

VISTEON CORP
Form 10-Q
November 07, 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 September 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 October 31, 2013, the registrant had outstanding 48,652,219 shares of common stock.

Exhibit index located on page number 53.

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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 September 30 | | Nine Months Ended September 30 | |
|--|------------------------------------|---------|-----------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| Sales | \$1,733 | \$1,624 | \$5,481 | \$5,034 |
| Cost of sales | 1,590 | 1,495 | 4,999 | 4,643 |
| Gross margin | 143 | 129 | 482 | 391 |
| Selling, general and administrative expenses | 87 | 89 | 264 | 267 |
| Equity in net income of non-consolidated affiliates | 48 | 38 | 134 | 183 |
| Restructuring expense | 10 | 2 | 33 | 44 |
| Interest expense | 12 | 17 | 36 | 39 |
| Interest income | 3 | 4 | 8 | 11 |
| Other expense (income), net | 5 | (9) | 20 | 23 |
| Income from continuing operations before income taxes | 80 | 72 | 271 | 212 |
| Provision for income taxes | 20 | 33 | 41 | 102 |
| Income from continuing operations | 60 | 39 | 230 | 110 |
| Loss from discontinued operations, net of tax | — | (5) | — | (3) |
| Net income | 60 | 34 | 230 | 107 |
| Net income attributable to non-controlling interests | 17 | 19 | 53 | 46 |
| Net income attributable to Visteon Corporation | \$43 | \$15 | \$177 | \$61 |
| Basic earnings (loss) per share: | | | | |
| Continuing operations | \$0.87 | \$0.37 | \$3.51 | \$1.21 |
| Discontinued operations | — | (0.09) | — | (0.06) |
| Basic earnings per share attributable to Visteon Corporation | \$0.87 | \$0.28 | \$3.51 | \$1.15 |
| Diluted earnings (loss) per share: | | | | |
| Continuing operations | \$0.85 | \$0.37 | \$3.44 | \$1.20 |
| Discontinued operations | — | (0.09) | — | (0.06) |
| Diluted earnings per share attributable to Visteon Corporation | \$0.85 | \$0.28 | \$3.44 | \$1.14 |
| Comprehensive income: | | | | |
| Comprehensive income | \$115 | \$96 | \$205 | \$163 |
| Comprehensive income attributable to Visteon Corporation | \$82 | \$63 | \$161 | \$103 |

See accompanying notes to the consolidated financial statements.

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

| | September 30 2013 | December 31 2012 |
|--|----------------------|---------------------|
| ASSETS | | |
| Cash and equivalents | \$837 | \$825 |
| Restricted cash | 25 | 20 |
| Accounts receivable, net | 1,139 | 1,162 |
| Inventories | 454 | 385 |
| Other current assets | 269 | 271 |
| Total current assets | 2,724 | 2,663 |
| Property and equipment, net | 1,307 | 1,326 |
| Equity in net assets of non-consolidated affiliates | 837 | 756 |
| Intangible assets, net | 300 | 332 |
| Other non-current assets | 136 | 79 |
| Total assets | \$5,304 | \$5,156 |
| LIABILITIES AND EQUITY | | |
| Short-term debt, including current portion of long-term debt | \$130 | \$96 |
| Accounts payable | 1,056 | 1,027 |
| Accrued employee liabilities | 193 | 175 |
| Other current liabilities | 254 | 254 |
| Total current liabilities | 1,633 | 1,552 |
| Long-term debt | 677 | 473 |
| Employee benefits | 571 | 571 |
| Deferred tax liabilities | 177 | 181 |
| Other non-current liabilities | 161 | 238 |
| Stockholders' equity: | | |
| Preferred stock (par value \$0.01, 50 million shares authorized, none outstanding at September 30, 2013 and December 31, 2012) | — | — |
| Common stock (par value \$0.01, 250 million shares authorized, 54 million shares issued, 49 million and 52 million shares outstanding at September 30, 2013 and December 31, 2012, respectively) | 1 | 1 |
| Stock warrants | 6 | 10 |
| Additional paid-in capital | 1,265 | 1,269 |
| Retained earnings | 443 | 266 |
| Accumulated other comprehensive loss | (106) | (90) |
| Treasury stock | (296) | (71) |
| Total Visteon Corporation stockholders' equity | 1,313 | 1,385 |
| Non-controlling interests | 772 | 756 |
| Total equity | 2,085 | 2,141 |
| Total liabilities and equity | \$5,304 | \$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)

