 seeking damages for the alleged violation of German pension laws that prohibit the use of pension benefit formulas that differ for salaried and hourly employees without adequate justification. Several of these actions have been joined as pilot cases. In a written decision issued in April 2010, the Federal Labor Court issued a declaratory judgment in favor of the plaintiffs in the pilot cases. To date, more than 750 current and former employees have filed similar actions or have inquired as to or been granted additional benefits, and an additional 600 current and former employees are similarly situated. The Company's remaining reserve for unsettled cases is approximately \$8 million and is based on the Company's best estimate as to the number and value of the claims that will be made in connection with the pension plan. However, the Company's estimate is subject to many uncertainties which could result in Visteon Germany incurring amounts in excess of the reserved amount of up to approximately \$7 million.

On May 28, 2009, the Company filed voluntary petitions in the Court seeking reorganization relief under the provisions of chapter 11 of the Bankruptcy Code and continued to operate as debtors-in-possession until emergence on October 1, 2010. Substantially all pre-petition liabilities and claims relating to rejected executory contracts and unexpired leases have been settled under the plan of reorganization, however, the ultimate amounts to be paid in settlement of each those claims will continue to be subject to the uncertain outcome of litigation, negotiations and Bankruptcy Court decisions for a period of time after the emergence date.

In December of 2009, the Court granted the Debtors' motion in part authorizing them to terminate or amend certain other postretirement employee benefits, including health care and life insurance. On December 29, 2009, the IUE-CWA, the Industrial Division of the Communications Workers of America, AFL-CIO, CLC, filed a notice of appeal of the Court's order with the District Court. By order dated March 31, 2010, the District Court affirmed the Court's order in all respects. On April 1, 2010, the IUE filed a notice of appeal. On July 13, 2010, the Circuit Court reversed the order of the District Court as to the IUE-CWA and directed the District Court to, among other things, direct the Court to order the Company to take whatever action is necessary to immediately restore terminated or modified benefits to their pre-termination/modification levels. On July 27, 2010, the Company filed a Petition for Rehearing or Rehearing En Banc requesting that the Circuit Court review the panel's decision, which was denied. By orders dated August 30, 2010, the Court ruled that the Company should restore certain other postretirement employee benefits to the appellant-retirees and also to salaried retirees and certain retirees of the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (“UAW”). On September 1, 2010, the Company filed a Notice of Appeal to the District Court of the Court's decision to include non-appealing retirees, and on September 15, 2010 the UAW filed a Notice of Cross-Appeal. The appeals process includes mandatory mediation of the dispute. The Company subsequently reached an agreement with the original appellants in late-September 2010, which resulted in the Company not restoring other postretirement employee benefits of such retirees. On September 30, 2010, the UAW filed a complaint, which it amended on October 1, 2010, in the United States District Court for the Eastern District of Michigan seeking, among other things, a declaratory judgment to prohibit the Company from terminating certain other postretirement employee benefits for UAW retirees after the Effective Date. The Company has filed a motion to dismiss the UAW's complaint and a motion to transfer the case to the District of Delaware, which motions are pending. As of January 11, 2013, the parties agreed to a settlement term sheet. The parties are currently working towards a final settlement agreement and preliminary approval of the settlement by the court. As of June 30, 2013, the Company maintains an accrual for claims that are deemed probable of loss and are reasonably estimable based on the pending settlement.

Environmental Matters

The Company is subject to the requirements of federal, state, local and foreign environmental and occupational safety and health laws and regulations and ordinances. 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. The Company is aware of contamination at some of its properties. These sites are in various stages of investigation and cleanup. The Company currently is, has been, and in the future may become the subject of formal or informal enforcement actions or procedures.

Costs related to environmental assessments and remediation efforts at operating facilities, previously owned or operated facilities, or other waste site locations are accrued when it is probable that a liability has been incurred and the amount of that liability can be reasonably estimated. Estimated costs are recorded at undiscounted amounts, based on experience and assessments, and are regularly evaluated. The liabilities are recorded in Other current liabilities and Other non-current liabilities in the consolidated balance sheets. At June 30, 2013, the Company had recorded a reserve of approximately \$1 million for environmental matters. 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.

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Product Warranty and Recall

Amounts accrued for product warranty and recall claims are based on management's best estimates of the amounts that will ultimately be required to settle such items. The Company's estimates are developed with support from its sales, engineering, quality and legal functions and include due consideration of contractual arrangements, past experience, current claims and related information, production changes, industry and regulatory developments and various other considerations. The Company can provide no assurances that it will not experience material claims in the future or that it will not incur significant costs to defend or settle such claims beyond the amounts accrued or beyond what the Company may recover from its suppliers. The components of changes in the Company's accruals for warranty and recall claims for the six months ended June 30, 2013 and 2012 are provided below.

	Six Months Ended June 30	
	2013	2012
	(Dollars in Millions)	
Beginning balance	\$57	\$66
Accruals for products shipped	8	9
Currency	(2	) (1
Changes in estimates	(3	) (1
Settlements	(8	) (9
Ending balance	\$52	\$64

Other Contingent Matters

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. The Company enters into agreements that contain indemnification provisions in the normal course of business for which the risks are considered nominal and impracticable to estimate.

Contingencies are 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 June 30, 2013 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.

NOTE 14. Segment Information

Segments are defined as components of an enterprise for which discrete financial information is available that is evaluated regularly by the chief operating decision-maker, or a decision-making group, in deciding the allocation of resources and in assessing performance. The Company's Chief Operating Decision Making Group ("CODM Group"), comprised of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluates the performance of the Company's segments primarily based on net sales, before elimination of inter-company shipments, Adjusted EBITDA (non-GAAP financial measure) and operating assets. The Company defines Adjusted EBITDA as net income attributable to the Company, plus net interest expense, provision for income taxes and depreciation and amortization,

as further adjusted to eliminate the impact of asset impairments, gains or losses on divestitures, discontinued operations, net restructuring expenses and other reimbursable costs, stock-based compensation expense, certain employee charges and benefits, reorganization items and other non-operating gains and losses. Operating assets include inventories and property and equipment utilized in the manufacture of the segments' products.

