VISTEON CORP
Form 10-Q
October 27, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

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FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016,
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	38-3519512
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Village Center Drive, Van Buren Township, Michigan	48111
(Address of principal executive offices)	(Zip code)

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 ü 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 ü 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 ü 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 ü
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 ü No__
As of October 20, 2016, the registrant had outstanding 34,012,831 shares of common stock.
Exhibit index located on page number 59.

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Part I
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	
	2016	2015	2016	2015
Sales	$770	$808	$2,345	$2,436
Cost of sales	665	703	2,010	2,120
Gross margin	105	105	335	316
Selling, general and administrative expenses	53	59	163	182
Restructuring expense	5	3	22	18
Interest expense	6	3	14	15
Interest income	1	1	4	2
Equity in net income (loss) of non-consolidated affiliates	—	(3)	3	8
Loss on debt extinguishment	—	—	—	5
Gain on sale of non-consolidated affiliates, net	1	—	1	62
Other expense, net	13	7	17	15
Income before income taxes	30	31	127	153
Provision for income taxes	5	10	27	43
Net income from continuing operations	25	21	100	110
Income (loss) from discontinued operations, net of tax	7	(11)	(15)	2,194
Net income	32	10	85	2,304
Net income attributable to non-controlling interests	4	5	12	41
Net income attributable to Visteon Corporation	$28	$5	$73	$2,263
Basic earnings (loss) per share:				
Continuing operations	$0.62	$0.39	$2.47	$2.17
Discontinued operations	0.21	(0.27)	(0.42)	50.58
Basic earnings per share attributable to Visteon Corporation	$0.83	$0.12	$2.05	$52.75
Diluted earnings (loss) per share:				
Continuing operations	$0.61	$0.38	$2.44	$2.12
Discontinued operations	0.20	(0.26)	(0.41)	49.43
Diluted earnings per share attributable to Visteon Corporation	$0.81	$0.12	$2.03	$51.55
Comprehensive income:				
Comprehensive income (loss)	$35	$(18)	$106	$2,305
Comprehensive income (loss) attributable to Visteon Corporation	$31	$(19)	$96	$2,277

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 2016	December 31 2015
ASSETS		
Cash and equivalents	$ 850	$ 2,728
Short-term investments	—	47
Restricted cash	4	8
Accounts receivable, net	497	502
Inventories, net	176	187
Other current assets	200	581
Total current assets	1,727	4,053
Property and equipment, net	342	351
Intangible assets, net	137	133
Investments in non-consolidated affiliates	47	56
Other non-current assets	120	88
Total assets	$ 2,373	$ 4,681
LIABILITIES AND EQUITY		
Distribution payable	$ 15	$ 1,751
Short-term debt, including current portion of long-term debt	24	37
Accounts payable	429	482
Accrued employee liabilities	108	132
Other current liabilities	293	370
Total current liabilities	869	2,772
Long-term debt	347	346
Employee benefits	256	268
Deferred tax liabilities	25	21
Other non-current liabilities	82	75
Stockholders' equity:		
Preferred stock (par value $0.01, 50 million shares authorized, none outstanding at September 30, 2016 and December 31, 2015)	—	—
Common stock (par value $0.01, 250 million shares authorized, 55 million and 55 million shares issued, and 34 million and 40 million shares outstanding at September 30, 2016 and December 31, 2015, respectively)	1	1
Additional paid-in capital	1,246	1,345
Retained earnings	1,267	1,194
Accumulated other comprehensive loss	(167)	(190)
Treasury stock	(1,699)	(1,293)
Total Visteon Corporation stockholders' equity	648	1,057
Non-controlling interests	146	142
Total equity	794	1,199
Total liabilities and equity	$ 2,373	$ 4,681

See accompanying notes to the consolidated financial statements.