| | Nine Months Ended September 30 | | |
|---|-----------------------------------|-------|---|
| | 2013 | 2012 | |
| OPERATING | | | |
| Net income | \$230 | \$107 | |
| Adjustments to reconcile net income to net cash provided from operating activities: | | | |
| Depreciation and amortization | 200 | 196 | |
| Equity in net income of non-consolidated affiliates, net of dividends remitted | (111) | (107) |) |
| Stock-based compensation | 14 | 19 | |
| Other non-cash items | (2) | 22 |) |
| Changes in assets and liabilities: | | | |
| Accounts receivable | 22 | (58) |) |
| Inventories | (74) | (54) |) |
| Accounts payable | 33 | 41 | |
| Accrued income taxes | (56) | 9 |) |
| Other assets and other liabilities | (77) | (12) |) |
| Net cash provided from operating activities | 179 | 163 | |
| INVESTING | | | |
| Capital expenditures | (164) | (146) |) |
| Proceeds from business divestitures and asset sales | 39 | 188 | |
| Other | — | (2) |) |
| Net cash (used by) provided from investing activities | (125) | 40 | |
| FINANCING | | | |
| Proceeds from issuance of debt, net of issuance costs | 204 | 812 | |
| Short-term debt, net | 42 | 2 | |
| Principal payments on debt | (5) | (824) |) |
| Payments to repurchase common stock | (250) | — |) |
| Dividends paid to non-controlling interests | (22) | (23) |) |
| Other | 5 | — | |
| Net cash used by financing activities | (26) | (33) |) |
| Effect of exchange rate changes on cash and equivalents | (16) | 8 |) |
| Net increase in cash and equivalents | 12 | 178 | |
| Cash and equivalents at beginning of period | 825 | 723 | |
| Cash and equivalents at end of period | \$837 | \$901 | |

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 \$6 million and \$19 million in the three-month and nine-month periods ended September 30, 2012. The results of operations of the Lighting business have been classified to Loss from discontinued operations, net of tax in the Consolidated Statements of Comprehensive Income for the three-month and nine-month periods ended September 30, 2012. Discontinued operations are summarized as follows:

| | Three Months Ended September 30, 2012 (Dollars in Millions) | Nine Months Ended September 30, 2012 |
|--|---|---|
| Sales | \$32 | \$297 |
| Cost of sales | 28 | 264 |
| Gross margin | 4 | 33 |
| Selling, general and administrative expenses | 1 | 7 |
| Asset impairments | 6 | 19 |
| Interest expense | 1 | 2 |
| Other expense | 1 | 4 |
| (Loss) income from discontinued operations before income taxes | (5 |) 1 |

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| | | |
|---|------|--------|
| Provision for income taxes | — | 4 |
| Loss from discontinued operations, net of tax | \$(5 |) \$(3 |

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 September 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 \$48 million and \$38 million for the three-month periods ended September 30, 2013 and 2012, respectively. For the nine-month periods ended September 30, 2013 and 2012, the Company recorded \$134 million and \$183 million, respectively. Equity in net income of non-consolidated affiliates for the nine month period ended September 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 \$837 million and \$756 million of equity in the net assets of non-consolidated affiliates at September 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 is provided below:

| | Three Months Ended September 30 | | | | | |
|-----------|---------------------------------|---------|--------------|-------|------------|-------|
| | Net Sales | | Gross Margin | | Net Income | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in Millions) | | | | | |
| Yanfeng | \$2,073 | \$1,582 | \$314 | \$257 | \$75 | \$62 |
| All other | 303 | 404 | 21 | 46 | 17 | 15 |
| | \$2,376 | \$1,986 | \$335 | \$303 | \$92 | \$77 |
| | Nine Months Ended September 30 | | | | | |
| | Net Sales | | Gross Margin | | Net Income | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in Millions) | | | | | |
| Yanfeng | \$5,809 | \$3,366 | \$883 | \$557 | \$201 | \$319 |
| All other | 1,079 | 1,284 | 103 | 140 | 69 | 59 |
| | \$6,888 | \$4,650 | \$986 | \$697 | \$270 | \$378 |

Yanfeng sales and gross margin for the nine months ended September 30, 2013 include approximately \$1,283 million and \$222 million, respectively, related to the results of operations for the five months ended May 31, 2013 of a former equity investee that was consolidated effective June 1, 2012. Yanfeng net income for the three and nine months ended September 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 based on anticipated sale transaction proceeds and recorded an impairment of \$5 million. In January 2013, the Company completed

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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.

Disposition of Yanfeng Equity Investment and Restructuring of Yanfeng Visteon Automotive Electronics Co., Ltd

On August 12, 2013, VIHI, LLC (“VIHI”), a wholly owned subsidiary of Visteon, Huayu Automotive Systems Company Limited (“HASCO”), Yanfeng and Yanfeng Visteon Automotive Electronics Co., Ltd. (“YFVE”) entered into a Master Agreement (the “Master Agreement”), pursuant to which, among other things, Visteon and HASCO have agreed to modify their existing interests in automobile interiors and electronics joint ventures in the People’s Republic of China, including Yanfeng and YFVE.