The Company's operating structure is organized by global product lines, including: Climate, Electronics and Interiors. These global product lines have financial and operating responsibility over the design, development and manufacture of the Company's product

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portfolio. Global customer groups are responsible for the business development of the Company's product portfolio and overall customer relationships. Certain functions such as procurement, information technology and other administrative activities are managed on a global basis with regional deployment.

The Company's reportable segments are as follows:

Climate — The Company's Climate product line includes climate air handling modules, powertrain cooling modules, heat exchangers, compressors, fluid transport and engine induction systems.

Electronics — The Company's Electronics product line includes audio systems, infotainment systems, driver information systems, powertrain and feature control modules, climate controls, and electronic control modules.

Interiors — The Company's Interiors product line includes instrument panels, cockpit modules, door trim and floor consoles.

Segment Sales

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in Millions)			
Climate	\$1,247	\$1,065	\$2,475	\$2,088
Electronics	354	304	719	633
Interiors	334	352	651	745
Eliminations	(43	) (28	) (97	) (56
Total consolidated	\$1,892	\$1,693	\$3,748	\$3,410

Segment Adjusted EBITDA

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in Millions)			
Climate	\$119	\$86	\$232	\$170
Electronics	35	30	65	58
Interiors	47	39	80	80
Total Segment Adjusted EBITDA	\$201	\$155	\$377	\$308
Reconciling Item:				
Corporate	(14	) (8	) (20	) (18
Total Adjusted EBITDA	\$187	\$147	\$357	\$290

During the first quarter of 2013 the Company changed its corporate cost allocation methodology for management reporting purposes. Accordingly, certain costs associated with the Company's corporate headquarters and other administrative support functions not allocated to the Company's operating segments and subject to the Company's previously announced corporate and administrative restructuring program have been separately reported for all periods presented as Corporate reconciling items.

Adjusted EBITDA is presented as a supplemental measure of the Company's performance that management believes is useful to investors because the excluded items may vary significantly in timing or amounts and/or may obscure trends useful in evaluating and comparing the Company's operating activities across reporting periods. Not all companies use identical calculations and, accordingly, the Company's presentation of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies. Adjusted EBITDA is not a recognized term under accounting principles generally accepted in the United States ("U.S. GAAP") and does not purport to be a substitute for net income as an indicator of operating performance or cash flows from operating activities as a measure of liquidity. Adjusted EBITDA has limitations as an analytical tool and is not intended to be a measure of cash flow

available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. In addition, the Company uses Adjusted EBITDA (i) as a factor in incentive compensation decisions, (ii) to evaluate the effectiveness of the Company's business strategies, and (iii) the Company's credit agreements use measures similar to Adjusted EBITDA to measure compliance with certain debt covenants.

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A reconciliation of Adjusted EBITDA to net income (loss) attributable to Visteon is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in Millions)			
Total Adjusted EBITDA	\$187	\$147	\$357	\$290
Interest expense, net	9	6	19	15
Provision for income taxes	39	42	21	69
Depreciation and amortization	65	67	132	131
Restructuring and other expense	2	11	38	74
Equity investment gain	—	(63	) —	(63
Stock-based compensation expense	4	6	10	13
Other	3	3	3	5
Net income (loss) attributable to Visteon	\$65	\$75	\$134	\$46

Segment Operating Assets

	Inventories, Net		Property and Equipment, Net	
	June 30	December 31	June 30	December 31
	2013	2012	2013	2012
	(Dollars in Millions)			
Climate	\$311	\$276	\$974	\$974
Electronics	63	67	98	119
Interiors	41	42	169	178
Total Segment Operating Assets	415	385	1,241	1,271
Reconciling Item:				
Corporate	—	—	33	55
Total consolidated	\$415	\$385	\$1,274	\$1,326

Corporate reconciling item includes property and equipment associated with the Company's corporate headquarters and other administrative support functions.

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NOTE 15. Condensed Consolidating Financial Information of Guarantor Subsidiaries

On April 6, 2011, the Company completed the sale of \$500 million aggregate principal amount of 6.75% senior notes due April 15, 2019 (the "Original Senior Notes"). In January 2012, the Company exchanged substantially identical senior notes (the "Senior Notes") that have been registered under Securities Act of 1933, as amended, for all of the Original Senior Notes. The Senior Notes were issued under an Indenture (the "Indenture"), among the Company, the subsidiary guarantors named therein, and The Bank of New York Mellon Trust Company, N.A., as trustee. The Indenture and the form of Senior Notes provide, among other things, that the Senior Notes be senior unsecured obligations of the Company. Interest is payable on the Senior Notes on April 15 and October 15 of each year beginning on October 15, 2011 until maturity. Each of the Company's existing and future wholly owned domestic restricted subsidiaries that guarantee debt under the Company's revolving loan credit agreement guarantee the Senior Notes.

Guarantor Financial Statements

Certain subsidiaries of the Company (as listed below, collectively the "Guarantor Subsidiaries") have guaranteed fully and unconditionally, on a joint and several basis, the obligation to pay principal and interest under the Company's revolving loan credit agreement and the Senior Notes. The Guarantor Subsidiaries include: Visteon Electronics Corporation; Visteon European Holdings, Inc.; Visteon Global Treasury, Inc.; Visteon International Business Development, Inc.; Visteon International Holdings, Inc.; Visteon Global Technologies, Inc.; Visteon Systems, LLC; and VC Aviation Services, LLC.