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VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS[1]
(Dollars in Millions)
(Unaudited)

	Nine Months Ended September 30	
	2016	2015
Operating Activities		
Net income	$85	$2,304
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	62	147
Equity in net income of non-consolidated affiliates, net of dividends remitted	(2)	—
Non-cash stock-based compensation	6	7
Loss (gain) on Climate Transaction	2	(2,332)
Gain on sale of non-consolidated affiliates, net	(1)	(62)
Losses on divestitures and impairments	4	17
Loss on debt extinguishment	—	5
Other non-cash items	15	4
Changes in assets and liabilities:		
Accounts receivable	15	(7)
Inventories	15	(29)
Accounts payable	(45)	48
Accrued income taxes	(39)	135
Other assets and other liabilities	(79)	37
Net cash provided from operating activities	38	274
Investing Activities		
Capital expenditures	(56)	(151)
Climate Transaction withholding tax refund	356	—
Proceeds from Climate Transaction	—	2,664
Short-term investments	47	(52)
Loans to non-consolidated affiliates, net of repayments	(8)	(9)
Proceeds from asset sales and business divestitures	15	92
Payments for acquisition and divestiture of businesses	(15)	(19)
Other	—	6
Net cash provided from investing activities	339	2,531
Financing Activities		
Short-term debt, net	(11)	(1)
Principal payments on debt	(2)	(250)
Distribution payments	(1,736)	—
Repurchase of common stock	(500)	(500)
Dividends paid to non-controlling interests	—	(31)
Exercised warrants and stock options	—	24
Stock based compensation tax withholding payments	(11)	—
Other	—	(1)
Net cash used by financing activities	(2,260)	(759)
Effect of exchange rate changes on cash and equivalents	6	(13)
Net (decrease) increase in cash and equivalents	(1,877)	2,033
Cash and equivalents at beginning of the period	2,729	827

Cash and equivalents at end of the period	$852	$2,860

[1] The Company has combined cash flows from discontinued operations with cash flows from continuing operations within the operating, investing and financing categories. As such, cash and equivalents above include amounts reflected in assets held for sale within other current assets on the Consolidated Balance Sheets.
See accompanying notes to the consolidated financial statements.

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VISTEON CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Description of Business

Visteon Corporation (the "Company" or "Visteon") is a global automotive supplier that designs, engineers and manufactures innovative electronics products for nearly every original equipment vehicle manufacturer ("OEM") worldwide including Ford, Nissan, Renault, Mazda, BMW, General Motors and Honda. Visteon is headquartered in Van Buren Township, Michigan and has an international network of manufacturing operations, technical centers and joint venture operations, supported by approximately 10,000 employees, dedicated to the design, development, manufacture and support of its product offerings and its global customers. The Company's manufacturing and engineering footprint is principally located outside of the U.S., with a heavy concentration in low-cost geographic regions. Visteon delivers value for its customers and stockholders through its technology-focused core vehicle cockpit electronics business. The Company's cockpit electronics product portfolio includes audio systems, information displays, instrument clusters, head up displays, infotainment systems, and telematics solutions. The Company's vehicle cockpit electronics business is comprised of and reported under the Electronics segment. In addition to the Electronics segment, the Company has residual operations in South America and Europe previously associated with the former Interiors and Climate businesses, not subject to discontinued operations classification, that comprise Other. A summary of transactions impacting the Company's businesses is provided below.

Exit of Climate Business

On June 9, 2015, Visteon Corporation and its wholly owned subsidiary, VIHI, LLC (collectively, “Visteon”) completed the sale to Hahn & Co. Auto Holdings Co., Ltd. and Hankook Tire Co., Ltd. (together, the “Purchasers”) of all of its shares of Halla Visteon Climate Control Corporation, a Korean corporation (“HVCC”), for approximately $3.4 billion, or KRW 52,000 per share, after adjusting for the 2014 dividend paid by HVCC to Visteon (the “Climate Transaction”), pursuant to and in accordance with the Share Purchase Agreement, dated as of December 17, 2014, among Visteon and the Purchasers. See Note 4 "Discontinued Operations" for additional disclosures. The Company received net cash proceeds of approximately $2.7 billion and recognized a pretax gain of approximately $2.3 billion in connection with the closing of the Climate Transaction in the second quarter 2015. The results of operations for the Climate business have been classified as income (loss) from discontinued operations, net of tax in the consolidated statements of comprehensive income for the three and nine month periods ended September 30, 2015.