Pursuant to the Master Agreement, among other transactions, Visteon agreed to sell its 50% ownership interest in Yanfeng to HASCO for cash proceeds of \$928 million and to sell its ownership interests in other related interiors investees to Yanfeng for additional proceeds aggregating \$96 million. Visteon also agreed to make a cash injection of \$58 million into YFVE in exchange for additional equity resulting in a 51% controlling equity interest in YFVE. Pursuant to the Master Agreement, YFVE will sell its interests in certain subsidiaries presently controlled by YFVE to a new holding company that will be owned 50% by Visteon and 50% by Yanfeng. Visteon and Yanfeng have each agreed to contribute the equivalent of approximately \$48 million to the holding company, and may make and guarantee loans, respectively, to the holding company to enable it to purchase these equity interests.

At or around the closing of Visteon’s sale of its 50% ownership interest in Yanfeng to HASCO (but not later than two months after the execution of the Master Agreement), the parties to the Master Agreement have agreed that Yanfeng will distribute the equivalent of approximately \$115 million to Visteon in respect of the 2012 earnings of Yanfeng, YFVE and certain other entities. In addition, as soon as practicable after Yanfeng’s 2013 annual audit (which is expected to be in March of 2014) Yanfeng has agreed to distribute \$69 million to Visteon in respect of Yanfeng’s 2013 earnings. Pursuant to the Master Agreement, Visteon is also entitled to an additional \$14 million distribution on each of June 30, 2014 and June 30, 2015 in respect of the earnings of an interiors investee whose equity interests Visteon has agreed to transfer to Yanfeng.

The transactions, which are subject to customary government and regulatory approvals, are expected to be completed in multiple stages and substantially completed by June 2015. The closing of each of the transactions contemplated by the Master Agreement is conditioned on the receipt of required approvals from appropriate governmental authorities (including the appropriate governmental authorities in the People’s Republic of China), the material accuracy of the parties’ representations and warranties and the material performance of covenants. In addition, the closing of most of the transactions contemplated by the Master Agreement is conditioned on the closing of Visteon’s sale of its 50% ownership interest in Yanfeng to HASCO, but Visteon’s injection of cash into YFVE in exchange for additional equity is not so conditioned.

NOTE 3. Restructuring Expense

During the three and nine month periods ended September 30, 2013, the Company recorded \$11 million and \$35 million, respectively, of restructuring expenses under a previously announced \$100 million restructuring program designed to reduce fixed costs and to improve operational efficiency. Costs recorded during the three and nine month periods ended September 30, 2013 were related to employee severance and termination benefits for approximately 250 and 430 employees, respectively. Through September 30, 2013 the Company recorded approximately \$70 million of restructuring expenses under this program. The Company anticipates recording additional restructuring expenses related to this program in future periods as underlying plans are finalized.

During the nine months ended September 30, 2012, the Company recorded \$44 million of restructuring expenses. Total employee severance and termination benefits was \$39 million, of which \$31 million was related to the closure of the Cadiz Electronics operation in El Puerto de Santa Maria, Spain, \$3 million was associated with the separation of approximately 250 employees at a South American Interiors facility, and \$4 million was associated with 70 voluntary employee separations associated with a Climate restructuring action announced in the fourth quarter of 2011. In addition, \$5 million of other exit costs was recorded in connection with the closure of the Cadiz Electronics facility.

At September 30, 2013 and December 31, 2012, restructuring liabilities of \$31 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 nine months ended September 30, 2013.

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| | 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 |
| Expenses | 9 | 2 | — | — | 11 |
| Reversals | (1 |) — | — | — | (1 |
| Utilization | (10 |) (3 |) — | (1 |) (14 |
| September 30, 2013 | \$29 | \$1 | \$— | \$1 | \$31 |

The Company anticipates that the activities associated with these reserves will be completed within a time frame such that significant changes to the restructuring plan are not likely. 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.

NOTE 4. Other Expense (Income), Net

Other expense (income), net consists of the following:

| | Three Months Ended | | Nine Months Ended | |
|---------------------------------|-----------------------|-------|-------------------|-------|
| | September 30 | | September 30 | |
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in Millions) | | | |
| Transformation costs | \$7 | \$5 | \$27 | \$23 |
| UK Administration recovery | (2 |) — | (2 |) — |
| Gain on sale of equity interest | — | (19 |) (5 |) (19 |
| Loss on debt extinguishment | — | 4 | — | 4 |
| Loss on asset contribution | — | — | — | 14 |
| Bankruptcy-related costs | — | 1 | — | 1 |
| | \$5 | \$ (9 |) \$20 | \$23 |

Transformation Activities

Business transformation costs of \$7 million and \$27 million for the three and nine-month periods ended September 30, 2013, were related to financial and advisory services 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 September 30, 2013 financial statements, the Company determined that an indicator of

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impairment existed in relation to the net assets of its Interiors business, which approximated \$180 million as of September 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 September 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 September 30, 2013 the Company did not meet the specific criteria necessary for the Interiors assets to be considered held for sale.