The guarantor financial statements are comprised of the following condensed consolidating financial information:

- The Parent Company, the issuer of the guaranteed obligations;
 - Guarantor subsidiaries, on a combined basis, as specified in the Indenture related to the Senior Notes;
 - Non-guarantor subsidiaries, on a combined basis;
- Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions between or among the Parent Company, the guarantor subsidiaries and the non-guarantor subsidiaries, (b) eliminate the investments in subsidiaries, and (c) record consolidating entries.

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VISTEON CORPORATION
CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
Three Months Ended June 30, 2013

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in Millions)				
Sales	\$34	\$291	\$ 1,731	\$(164)	\$1,892
Cost of sales	72	227	1,572	(164)	1,707
Gross margin	(38)	64	159	—	185
Selling, general and administrative expenses	20	12	59	—	91
Equity in net income of non-consolidated affiliates	—	—	42	—	42
Interest expense (income), net	9	(1)	1	—	9
Restructuring and other expenses (income)	4	—	(2)	—	2
(Loss) income from continuing operations before income taxes and earnings of subsidiaries	(71)	53	143	—	125
Provision for income taxes	—	—	39	—	39
(Loss) income from continuing operations before earnings of subsidiaries	(71)	53	104	—	86
Equity in earnings of consolidated subsidiaries	136	86	—	(222)	—
Net income	65	139	104	(222)	86
Net income attributable to non-controlling interests	—	—	21	—	21
Net income attributable to Visteon Corporation	\$65	\$139	\$ 83	\$(222)	\$65
Comprehensive income:					
Comprehensive income	\$38	\$112	\$ 68	\$(168)	\$50
Comprehensive income attributable to Visteon Corporation	\$38	\$112	\$ 56	\$(168)	\$38

Three Months Ended June 30, 2012

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in Millions)				
Sales	\$61	\$350	\$ 1,576	\$(294)	\$1,693
Cost of sales	119	291	1,449	(294)	1,565
Gross margin	(58)	59	127	—	128
Selling, general and administrative expenses	19	15	53	—	87
Equity in net income of non-consolidated affiliates	—	—	103	—	103
Interest expense (income), net	9	(1)	(2)	—	6
Restructuring and other expenses	8	—	3	—	11
(Loss) income from continuing operations before income taxes and earnings of subsidiaries	(94)	45	176	—	127
Provision for income taxes	1	—	41	—	42

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(Loss) income from continuing operations before earnings of subsidiaries	(95) 45	135	—	85	
Equity in earnings of consolidated subsidiaries	173	122	—	(295) —	
Income from continuing operations	78	167	135	(295	) 85
(Loss) income from discontinued operations, net of tax	(3) 15	(13) —	(1)
Net income	75	182	122	(295	) 84
Net income attributable to non-controlling interests	—	—	9	—	9	
Net income attributable to Visteon Corporation	\$75	\$182	\$113	\$(295	) \$75
Comprehensive loss:						
Comprehensive income	\$31	\$131	\$60	\$(191	) \$31
Comprehensive income attributable to Visteon Corporation	\$31	\$131	\$58	\$(191) \$29	

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Six Months Ended June 30, 2013

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in Millions)				
Sales	\$82	\$611	\$ 3,417	\$(362)	\$3,748
Cost of sales	168	490	3,113	(362)	3,409
Gross margin	(86)	121	304	—	339
Selling, general and administrative expenses	33	19	125	—	177
Equity in net income of non-consolidated affiliates	—	—	86	—	86
Interest expense (income), net	18	(1)	2	—	19
Restructuring and other expenses	24	—	14	—	38
(Loss) income from continuing operations before income taxes and earnings of subsidiaries	(161)	103	249	—	191
Provision for income taxes	1	—	20	—	21
(Loss) income from continuing operations before earnings of subsidiaries	(162)	103	229	—	170
Equity in earnings of consolidated subsidiaries	296	195	—	(491)	—
Net income	134	298	229	(491)	170
Net income attributable to non-controlling interests	—	—	36	—	36
Net income attributable to Visteon Corporation	\$ 134	\$ 298	\$ 193	\$(491)	\$ 134
Comprehensive income:					
Comprehensive income	\$ 79	\$ 248	\$ 155	\$(392)	\$ 90
Comprehensive income attributable to Visteon Corporation	\$ 79	\$ 248	\$ 144	\$(392)	\$ 79

Six Months Ended June 30, 2012

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in Millions)				
Sales	\$102	\$718	\$ 3,192	\$(602)	\$3,410
Cost of sales	219	591	2,940	(602)	3,148
Gross margin	(117)	127	252	—	262
Selling, general and administrative expenses	34	33	111	—	178
Equity in net income of non-consolidated affiliates	—	—	145	—	145
Interest expense (income), net	19	(2)	(2)	—	15
Restructuring and other expenses	16	—	58	—	74
(Loss) income from continuing operations before income taxes and earnings of subsidiaries	(186)	96	230	—	140
Provision for income taxes	1	—	68	—	69
(Loss) income from continuing operations before earnings of subsidiaries	(187)	96	162	—	71

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Equity in earnings of consolidated subsidiaries	245	119	—	(364) —
Income from continuing operations	58	215	162	(364) 71
(Loss) income from discontinued operations, net of tax	(12	) 38	(24	) —	2
Net income	46	253	138	(364	) 73
Net income attributable to non-controlling interests	—	—	27	—	27
Net income attributable to Visteon Corporation	\$46	\$253	\$ 111	\$(364	) \$46
Comprehensive loss:					
Comprehensive income	\$42	\$247	\$ 137	\$(359	) \$67
Comprehensive income attributable to Visteon Corporation	\$42	\$247	\$ 110	\$(359) \$40