On July 18, 2016, the Company reached an agreement to sell its South Africa climate operations, with 2015 annual sales of $9 million as reported in Other in the Company’s segment footnote. The sale is expected to close during 2016 for proceeds of approximately $2 million. Assets and liabilities associated with these operations met the "held for sale" criteria at September 30, 2016 and are classified as "Other current assets" or "Other current liabilities" in the consolidated balance sheets. The Company recorded a charge during the third quarter of 2016 associated with this agreement of approximately $11 million related to foreign currency translation amounts recorded in accumulated other comprehensive loss.

Exit of Interiors Business

During 2014, the Company divested the majority of its global Interiors business (the "Interiors Divestiture"). Subsequently, Visteon completed the sale of its Interiors operations in Thailand on February 2, 2015. Remaining operations subject to the Interiors Divestiture are located in Argentina and Brazil and are expected to close during 2016. Assets and liabilities associated with these operations continue to meet the "held for sale" criteria at September 30, 2016 and are classified as "Other current assets" or "Other current liabilities" in the consolidated balance sheets. The Company expects to record losses in connection with the Argentina and Brazil portions of the

Interiors Divestiture in future periods upon closing, which are estimated to be approximately $20 million.
See Note 4 "Discontinued Operations" for additional disclosures.

On December 1, 2015, Visteon completed the sale and transfer of its equity ownership in Visteon Deutschland GmbH, which operated the Berlin, Germany interiors plant ("Germany Interiors Divestiture"). The Company contributed cash, of approximately $141 million, assets of $27 million, and liabilities of $198 million including pension related liabilities. The Company will make a final contribution payment of approximately $33 million in the fourth quarter of 2016 which is included in the Company's consolidated balance sheet as "Other current liabilities" as of September 30, 2016.

NOTE 2. Summary of Significant Accounting Policies

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. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. These interim consolidated financial statements include all adjustments

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(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.

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. All other investments in non-consolidated affiliates are accounted for using the cost method.

The Company determines whether joint ventures in which it has invested is a Variable Interest Entity (“VIE”) at the start of each new venture and when a reconsideration event has occurred. An enterprise must consolidate a VIE if it is determined to be the primary beneficiary of the VIE. The primary beneficiary has both the power to direct the activities of the VIE that most significantly impact the entity’s economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company determined that Yanfeng Visteon Electronics (China) Investment Co., Ltd. ("YFVIC"), is a VIE. The Company holds a variable interest in YFVIC primarily related to its ownership interests and subordinated financial support. The Company and Yanfeng Automotive Trim Systems Co., Ltd. (an unrelated party) each own 50% of YFVIC. YFVIC is not consolidated since the Company is not the primary beneficiary.

At September 30, 2016, the Company’s investment in YFVIC is $24 million. In addition, at September 30, 2016, the Company has receivables due from YFVIC, including trade receivables and other advances of $25 million, subordinated loans receivable of $22 million and payables due to YFVIC of $15 million. At December 31, 2015, the Company’s investment in YFVIC was $23 million and it had receivables due from YFVIC, including trade receivables and other advances of $36 million, a subordinated loan receivable of $10 million and payables due to YFVIC of $17 million. At September 30, 2016, the Company’s maximum exposure to loss in YFVIC is $94 million, which includes assets described above and a $23 million loan guarantee. During the nine months ended September 30, 2016, Visteon loaned YFVIC and affiliates approximately $12 million, expected to be repaid within five years.