Electronics optimization - Pursuant to the August 2013 Master Agreement the Company and HASCO agreed to restructure their existing electronics ventures in China, whereby the Company will obtain a controlling ownership interest in YFVE. The Company continues 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 third quarter of 2013, the Company recorded an additional \$11 million associated with this program for total inception to date expense under the program of approximately \$70 million. The Company anticipates recording additional restructuring charges related to this program in future periods as underlying plans are finalized.

UK Administration Recovery

In September 2013, the Company received a distribution of \$2 million under the United Kingdom Insolvency Act of 1986 resulting from the liquidation and recovery process associated with the estate of Visteon UK Limited, a company organized under the laws of England and Wales and a former indirect, wholly-owned subsidiary of the Company. The recovery was primarily related to various trade and loan receivables due from Visteon UK Limited to the Company at the March 2009 date of entry into administration.

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 and recognized a gain of approximately \$5 million. Dongfeng is an interiors joint venture based in China with 2012 revenue of \$190 million. In August 2012, the Company sold its 50% ownership interest in R-Tek Limited, a UK-based Interiors joint venture, for cash proceeds of approximately \$30 million, resulting in a gain of \$19 million.

Loss on Debt Extinguishment

Loss on debt extinguishment of \$4 million for the three months ended September 30, 2012 was related to unamortized amounts attributable to the Korean Bridge Loan that was repaid during the third quarter 2012.

Loss on Asset Contribution

During the nine months ended September 30, 2012 and 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.

NOTE 5. Inventories, net

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

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| | September 30 2013 | December 31 2012 |
|--------------------|-----------------------|---------------------|
| | (Dollars in Millions) | |
| Raw materials | \$192 | \$153 |
| Work-in-process | 198 | 174 |
| Finished products | 89 | 78 |
| | 479 | 405 |
| Valuation reserves | (25 |) (20 |
| | \$454 |) \$385 |

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NOTE 6. Property and Equipment

Property and equipment, net consists of the following:

| | September 30 2013 | December 31 2012 |
|--------------------------------------|-----------------------|---------------------|
| | (Dollars in Millions) | |
| Land | \$160 | \$161 |
| Buildings and improvements | 278 | 269 |
| Machinery, equipment and other | 1,238 | 1,137 |
| Construction in progress | 110 | 100 |
| Total property and equipment | 1,786 | 1,667 |
| Accumulated depreciation | (550) | (421) |
| | 1,236 | 1,246 |
| Product tooling, net of amortization | 71 | 80 |
| Property and equipment, net | \$1,307 | \$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 September 30 | | Nine Months Ended September 30 | |
|--------------|------------------------------------|------|-----------------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in Millions) | | | |
| Depreciation | \$54 | \$51 | \$160 | \$158 |
| Amortization | 3 | 3 | 8 | 8 |
| | \$57 | \$54 | \$168 | \$166 |

NOTE 7. Intangible Assets

Intangible assets, net are comprised of the following:

| | September 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 | \$209 | \$80 | \$129 | \$209 | \$60 | \$149 |
| Customer related | 124 | 39 | 85 | 124 | 30 | 94 |
| Other | 22 | 8 | 14 | 22 | 5 | 17 |
| | \$355 | \$127 | \$228 | \$355 | \$95 | \$260 |
| Goodwill and indefinite-lived intangible assets: | | | | | | |
| Goodwill | | | \$46 | | | \$46 |
| Trade names | | | 26 | | | 26 |
| | | | 72 | | | 72 |
| Total | | | \$300 | | | \$332 |

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The Company recorded amortization expense related to definite-lived intangible assets of \$11 million and \$32 million for the three and nine-month periods ended September 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 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 \$3 million and \$3 million for the three-month periods ended September 30, 2013 and 2012, respectively. The expense related to matching contributions was approximately \$9 million and \$11 million for the nine-month periods ended September 30, 2013 and 2012, respectively.

Defined Benefit Plans

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

| | U.S. Plans | | Non-U.S. Plans | |
|--------------------------------|-----------------------|---------|----------------|------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in Millions) | | | |
| Service cost | \$— | \$— | \$5 | \$5 |
| Interest cost | 12 | 17 | 7 | 6 |
| Expected return on plan assets | (16 |) (20 |) (4 |) (4 |
| Special termination benefits | 1 | — | — | — |
| Net pension (benefit) expense | \$ (3 |) \$ (3 |) \$ 8 | \$ 7 |

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

| | U.S. Plans | | Non-U.S. Plans | |
|----------------------------------|-----------------------|---------|----------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in Millions) | | | |
| Service cost | \$— | \$— | \$17 | \$14 |
| Interest cost | 36 | 52 | 21 | 20 |
| Expected return on plan assets | (47 |) (59 |) (14 |) (13 |
| Amortization of actuarial losses | — | — | 1 | — |
| Special termination benefits | 1 | — | — | — |
| Net pension (benefit) expense | \$ (10 |) \$ (7 |) \$ 25 | \$ 21 |

During the nine-month period ended September 30, 2013, cash contributions to the Company's U.S. and non-U.S. retirement plans were \$3 million and \$9 million, respectively. The Company anticipates additional 2013 cash contributions to its U.S. and non-U.S. retirement plans of \$2 million and \$22 million, respectively. The Company's expected 2013 contributions may be revised.