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CONDENSED CONSOLIDATING BALANCE SHEETS

June 30, 2013

	Parent Company (Dollars in Millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and equivalents	\$462	\$24	\$ 497	\$—	\$983
Accounts receivable, net	288	776	1,268	(1,126)	) 1,206
Inventories	5	16	394	—	415
Other current assets	30	28	276	4	338
Total current assets	785	844	2,435	(1,122)	) 2,942
Property and equipment, net	14	19	1,241	—	1,274
Investment in affiliates	1,895	1,326	—	(3,221)) —
Equity in net assets of non-consolidated affiliates	—	—	790	—	790
Intangible assets, net	—	17	281	—	298
Other non-current assets	8	58	114	(62)	) 118
Total assets	\$2,702	\$2,264	\$ 4,861	\$(4,405)	) \$5,422
LIABILITIES AND EQUITY					
Short-term debt, including current portion of long-term debt	\$367	\$45	\$ 290	\$(573)	) \$129
Accounts payable	173	119	1,386	(504)	) 1,174
Other current liabilities	65	20	358	4	447
Total current liabilities	605	184	2,034	(1,073)	) 1,750
Long-term debt	450	45	284	(109)	) 670
Employee benefits	254	30	275	—	559
Other non-current liabilities	41	3	302	—	346
Stockholders' equity:					
Total Visteon Corporation stockholders' equity	1,352	2,002	1,141	(3,143)	) 1,352
Non-controlling interests	—	—	825	(80)	) 745
Total equity	1,352	2,002	1,966	(3,223)) 2,097
Total liabilities and equity	\$2,702	\$2,264	\$ 4,861	\$(4,405)) \$5,422

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	December 31, 2012				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in Millions)				
ASSETS					
Cash and equivalents	\$ 191	\$ 54	\$ 580	\$—	\$ 825
Accounts receivable, net	279	676	1,138	(931)	) 1,162
Inventories	15	23	347	—	385
Other current assets	24	32	235	—	291
Total current assets	509	785	2,300	(931)	) 2,663
Property and equipment, net	20	62	1,244	—	1,326
Investment in affiliates	2,024	1,587	—	(3,611)) —
Equity in net assets of non-consolidated affiliates	—	—	756	—	756
Intangible assets, net	86	45	201	—	332
Other non-current assets	14	—	70	(5)	) 79
Total assets	\$ 2,653	\$ 2,479	\$ 4,571	\$(4,547)	) \$ 5,156
LIABILITIES AND EQUITY					
Short-term debt, including current portion of long-term debt	\$ 266	\$ 24	\$ 225	\$(419)	) \$ 96
Accounts payable	172	159	1,204	(508)	) 1,027
Other current liabilities	76	27	326	—	429
Total current liabilities	514	210	1,755	(927)	) 1,552
Long-term debt	450	—	29	(6)	) 473
Employee benefits	258	34	279	—	571
Other non-current liabilities	46	7	366	—	419
Stockholders' equity:					
Total Visteon Corporation stockholders' equity	1,385	2,228	1,386	(3,614)	) 1,385
Non-controlling interests	—	—	756	—	756
Total equity	1,385	2,228	2,142	(3,614)) 2,141
Total liabilities and equity	\$ 2,653	\$ 2,479	\$ 4,571	\$(4,547)) \$ 5,156

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2013				
	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in Millions)				
Net cash (used by) provided from operating activities	\$(76)	\$6	\$228	\$—	\$158
Investing activities					
Capital expenditures	(1)	(2)	(111)	—	(114)
Dividends received from consolidated subsidiaries	472	437	—	(909)	—
Proceeds from business divestitures and asset sales	—	—	39	—	39
Net cash provided from (used by) investing activities	471	435	(72)	(909)	(75)
Financing activities					
Proceeds from issuance of debt, net of issuance costs	—	—	204	—	204
Short-term debt, net	—	—	43	—	43
Principal payments on debt	—	—	(5)	—	(5)
Payments to repurchase common stock	(125)	—	—	—	(125)
Dividends paid to consolidated subsidiaries	—	(471)	(438)	909	—
Dividends to non-controlling interests	—	—	(22)	—	(22)
Other	1	—	—	—	1
Net cash (used by) provided from financing activities	(124)	(471)	(218)	909	96
Effect of exchange rate changes on cash and equivalents	—	—	(21)	—	(21)
Net increase (decrease) in cash and equivalents	271	(30)	(83)	—	158
Cash and equivalents at beginning of period	191	54	580	—	825
Cash and equivalents at end of period	\$462	\$24	\$497	\$—	\$983
	Six Months Ended June 30, 2012				
	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in Millions)				
Net cash (used by) provided from operating activities	\$(30)	\$13	\$24	\$—	\$7
Investing activities					
Capital expenditures	(2)	(4)	(96)	—	(102)
Dividends received from consolidated subsidiaries	16	10	—	(26)	—
Proceeds from asset sales	79	—	1	—	80
Other	—	—	(2)	—	(2)
	93	6	(97)	(26)	(24)

Net cash provided from (used by) investing activities						
Financing activities						
Short term debt, net	—	—	4	—	4	
Proceeds from issuance of debt, net of issuance costs	—	—	2	—	2	
Principal payments on debt	(1) —	(3) —	(4)
Dividends paid to consolidated subsidiaries	—	(15	) (11	) 26	—
Dividends to non-controlling interests	—	—	(22) —	(22)
Net cash provided from (used by) financing activities	(1) (15) (30) 26	(20)
Effect of exchange rate changes on cash and equivalents	—	1	(6) —	(5)
Net (decrease) increase in cash and equivalents	62	5	(109) —	(42)
Cash and equivalents at beginning of period	114	55	554	—	723	
Cash and equivalents at end of period	\$176	\$60	\$445	\$—	\$681	

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ITEM 2. 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the Securities and Exchange Commission on February 28, 2013, as amended by the Company's amended Annual Report on Form 10-K/A filed with the Securities and Exchange Commission on June 28, 2013, and the financial statements and accompanying notes to the financial statements included elsewhere herein.