During the third quarter of 2016, the Company agreed to sell its 50% interest in an equity investment for approximately $7 million. The Company has recorded a loss in the investment of $5 million during the three and nine months ended September 30, 2016 related to this transaction, classified as "Gain on sale of non-consolidated affiliates, net" in the Company's consolidated statements of comprehensive income.

On July 22, 2016, the Company sold a cost method investment to a third party for proceeds of approximately $11 million. The Company recorded a pre-tax gain of $6 million during the three and nine months ended September 30, 2016, classified as "Gain on sale of non-consolidated affiliates, net" in the Company's consolidated statements of comprehensive income.

In June 2015, the Company completed the sale of its 12.5% ownership interest in Yangfeng Visteon Jinqiao Automotive Trim Systems Co., Ltd. ("Jinqiao"), a Chinese automotive supplier for proceeds of approximately $91 million and recorded a pre-tax gain of $62 million during the nine months ended September 30, 2015, classified as "Gain on sale of non-consolidated affiliates, net" in the Company's consolidated statements of comprehensive income.

Use of Estimates: The preparation of the financial statements in conformity with U.S. 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.

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Other Expense, Net: Other expense, net includes the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
	(Dollars in Millions)			
Foreign currency translation charge	$11	$ —	$11	$—
Loss on asset contribution	2	—	2	—
Transformation initiatives	—	5	3	23
Transaction hedging and exchange losses (gains)	—	—	1	(19)
Integration costs	—	2	1	11
Recoverable taxes	—	—	(1)	—
	$13	$ 7	$17	$15

During the three and nine months ended September 30, 2016, the Company recorded a charge of approximately $11 million related to foreign currency translation amounts recorded in accumulated other comprehensive loss associated with the agreement to sell the Company's South Africa climate operations. In connection with the closure of the Climate facility in Argentina, the Company entered an agreement to contribute land and building with a net book value of $2 million to the local municipality.

Transformation initiatives include information technology separation costs and financial and advisory services incurred in connection with the execution of the Company's comprehensive value creation plan and certain severance costs associated with the acquisition of substantially of the global automotive electronics business of Johnson Controls Inc. (the "Electronics Acquisition") and the Climate Transaction. Transaction hedging and exchange gains for the nine months ended September 30, 2015 of $19 million, relate to Climate Transaction proceeds hedging and exchange impacts.

Cash and Equivalents: The Company considers all highly liquid investments purchased with a maturity of three months or less, including short-term time deposits, commercial paper, repurchase agreements and money market funds to be cash equivalents. As of September 30, 2016 the Company's cash balances are invested in a diversified portfolio of cash and cash equivalents including money market funds, commercial paper rated A2/P2 and above with maturity under three months, time deposits and other short-term cash investments, which mature under three months with highly rated banking institutions. The cost of such funds approximates fair value based on the nature of the investment.

Short-term Investments: Short-term investments of $47 million as of December 31, 2015 included corporate bonds, asset backed securities, and commercial paper with maturities between three and twelve months held as part of the Company's separately managed accounts. The cost of these Level 1 investments approximated fair value. These investments were liquidated during the first quarter of 2016.

Restricted Cash: Restricted cash represents amounts designated for uses other than current operations and includes $3 million related to the Letter of Credit Facility, and $1 million related to cash collateral for other corporate purposes at September 30, 2016.

Investments in Affiliates: The Company recorded equity in net income of affiliates of less than $1 million and $3 million for the three month periods ended September 30, 2016 and 2015 respectively. For the nine month periods ended September 30, 2016 and 2015, the Company recorded $3 million and $8 million, respectively. Investments in affiliates were $47 million and $56 million at September 30, 2016 and December 31, 2015, respectively. At September 30, 2016 and December 31, 2015, investments in affiliates accounted for under the equity method totaled $42 million and $45 million, respectively, while investments in affiliates accounted for under the cost method were $5 million at September 30, 2016 and $11 million at December 31, 2015. The Company monitors its investments in 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.