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NOTE 9. Debt

As of September 30, 2013, the Company had total debt outstanding of \$807 million, of which \$130 million and \$677 million was classified as short-term debt and long-term debt, respectively. The Company's debt consists of the following:

| | September 30 2013 | December 31 2012 |
|---------------------------------------|-----------------------|---------------------|
| | (Dollars in Millions) | |
| Short-term debt | | |
| Current portion of long-term debt | \$2 | \$3 |
| Other – short-term | 128 | 93 |
| Total short-term debt | \$130 | \$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 | 93 | — |
| Other | 38 | 28 |
| Total long-term debt | \$677 | \$473 |

During the first quarter of 2013, HVCC entered into two unsecured bilateral term loan credit agreements with aggregate available borrowings of approximately \$195 million, and as of September 30, 2013, the USD equivalent of these agreements was \$193 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 September 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 September 30, 2013, the Company had international affiliate debt outstanding of \$168 million with \$130 million and \$38 million classified in short-term and long-term debt, respectively. Approximately \$143 million of the affiliate debt is related to HVCC of which \$112 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 September 30, 2013, the Company had outstanding borrowings under this facility of \$17 million with \$40 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 10. Income Taxes

During the three and nine-month periods ended September 30, 2013 the Company recorded income tax provisions of \$20 million and \$41 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 \$57 million and \$70 million, respectively, for the three-month periods ended September 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 the three-month periods ended September 30, 2013 and 2012, the Company recognized expense of \$4 million and \$5 million, respectively, 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 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.

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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. The factors considered by management in its determination of the probability of the realization of the deferred tax assets include, but are not limited to, recent adjusted historical financial results, historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. If, based upon the weight of available evidence, it is more likely than not the deferred tax assets will not be realized, a valuation allowance is recorded. During the third quarter of 2013, management initiated actions to merge certain Korean legal entities after assessing feasibility and other ramifications associated with such measures. The planned merger should result in the future utilization of foreign tax credits in Korea for which a valuation allowance was previously recorded, and consequently, the Company recognized a tax benefit of \$12 million related to the elimination of the related valuation allowance during the third quarter of 2013.

Unrecognized Tax Benefits

Gross unrecognized tax benefits were \$71 million at September 30, 2013 and \$117 million at December 31, 2012, of which approximately \$29 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 September 30, 2013 and December 31, 2012 were \$22 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 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 net decreases in the Company's gross unrecognized tax benefits that impact the effective tax rate total approximately \$38 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:

| | Nine Months Ended September 30, 2013 (Dollars in Millions) |
|--|--|
| Beginning balance | \$ 117 |
| Additions to tax positions related to current period | 6 |

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| | | |
|--|------|---|
| Additions to tax positions related to prior periods | 5 | |
| Reductions to tax positions related to prior periods | (51 |) |
| Settlements with tax authorities | (4 |) |
| Lapses in statute of limitations | (2 |) |
| Ending balance | \$71 | |

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 nine months ended September 30, 2013, the Company's Korean affiliates paid approximately \$23 million to the Korean tax

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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. Also during 2012, Brazilian tax authorities issued tax assessment notices to Visteon Sistemas Automotivos ("Sistemas") of approximately \$15 million related to the sale of its chassis business to a third party. During the third quarter of 2013, after attempts to reopen an appeal of the administrative decision failed, Sistemas opened a judicial proceeding against the government to address the notice which required a deposit in the amount of the assessment to suspend the debt and allow Sistemas to operate regularly before the tax authorities. The Company believes that the risk of a negative outcome is remote once the matter is fully litigated at the highest judicial level. These appeal payments in Korea and Brazil, as well as contingent income tax refund claims associated with other jurisdictions, total \$47 million as of September 30, 2013 and are included in Other non-current assets on the consolidated balance sheet.