Executive Summary

Description of Business

Visteon is a global supplier of climate, electronics, and interiors systems, modules and components to automotive original equipment manufacturers ("OEMs") including BMW, Chrysler, Daimler, Ford, General Motors, Honda, Hyundai, Kia, Nissan, PSA Peugeot Citroën, Renault, Toyota and Volkswagen. The Company has a broad network of manufacturing operations, technical centers and joint venture operations throughout the world, supported by approximately 23,000 employees dedicated to the design, development, manufacture and support of its product offering and its global customers.

Financial Results Summary

Visteon recorded net sales of \$1,892 million for the second quarter of 2013, an increase of \$199 million from the same period in 2012. For the six months ended June 30, 2013, the Company recorded sales of \$3,748 million, an increase of \$338 million. Sales for the three and six months ended June 30, 2013 were impacted by higher production volumes for the Climate and Electronics product groups, partially offset by declines for the Interiors product group. Sales for the three and six months ended June 30, 2013 were also impacted by adverse customer pricing, partially offset by favorable foreign currency and design improvements. The Company's sales for the three and six month periods ended June 30, 2013 were distributed by product group, geographic region, and customer as follows:

Three Months Ended June 30, 2013

Six Months Ended June 30, 2013

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The Company's sales are significantly impacted by global light vehicle production volumes. A summary of global light vehicle production levels for the three and six month periods ended June 30, 2013 and 2012 are presented below by geographic region.

	Three Months Ended June 30			Six Months Ended June 30				
	2013	2012	Change	2013	2012	Change		
	(Units in Millions)							
Global	21.3	20.6	3.3	% 42.3	41.7	1.4	%	
North America	4.2	4.0	5.9	% 8.2	8.0	3.5	%	
South America	1.3	1.0	21.7	% 2.3	2.0	14.7	%	
Europe	5.1	5.0	1.0	% 9.9	10.3	(3.8))%	
China	5.1	4.6	10.9	% 10.3	9.2	12.3	%	
Japan/Korea	3.3	3.5	(7.0)	)% 6.6	7.4	(10.0))%	
India	0.9	0.9	(6.3)	)% 1.9	2.0	(6.2))%	
ASEAN	1.0	1.0	5.2	% 2.1	1.8	16.4	%	

Source: IHS Automotive

Gross margin for the three months ended June 30, 2013 was \$185 million or 9.8% of sales compared with \$128 million or 7.6% of sales for the three months ended June 30, 2012, representing a year-over-year increase of \$57 million. All of the Company's product groups contributed to the increase with Climate providing the most significant contribution of \$40 million. Climate and Electronics gross margin benefited from cost efficiencies and fixed cost leverage on higher sales volumes during the second quarter of 2013, while Interiors gross margin benefited from higher design and development cost recoveries.

The Company reported net income attributable to Visteon of \$65 million, or \$1.29 per diluted share during the three months ended June 30, 2013 representing a decrease of \$10 million compared to the same period of 2012. Net income for the three and six months ended June 30, 2012 included \$63 million of equity in net income of non-consolidated affiliates from a non-cash gain at Yanfeng Visteon Automotive Trim Systems Co. Ltd ("Yanfeng") related to the excess of fair value over carrying value of a former equity investee that was consolidated June 1, 2012 pursuant to changes in the underlying joint venture agreement. The Company generated \$158 million of cash from its operating activities during the six months ended June 30, 2013 an improvement of \$151 million when compared to the six months ended June 30, 2012. As of June 30, 2013, Visteon had global cash balances of \$1,008 million, including \$25 million of restricted cash. Total debt was \$799 million as of June 30, 2013.

Strategic Transformation

In September 2012, the Company announced a comprehensive shareholder value creation plan. A summary of activities associated with the shareholder value creation plan is provided below.

Climate consolidation - During the first quarter of 2013, Halla Climate Control Corporation ("Halla") purchased certain subsidiaries and intellectual property of Visteon's global climate business for approximately \$410 million. With effect from February 1, 2013, this combined climate business has been operating under the name of Halla Visteon Climate Control ("HVCC"). HVCC is majority-owned by Visteon and headquartered in South Korea.

Interiors strategy - The Company continues to explore alternatives for its Interiors business including, but not limited to, divestiture, partnership or alliance. While the Company views Interiors as a non-core business, it continues to make commitments to this business and intends to divest in the future only under acceptable terms and conditions. In connection with the preparation of the June 30, 2013 financial statements, the Company determined that an indicator of impairment existed in relation to the net assets of its Interiors business, which approximated \$180 million as of June 30, 2013. Accordingly, the Company performed a recoverability test utilizing a probability weighted analysis of

cash flows associated with continuing to run and operate the Interiors business and estimated cash flows associated with the potential sale of the Interiors business. As a result of the analysis, the Company concluded that the assets were not recoverable. However, no impairment was recorded as of June 30, 2013 as the fair value of the underlying assets were determined to be in excess of the respective carrying value. To the extent that a sale transaction becomes more likely to occur in future periods an impairment charge may be required and such charge could be material. As of June 30, 2013 the Company did not meet the specific criteria necessary for the Interiors assets to be considered held for sale.