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 for product warranty and recall obligations 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. During the nine months ended September 30, 2016, the Company recorded $7 million

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for specific cause actions representing customer actions related to defective supplier parts and related software. Additional amounts of $6 million for such customer actions are expected to be recovered from contractually responsible parties, and are therefore, included in the Company's consolidated balance sheets as "Accounts receivable, net" and "Other current liabilities" without an impact to the Company's consolidated statements of comprehensive income. The following table provides a reconciliation of changes in the product warranty and recall claims liability:

	Nine Months Ended September 30	
	2016	2015
	(Dollars in Millions)	
Beginning balance	$38	$20
Accruals for products shipped	12	11
Changes in estimates	4	(1)
Specific cause actions	7	9
Recoverable warranty/recalls	6	5
Foreign currency	1	(3)
Settlements	(13)	(12)
Ending balance	$55	$29

Recently Issued Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-9, "Revenue from Contracts with Customers", which is the new comprehensive revenue recognition standard that will supersede existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. To achieve this principle, an entity identifies the contract with a customer, identifies the separate performance obligations in the contract, determines the transaction price, allocates the transaction price to the separate performance obligations and recognizes revenue when each separate performance obligation is satisfied. This ASU allows for both retrospective and prospective methods of adoption. In July 2015, the FASB approved a one-year deferral of the effective date of the standard. As such, the new standard will become effective for annual and interim periods beginning after December 15, 2017 with early adoption on the original effective date permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements and anticipates changes to the revenue recognition of customer owned tooling and engineering recoveries. The Company expects to adopt this standard during the first quarter 2018.

In April 2015, the FASB issued ASU No. 2015-3, "Simplifying the Presentation of Debt Issuance Cost". The ASU requires debt issuance costs associated with a recognized debt liability to be presented on the balance sheet as a direct deduction from the carrying amount of the corresponding debt liability. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The Company adopted the guidance on a retrospective basis during the three months ending March 31, 2016 and accordingly, previously issued debt issuance costs in the amount of $1 million as of December 31, 2015 have been reclassified as a reduction of the corresponding debt liability.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)": The amendments supersede current lease requirements in Topic 840 which require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718)": Improvements to Employee Share-Based Payment Accounting. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, these amendments are not expected to significantly impact net income, earnings per share, and the statement of cash flows. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)": Classification of certain cash receipts and cash payments. The ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain transactions are classified in the statement of cash flows. The ASU will be applied using a retrospective

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transition method to each period presented. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

NOTE 3. Business Acquisition

On July 8, 2016 Visteon acquired AllGo Embedded Systems Private Limited, a leading developer of embedded multimedia system solutions to global vehicle manufacturers, for a purchase price of $17 million ("AllGo Purchase") including $2 million of contingent consideration to be paid over the next year if certain technology milestones are achieved. In addition, the purchase agreement includes contingent payments of $5 million if key employees remain employed through July 2019. The AllGo Purchase is expected to add greater scale and depth to the Company's infotainment software capabilities. The operating results for the business acquired have been included in the Electronics segment from the date of acquisition. During the nine months ended September 30, 2016, the Company incurred acquisition-related costs of approximately $1 million. These amounts were recorded as incurred and have been classified as "Other expenses,net" within the Company's consolidated statements of comprehensive income.

The AllGo purchase was accounted for as a business combination, with the purchase price allocated on a preliminary basis as of July 2016. The preliminary purchase price allocation, which is subject to change and may be subsequently adjusted to reflect final valuation results, is shown below:

	(Dollars in Millions)
Purchase price	$ 17
Assets Acquired:	
Accounts receivable	$ 1
Intangible assets	7
Goodwill	12
Total assets acquired	$ 20
Liabilities Assumed:	
Deferred tax liabilities	3
Total liabilities assumed	$ 3

Assets acquired and liabilities assumed were recorded at estimated fair values based on management's estimates, available information, and reasonable and supportable assumptions. Additionally, the Company utilized a third-party to assist with certain estimates of fair values.