NOTE 11. Stockholders' Equity and Non-controlling Interests

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

| | 2013 | | | 2012 | | |
|---|-----------------------|-------|---------|---------|-------|---------|
| | Visteon | NCI | Total | Visteon | NCI | Total |
| | (Dollars in Millions) | | | | | |
| Three Months Ended September 30: | | | | | | |
| Stockholders' equity beginning balance | \$1,352 | \$745 | \$2,097 | \$1,433 | \$695 | \$2,128 |
| Income from continuing operations | 43 | 17 | 60 | 20 | 19 | 39 |
| Loss from discontinued operations | — | — | — | (5) | — | (5) |
| Net income | 43 | 17 | 60 | 15 | 19 | 34 |
| Other comprehensive income (loss) | | | | | | |
| Foreign currency translation adjustments | 36 | 14 | 50 | 44 | 13 | 57 |
| Benefit plans | (2) | — | (2) | 2 | — | 2 |
| Unrealized hedging gains | 5 | 2 | 7 | 2 | 1 | 3 |
| Total other comprehensive income | 39 | 16 | 55 | 48 | 14 | 62 |
| Stock-based compensation, net | 4 | — | 4 | 3 | — | 3 |
| Share repurchase | (125) | — | (125) | — | — | — |
| Dividends paid to non-controlling interests | — | (6) | (6) | — | (5) | (5) |
| Stockholders' equity ending balance | \$1,313 | \$772 | \$2,085 | \$1,499 | \$723 | \$2,222 |
| Nine Months Ended September 30: | | | | | | |
| Stockholders' equity beginning balance | \$1,385 | \$756 | \$2,141 | \$1,307 | \$690 | \$1,997 |
| Income from continuing operations | 177 | 53 | 230 | 64 | 46 | 110 |
| Loss from discontinued operations | — | — | — | (3) | — | (3) |
| Net income | 177 | 53 | 230 | 61 | 46 | 107 |
| Other comprehensive income (loss) | | | | | | |
| Foreign currency translation adjustments | (18) | (6) | (24) | 25 | 10 | 35 |
| Benefit plans | 8 | — | 8 | 1 | — | 1 |
| Unrealized hedging (loss) gains | (6) | (3) | (9) | 16 | 4 | 20 |
| Total other comprehensive (loss) income | (16) | (9) | (25) | 42 | 14 | 56 |
| Stock-based compensation, net | 14 | — | 14 | 16 | — | 16 |
| Warrant exercises | 3 | — | 3 | — | — | — |
| Common stock contribution to U.S. pension plans | — | — | — | 73 | — | 73 |
| Share repurchase | (250) | — | (250) | — | — | — |
| Dividends paid to non-controlling interests | — | (28) | (28) | — | (27) | (27) |
| Stockholders' equity ending balance | \$1,313 | \$772 | \$2,085 | \$1,499 | \$723 | \$2,222 |

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

| | September 30 2013 | December 31 2012 |
|---|-----------------------|---------------------|
| | (Dollars in Millions) | |
| Halla Visteon Climate Control Corporation | \$736 | \$723 |
| Visteon Interiors Korea Ltd | 21 | 20 |
| Other | 15 | 13 |
| Total non-controlling interests | \$772 | \$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 September 30 | | Nine Months Ended September 30 | |
|---|------------------------------------|---------|-----------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in Millions) | | | |
| Changes in AOCI: | | | | |
| Beginning balance | \$(145) | \$(31) | \$(90) | \$(25) |
| Other comprehensive income (loss) before reclassification, net of tax | 42 | 53 | (8) | 47 |
| Amounts reclassified from AOCI | (3) | (5) | (8) | (5) |
| Ending balance | \$(106) | \$17 | \$(106) | \$17 |
| Changes in AOCI by component: | | | | |
| Foreign currency translation adjustments | | | | |
| Beginning balance | \$(43) | \$(60) | \$11 | \$(41) |
| Other comprehensive income (loss) before reclassification, net of tax | 36 | 43 | (16) | 24 |
| Amounts reclassified from AOCI (a) | — | 1 | (2) | 1 |
| Ending balance | (7) | (16) | (7) | (16) |
| Benefit plans | | | | |
| Beginning balance | (98) | 24 | (108) | 25 |
| Other comprehensive (loss) income before reclassification, net of tax | (2) | 2 | 7 | 1 |
| (b) | | | | |
| Amounts reclassified from AOCI (c) | — | — | 1 | — |
| Ending balance | (100) | 26 | (100) | 26 |
| Unrealized hedging gains (loss) | | | | |
| Beginning balance | (4) | 5 | 7 | (9) |
| Other comprehensive income (loss) before reclassification, net of tax | 8 | 8 | 1 | 22 |
| (d) | | | | |
| Amounts reclassified from AOCI (e) | (3) | (6) | (7) | (6) |
| Ending balance | 1 | 7 | 1 | 7 |
| AOCI ending balance | \$(106) | \$17 | \$(106) | \$17 |

(a) Amount included in Other expense in Consolidated Statement of Comprehensive Income.

(b) Tax expense of \$3 million is related to benefit plans for the nine month periods ended September 30, 2013.

(c) Amount included in the computation of net periodic pension cost. (See Note 8 Employee retirement benefits for additional details.)

(d) Tax expenses of \$3 million and \$1 million are related to unrealized hedging gains (loss) for the three months ended September 30, 2013 and 2012, respectively. Tax benefit of \$3 million and tax expense of \$5 million are related to unrealized hedging gains (loss) for the nine months ended September 30, 2013 and 2012, respectively.

(e) 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 previously authorized \$100 million and increased the repurchase amount 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. 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.