• Electronics optimization - The Company continues to explore opportunities to optimize the size and scale of its Electronics business with a specific focus on cockpit electronic products.

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Cost reduction program - The Company continues to implement a previously announced \$100 million restructuring program designed to reduce fixed costs and to improve operational efficiency by addressing certain under-performing operations. During the second quarter of 2013, the Company recorded an additional \$3 million associated with this program for total inception to date expense under the program of \$58 million. The Company anticipates recording additional restructuring charges related to this program in future periods as underlying plans are finalized.

Share Repurchase Program

In July 2012, the Company's board of directors authorized the repurchase of up to \$100 million of the Company's common stock. In January 2013, the board of directors reauthorized the current \$100 million and increased the repurchase amount to an additional \$200 million, bringing the total share repurchase authorization to \$300 million. In March 2013, the Company entered into an accelerated stock buyback ("ASB") program with a third-party financial institution to purchase shares of common stock for an aggregate purchase price of \$125 million. On April 17, 2013, the ASB program concluded with the Company having repurchased a total of 2,209,078 shares. As of June 30, 2013, \$125 million remains authorized for repurchase over the next two years.

Consolidated Results of Operations - Three Months Ended June 30, 2013 and 2012

The Company's consolidated results of operations for the three months ended June 30, 2013 and 2012 were as follows:

	Three Months Ended June 30		
	2013	2012	Change
	(Dollars in Millions)		
Sales	\$1,892	\$1,693	\$199
Cost of sales	1,707	1,565	142
Gross margin	185	128	57
Selling, general and administrative expenses	91	87	4
Interest expense, net	9	6	3
Equity in net income of non-consolidated affiliates	42	103	(61)
Restructuring and other expense	2	11	(9)
Income before income taxes	125	127	(2)
Provision for income taxes	39	42	(3)
Income from continuing operations	86	85	1
Loss from discontinued operations	—	(1)	1
Net income	86	84	2
Net income attributable to non-controlling interests	21	9	12
Net income attributable to Visteon	\$65	\$75	\$(10)
Adjusted EBITDA*	\$187	\$147	\$40

* Adjusted EBITDA is a Non-GAAP financial measure, as further discussed below.

Sales

The Company's consolidated sales totaled \$1,892 million for the three-month period ended June 30, 2013, which represents an increase of \$199 million when compared to the same period of 2012. Production volumes and favorable product mix increased sales by \$214 million, primarily associated with Asia and North America markets, partially offset by declines in Europe. Favorable currency of \$5 million, primarily attributable to the Korean Won, also contributed to the increase. Other reductions of \$20 million were associated with customer pricing, net of design actions.

Gross Margin

The Company recorded gross margin of \$185 million for the three-month period ended June 30, 2013 compared to \$128 million for the same period of 2012. The increase in gross margin of \$57 million resulted from favorable production volume of \$48 million and design and development recoveries of \$11 million.

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Selling, General and Administrative Expenses

Selling, general, and administrative expenses were \$91 million and \$87 million during the three-month periods ended June 30, 2013 and 2012, respectively. The increase of \$4 million was primarily due to compensation factors, HVCC transition costs and other professional fees, partially offset by improved efficiencies in fixed costs associated with the Company's restructuring programs and cost reduction initiatives.

Equity in Net Income of Non-consolidated Affiliates

Equity in the net income of non-consolidated affiliates totaled \$42 million and \$103 million for the three-month periods ended June 30, 2013 and 2012, respectively, representing a decrease of \$61 million. Equity earnings for the three months ended June 30, 2012 included \$63 million representing Visteon's equity interest in a non-cash gain recorded by Yanfeng resulting from the excess of fair value over carrying value of a former equity investee that was consolidated effective June 1, 2012. The following table presents summarized financial data for the Company's non-consolidated affiliates. The amounts included in the table below represent 100% of the results of operations of such non-consolidated affiliates.

	Net Sales		Gross Margin		Net Income	
	Three Months Ended June 30		Three Months Ended June 30		Three Months Ended June 30	
	2013	2012	2013	2012	2013	2012
	(Dollars in Millions)					
Yanfeng	\$1,920	\$991	\$296	\$178	\$57	\$185
All other	390	467	56	52	30	27
	\$2,310	\$1,458	\$352	\$230	\$87	\$212

Yanfeng sales and gross margin for the three months ended June 30, 2013 include approximately \$527 million and \$91 million, respectively, related to activity of a former equity investee that was consolidated effective June 1, 2012. Yanfeng net income for the three months ended June 30, 2012 includes approximately \$130 million associated with a non-cash gain on the consolidation of a former equity investee.

Interest Expense, Net

Interest expense for the three-month period ended June 30, 2013 of \$11 million included \$8 million on the 6.75% senior notes due April 15, 2019, \$2 million associated with affiliate debt, and \$1 million associated with commitment fees and amortization of debt issuance costs. During the three-month period ended June 30, 2012, interest expense was \$10 million, including \$9 million on the 6.75% senior notes due April 15, 2019 and \$1 million associated with affiliate debt, commitment fees and amortization of debt issuance costs. Interest income of \$2 million for three-month period ended June 30, 2013 was lower than \$4 million for the same period of 2012 due to lower interest rates, partially offset by higher cash balances.

Restructuring and Other Expenses

Restructuring and other expenses consist of the following:

	Three Months Ended June 30	
	2013	2012
	(Dollars in Millions)	
Restructuring expenses	\$3	\$1
Transformation costs	4	10

Gain on sale of equity interest	(5)	—
	\$2		\$11

During the second quarter of 2013, the Company recorded \$3 million of severance and termination benefits associated with approximately 40 employees under a previously announced \$100 million program designed to reduce fixed costs and to improve operational efficiency. Utilization during the three months ended June 30, 2013 included payments for severance and other employee termination benefits.