In August 2013, the Company's board of directors raised the authorization of its remaining share repurchase program from \$125 million to \$1 billion over the next two years. The Company entered into another ASB program in August 2013 with a third-party financial institution to purchase shares of common stock for an aggregate purchase price of \$125 million. The Company paid the financial institution \$125 million and received an initial delivery of 1,368,925 shares of common stock. The value of those shares on the date of delivery was \$100 million at \$73.05 per share and is included in common stock held in treasury. The final settlement will be based on a negotiated discount to the volume weighted average price of the Company's common stock over the term of the ASB program agreement. As of September 30, 2013, \$875 million remains authorized and available for repurchase through December 31, 2015.

NOTE 12. 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 September 30 | | Nine Months Ended September 30 | |
|---|---|--------|-----------------------------------|--------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in Millions, Except Per Share Amounts) | | | |
| Numerator: | | | | |
| Income from continuing operations | \$43 | \$20 | \$177 | \$64 |
| Loss from discontinued operations | — | (5 |) — | (3 |
| Net income attributable to Visteon | \$43 | \$15 | \$177 | \$61 |
| Denominator: | | | | |
| Average common stock outstanding | 49.4 | 53.3 | 50.4 | 53.1 |
| Dilutive effect of warrants and performance stock units | 1.0 | 0.5 | 1.1 | 0.4 |
| Diluted shares | 50.4 | 53.8 | 51.5 | 53.5 |
| Basic and Diluted Earnings (Loss) Per Share Data: | | | | |
| Basic earnings (loss) per share | | | | |
| Continuing operations | \$0.87 | \$0.37 | \$3.51 | \$1.21 |

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| | | | | | |
|--|--------|--------|--------|--------|---|
| Discontinued operations | — | (0.09 |) — | (0.06 |) |
| Basic earnings per share attributable to Visteon | \$0.87 | \$0.28 | \$3.51 | \$1.15 | |
| Diluted earnings (loss) per share | | | | | |
| Continuing operations | \$0.85 | \$0.37 | \$3.44 | \$1.20 | |
| Discontinued operations | — | (0.09 |) — | (0.06 |) |
| Diluted earnings per share attributable to Visteon | \$0.85 | \$0.28 | \$3.44 | \$1.14 | |

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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 September 30 | | Nine Months Ended September 30 | |
|--------------------------|---|-------------------|-----------------------------------|-------------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (In Millions, Except Per Share Amounts) | | | |
| Stock Warrants: | | | | |
| Number of stock warrants | — | 1.5 | — | 1.5 |
| Exercise price | \$— | \$58.80 | \$— | \$58.80 |
| Stock Options: | | | | |
| Number of stock options | 0.2 | 0.5 | 0.2 | 0.4 |
| Exercise price | \$44.55 - \$74.08 | \$44.55 - \$74.08 | \$44.55 - \$74.08 | \$44.55 - \$74.08 |

NOTE 13. 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 \$835 million at September 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. The maximum length of time over which the Company hedges the variability in the future cash flows for forecasted transactions excluding those forecasted transactions related to the payment of variable interest on existing debt is up to eighteen months from the date of the forecasted transaction. 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 September 30, 2013 and December 31, 2012, the Company had forward contracts to hedge changes in foreign currency exchange rates with notional amounts of approximately \$432 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

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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.

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

Gains and loss associated with derivative financial instruments recorded in Cost of sales for the three and nine-month periods ended September 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 September 30: | | | | | | |
| Cash flow hedges | \$5 | \$2 | \$3 | \$6 | \$— | \$— |
| Non-designated cash flow hedges | — | — | — | — | 1 | (3) |
| | \$5 | \$2 | \$3 | \$6 | \$1 | \$(3) |
| Nine Months Ended September 30: | | | | | | |
| Cash flow hedges | \$(6) | \$16 | \$7 | \$6 | \$— | \$— |
| Non-designated cash flow hedges | — | — | — | — | 2 | (4) |
| | \$(6) | \$16 | \$7 | \$6 | \$2 | \$(4) |

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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 September 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 September 30, 2013 and December 31, 2012, respectively.

| | September 30 2013 | December 31 2012 |
|-----------------------|----------------------|---------------------|
| Ford and affiliates | 26% | 19% |
| Hyundai Mobis Company | 14% | 16% |
| Hyundai Motor Company | 7% | 10% |

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

NOTE 14. Commitments and Contingencies

Guarantees and Commitments

The Company has guaranteed approximately \$45 million of subsidiary lease payments under various arrangements generally spanning between one to ten years in duration, and \$6 million for affiliate credit lines and other credit support agreements.

Litigation and Claims

In August 2011, Halla Visteon Climate Control Corp., the Company's South Korean subsidiary ("HVCC"), acquired a 37.5% equity interest in Wuhu Bonaire Automotive Electrical Systems Co., Ltd., a company organized under the laws of the People's Republic of China ("Bonaire"). Bonaire manufactures and sells automotive HVAC components primarily to Chinese automobile manufacturers. The Company recently received information indicating that Bonaire sold certain HVAC products to Crouse (P.J.S) Co., an automotive supply company located in Iran. These sales produced approximately \$420,000 in revenue for Bonaire between January 2013 and October 2013. Bonaire appears to have entered into these transactions without HVCC's advance knowledge and contrary to the parties' joint venture contract, which requires compliance with U.S. export controls laws. No additional sales were made after this period and the supply contract has been terminated.