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The following is a summary of the Company's consolidated restructuring reserves and related activity for the three-month period ended June 30, 2013.

	Interiors	Climate	Electronics	Corporate	Total	
	(Dollars in Millions)					
March 31, 2013	32	4	—	6	42	
Expenses	1	2	—	—	3	
Exchange	1	—	—	—	1	
Utilization	(3) (4) —	(4) (11)
June 30, 2013	\$31	\$2	\$—	\$2	\$35	

Additionally, the Company recorded transformation costs of \$4 million and \$10 million during the three-month periods ended June 30, 2013 and 2012, respectively, related to financial and advisory fees associated with continued execution of its comprehensive value creation plan.

In February 2013, the Company entered into an agreement to sell its 20% equity interest in Dongfeng Visteon Automotive Trim Systems Co., Ltd. for cash proceeds of approximately \$20 million. The Company recognized a gain of approximately \$5 million upon completion of the sale in the second quarter of 2013.

Income Taxes

The Company's provision for income taxes of \$39 million for the three-month period ended June 30, 2013, represents a decrease of \$3 million when compared with \$42 million in the same period of 2012. The decrease in income tax expense reflects the non-recurrence of \$6 million deferred tax expense related to Visteon's equity interest in a non-cash equity investment gain recorded by Yanfeng during the quarter ended June 30, 2012, partially offset by \$3 million in other items primarily attributable to overall higher earnings in those countries where the Company is profitable, which includes the year-over-year impact of changes in the mix of earnings and tax rates between jurisdictions.

Discontinued Operations

On August 1, 2012, the Company completed the sale of its Lighting operations for proceeds of approximately \$70 million. In connection with the Lighting Transaction, the results of operations of the Lighting business have been classified to "Income from discontinued operations, net of tax" in the Consolidated Statements of Comprehensive Income for the three-month period ended June 30, 2012, and are detailed as follows:

	Three Months Ended
	June 30, 2012
	(Dollars in Millions)
Sales	\$126
Cost of sales	113
Gross margin	13
Selling, general and administrative expenses	3
Asset impairments	11
Interest expense	1
Other expense	1
Loss from discontinued operations before income taxes	(3
Benefit from income taxes	(2
Loss from discontinued operations, net of tax	\$(1

Net Income

Net income attributable to Visteon was \$65 million for the three-month period ended June 30, 2013 compared to net income of \$75 million for the same period of 2012, representing a decrease of \$10 million. Adjusted EBITDA (as defined below) was \$187 million for the three month period ended June 30, 2013, representing an increase of \$40 million when compared with Adjusted

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EBITDA of \$147 million for the same period of 2012. The Company's Adjusted EBITDA increased primarily due to favorable production volume including new business, primarily in Asia and North America, partially offset by price productivity in excess of material and manufacturing efficiencies.

Adjusted EBITDA is presented as a supplemental measure of the Company's financial performance that management believes is useful to investors because the excluded items may vary significantly in timing or amounts and/or may obscure trends useful in evaluating and comparing the Company's operating activities across reporting periods. The Company defines Adjusted EBITDA as net income attributable to the Company, plus net interest expense, provision for income taxes and depreciation and amortization, as further adjusted to eliminate the impact of asset impairments, gains or losses on divestitures, discontinued operations, net restructuring expenses and other reimbursable costs, stock-based compensation expense, certain employee charges and benefits, reorganization items and other non-operating gains and losses. Not all companies use identical calculations and, accordingly, the Company's presentation of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies.

Adjusted EBITDA is not a recognized term under accounting principles generally accepted in the United States ("GAAP") and does not purport to be a substitute for net income as an indicator of operating performance or cash flows from operating activities as a measure of liquidity. Adjusted EBITDA has limitations as an analytical tool and is not intended to be a measure of cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. In addition, the Company uses Adjusted EBITDA (i) as a factor in incentive compensation decisions, (ii) to evaluate the effectiveness of the Company's business strategies and (iii) because the Company's credit agreements use measures similar to Adjusted EBITDA to measure compliance with certain covenants. Adjusted EBITDA, as determined and measured by the Company should not be compared to similarly titled measures reported by other companies.

The reconciliation of Adjusted EBITDA to net income attributable to Visteon for the three month periods ended June 30, 2013 and 2012 is as follows:

	Three Months Ended June 30		
	2013	2012	Change
	(Dollars in Millions)		
Adjusted EBITDA	\$187	\$147	\$40
Depreciation and amortization	65	67	(2)
Restructuring and other expense	2	11	(9)
Equity investment gain	—	(63)	63
Interest expense, net	9	6	3
Provision for income taxes	39	42	(3)
Stock-based compensation expense	4	6	(2)
Other non-operating costs, net	3	3	—
Net income attributable to Visteon	\$65	\$75	\$(10)

Segment Results of Operations - Three Months Ended June 30, 2013 and 2012

Sales by Segment

	Climate	Electronics	Interiors	Eliminations	Total
	(Dollars in Millions)				
Three months ended June 30, 2012	\$1,065	\$304	\$352	\$(28)	\$1,693
Volume and mix	188	58	(17)	(15)	214
Currency	11	(4)	(2)	—	5
Other	(17)	(4)	1	—	(20)
Three months ended June 30, 2013	\$1,247	\$354	\$334	\$(43)	\$1,892

Climate sales increased during the three-month period ended June 30, 2013 by \$182 million. Higher production volumes and net new business increased sales by \$188 million. Production volumes increased in all geographic regions, with the most significant impact of new business in Asia. Favorable currency, primarily related to the Korean Won, resulted in an increase of \$11 million. Other changes, which decreased sales by \$17 million, included customer price productivity, partially offset by favorable commodity

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pricing and design actions.

Electronics sales increased during the three-month period ended June 30, 2013 by \$50 million. Higher production volumes and net new business increased sales by \$58 million. Production volumes and new business increased sales in all regions, with the most significant impact of new business in North America. Unfavorable currency of \$4 million primarily reflects the weakening Japanese Yen. Other changes, which decreased sales by \$4 million, included customer price productivity, partially offset by favorable commodity pricing and design actions.

Interiors sales decreased during the three-month period ended June 30, 2013 by \$18 million, primarily reflecting lower production volumes in Europe reflecting weakened economic conditions.

Cost of Sales by Segment

	Climate	Electronics	Interiors	Eliminations	Total
	(Dollars in Millions)				
Three months ended June 30, 2012	\$984	\$271	\$338	\$(28)	) \$1,565
Material	118	39	(14)	) (14)	) 129
Freight and duty	6	(1)	) —	—	5
Labor and overhead	40	(1)	) —	(2)	) 37
Depreciation and amortization	1	(1)	) (1)	) (2)	) (3)
Other	(23)	) 6	(12)	) 3	(26)
Three months ended June 30, 2013	\$1,126	\$313	\$311	\$(43)	) \$1,707

Climate material costs increased \$118 million, including \$138 million related to higher production volumes and currency, partially offset by \$20 million related to design changes, purchasing improvements and other changes. Labor and overhead increased \$40 million primarily related to increased volumes. Other costs decrease of \$23 million primarily reflected design changes, purchasing improvements and lower launch and project tool costs. Climate gross margin benefited from cost efficiencies and fixed cost leverage on higher sales volumes during the second quarter of 2013.

Electronics material costs increased \$39 million primarily due to higher production volumes. Other costs including engineering, contract manufacturing and launch costs increased by \$6 million. Electronics gross margin benefited from cost efficiencies and fixed cost leverage on higher sales volumes during the second quarter of 2013.

Interiors material costs decreased \$14 million primarily due to lower production volumes while other cost decreases of \$12 million reflect higher design and development cost recoveries during the second quarter of 2013.

Adjusted EBITDA by Segment

Segment adjusted EBITDA for the three months ended June 30, 2013 and 2012 is presented below:

	Three Months Ended June 30		
	2013	2012	Change
	(Dollars in Millions)		
Climate	\$119	\$86	\$33
Electronics	35	30	5
Interiors	47	39	8
Total Segment Adjusted EBITDA	\$201	\$155	\$46
Reconciling Item:			
Corporate	(14)	) (8)	) (6)
Total consolidated	\$187	\$147	\$40

During the first quarter of 2013 the Company changed its corporate cost allocation methodology for management reporting purposes. Accordingly, certain costs associated with the Company's corporate headquarters and other administrative support functions not

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allocated to the Company's operating segments and subject to the Company's previously announced corporate and administrative restructuring program have been separately reported for all periods presented as Corporate reconciling items.

Changes in Adjusted EBITDA by segment are presented below:

	Climate	Electronics	Interiors	Total
	(Dollars in Millions)			
Three months ended June 30, 2012	\$86	\$30	\$39	\$155
Volume and mix	35	12	(2)	) 45
Currency	8	(4)	) (2)	) 2
Other	(10)	) (3)	) 12	(1)
Three months ended June 30, 2013	\$119	\$35	\$47	\$201
Reconciling Item:				
Corporate				(14)
Total Adjusted EBITDA				\$187

Climate Adjusted EBITDA for the three months ended June 30, 2013 was \$119 million, an increase of \$33 million compared to the same period of 2012. The increase includes \$35 million due to higher production volumes in all regions with the most significant impact in Asia. Currency increased Adjusted EBITDA by \$8 million primarily related to the Korean Won. Other decreases include customer productivity and engineering costs partially offset by the net performance impact of design changes and purchasing improvements.

Electronics Adjusted EBITDA for the three months ended June 30, 2013 was \$35 million, an increase of \$5 million compared to the same period of 2012. The increase includes \$12 million related to higher production volume in all regions, primarily North America. Currency decreased Adjusted EBITDA by \$4 million due to the Brazilian Real. Other decreases include customer productivity and engineering costs partially offset by the net performance impact of design changes and purchasing improvements.

Interiors Adjusted EBITDA for the three months ended June 30, 2013 was \$47 million, an increase of \$8 million compared to the same period of 2012. The increase in Interiors Adjusted EBITDA included \$11 million associated with higher design and development cost recoveries and purchasing improvements, partially offset by customer price productivity. Lower production volumes, primarily in Europe, decreased Adjusted EBITDA by \$2 million. Unfavorable currency decreased Adjusted EBITDA by \$2 million primarily related to the weakening of the Brazilian Real.

Corporate Adjusted EBITDA for the three months ended June 30, 2013 was an expense of \$14 million compared to an expense of \$8 million for the same period of 2012. The increase in expense resulted from higher compensation factors, HVCC transition costs and professional fees, partially offset by improved efficiencies in fixed costs associated with the Company's restructuring programs and cost reduction initiatives.

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Consolidated Results of Operations - Six Months Ended June 30, 2013 and 2012

The Company's consolidated results of operations for the six months ended June 30, 2013 and 2012 were as follows:

	Six Months Ended June 30		
	2013	2012	Change
	(Dollars in Millions)		
Sales	\$3,748	\$3,410	\$338
Cost of sales	3,409	3,148	261
Gross margin	339	262	77
Selling, general and administrative expenses	177	178	(1)
Interest expense, net	19	15	4
Equity in net income of non-consolidated affiliates	86	145	(59)
Restructuring and other expense			