In November 2013, the Company and HVCC jointly filed an Initial Notice of Voluntary Self-Disclosure statement with the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") regarding the issues described above. Pursuant to that Initial Notice, the Company and HVCC will review these issues and furnish OFAC with a detailed narrative account of any potential sanctions violations. OFAC may conclude that our actions resulted in violations of U.S. economic sanctions laws and warrant the imposition of civil penalties, such as fines, limitations on our ability to export products from the United States, and/or referral for further investigation by the U.S. Department of Justice. Any such fines or restrictions may be material to the Company's financial results in the period in which they are imposed. Additionally, disclosure of Bonaire's conduct and any fines or other action relating to this conduct could harm the Company's reputation and have a material adverse effect on our business, operating results and financial condition. Although the Company plans to file its full report with OFAC within the next 60 days, it cannot predict

when OFAC will conclude its review of that report or whether it will impose any of the potential penalties described above.

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.

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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 September 30, 2013, the Company maintained accruals of approximately \$8 million for claims aggregating approximately \$146 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.

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 \$8 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 parties reached a preliminary settlement agreement in January 2013, but it was later terminated by the plaintiffs. On October 22, 2013, the U.S. District Court for the Eastern District of Michigan issued an order denying the Company's motion to dismiss the UAW's complaint and granted its motion to transfer the case to the U.S. District Court for the District of Delaware. As of September 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

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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 September 30, 2013, the Company had recorded a reserve of approximately \$1 million for environmental matters.

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.

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 nine months ended September 30, 2013 and 2012 are provided below.

| | Nine Months Ended September 30 | |
|-------------------------------|--------------------------------|-------|
| | 2013 | 2012 |
| | (Dollars in Millions) | |
| Beginning balance | \$57 | \$66 |
| Accruals for products shipped | 12 | 15 |
| Settlements | (12 |) (14 |
| Changes in estimates | (4 |) (1 |
| Currency | (1 |) (1 |
| Ending balance | \$52 | \$65 |

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 September 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 15. 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

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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, non-cash 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 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 September 30 | | Nine Months Ended September 30 | |
|--------------------|------------------------------------|---------|-----------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in Millions) | | | |
| Climate | \$1,131 | \$1,024 | \$3,606 | \$3,112 |
| Electronics | 340 | 304 | 1,059 | 937 |
| Interiors | 293 | 307 | 944 | 1,052 |
| Eliminations | (31 |) (11 |) (128 |) (67 |
| Total consolidated | \$1,733 | \$1,624 | \$5,481 | \$5,034 |

Segment Adjusted EBITDA

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|-------------------------------|------------------------------------|-------|-----------------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in Millions) | | | |
| Climate | \$99 | \$82 | \$331 | \$252 |
| Electronics | 32 | 20 | 97 | 78 |
| Interiors | 43 | 44 | 123 | 124 |
| Total Segment Adjusted EBITDA | \$174 | \$146 | \$551 | \$454 |
| Reconciling Item: | | | | |
| Corporate | (14 |) (12 |) (34 |) (30 |
| Total Adjusted EBITDA | \$160 | \$134 | \$517 | \$424 |

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.

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

| | Three Months Ended | | Nine Months Ended | |
|--|-----------------------|-------|-------------------|-------|
| | September 30 | | September 30 | |
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in Millions) | | | |
| Total Adjusted EBITDA | \$160 | \$134 | \$517 | \$424 |
| Interest expense, net | 9 | 13 | 28 | 28 |
| Provision for income taxes | 20 | 33 | 41 | 102 |
| Depreciation and amortization | 68 | 64 | 200 | 195 |
| Restructuring expense | 10 | 2 | 33 | 44 |
| Equity in gain of non-consolidated affiliate | — | — | — | (63) |
| Non-cash, stock-based compensation expense | 4 | 6 | 14 | 19 |
| Other | 6 | 1 | 24 | 38 |
| Net income attributable to Visteon | \$43 | \$15 | \$177 | \$61 |

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.

Segment Operating Assets

| | Inventories, Net | | Property and Equipment, Net | |
|--------------------------------|-----------------------|-------------|-----------------------------|-------------|
| | September 30 | December 31 | September 30 | December 31 |
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in Millions) | | | |
| Climate | \$340 | \$276 | \$1,000 | \$974 |
| Electronics | 72 | 67 | 102 | 119 |
| Interiors | 42 | 42 | 184 | 178 |
| Total Segment Operating Assets | 454 | 385 | 1,286 | 1,271 |
| Reconciling Item: | | | | |
| Corporate | — | — | 21 | 55 |
| Total consolidated | \$454 | \$385 | \$1,307 | \$1,326 |

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

Tab