Fair values for intangible assets were based on the income approach including excess earnings and relief from royalty methods. These fair value measurements are classified within level 3 of the fair value hierarchy. The preliminary purchase price allocations may be subsequently adjusted to reflect final valuation results.

The pro forma effects of the AllGo acquisitions does not materially impact the Company's reported results for any period presented, and as a result no pro forma financial statements are presented.

NOTE 4. Discontinued Operations

The operations subject to the Interiors Divestiture and Climate Transaction met conditions required to qualify for discontinued operations reporting. Accordingly, the results of operations for Interiors operations subject to the Interiors Divestiture have been reclassified to income (loss) from discontinued operations, net of tax in the consolidated statements of comprehensive income for the three and nine month periods ended September 30, 2016 and 2015. The nine month period ended September 30, 2015 also included the results of operations for the Climate transaction, sold during the second quarter of 2015.

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Discontinued operations are summarized as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
	(Dollars in Millions)			
Sales	$14	$16	$34	$2,184
Cost of sales	20	21	48	2,021
Gross margin	(6)	(5)	(14)	163
Selling, general and administrative expenses	2	1	4	76
Loss (gain) on Climate Transaction	—	—	2	(2,332)
Loss and impairment on Interiors Divestiture	—	1	2	17
Restructuring expense	—	—	—	2
Interest expense, net	—	—	—	2
Equity in net income of non-consolidated affiliates	—	—	—	6
Other expense, net	1	3	2	8
(Loss) income from discontinued operations before income taxes	(9)	(10)	(24)	2,396
(Benefit) provision for income taxes	(16)	1	(9)	202
Income (loss) from discontinued operations, net of tax	7	(11)	(15)	2,194
Net income attributable to non-controlling interests	—	—	—	24
Net income (loss) from discontinued operations attributable to Visteon	$7	$(11)	$(15)	$2,170

During the nine months ended September 30, 2016, the Company recorded $8 million of income tax expense associated with adverse currency impacts in connection with the Korean capital gains withholding tax recovered during the first quarter of 2016. During the third quarter of 2016, the Company recorded a $17 million income tax benefit to reflect change in estimates associated with the filing of the Company's U.S. tax returns that resulted in a reduction in U.S. income tax related to the 2015 Climate Transaction.

During the nine month periods ended September 30, 2015, the Company received $3.4 billion of gross proceeds and recorded a $2.3 billion in pre-tax gain associated with the Climate Transaction. The gain is summarized below (dollars in millions):

Gross proceeds	(1)	$3,423
Korea withholding tax	(2)	(377)
Professional fees	(3)	(20)
Korea security transaction tax	(4)	(17)
Divested cash balances	(5)	(345)
Net cash provided from investing activities		2,664
Net assets divested, excluding cash balances	(5)	(557)
Information technology separation and service obligations	(6)	(53)
Employee related charges	(7)	(45)
Electronics business repurchase obligation	(8)	(50)
Professional fees	(3)	(4)
Korea withholding tax recoverable	(2)	377
Net gain on Climate Transaction		$2,332

(1) Gross proceeds of $3,423 million were received in connection with the Climate Transaction, translated at a spot rate of 1121.5 KRW to USD on June 9, 2015. Impacts of related hedging activities and exchange on proceeds conversion into USD are included in the Company's consolidated statements of comprehensive income as "Other expense, net" for the three and nine month periods ended September 30, 2015.

(2) In connection with the transaction, the Company recorded a tax recoverable of $377 million for Korean capital gains tax withheld by the Purchasers and paid to the Korean government. This amount reduced proceeds classified as net cash provided from investing activities within the Company's consolidated statements of cash flows for the nine months ended September

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30, 2015. In January 2016, the Company recovered the entire amount of the Korean capital gains withholding tax, adjusted for currency and exchange impacts, of $356 million.

(3) Professional fees of $24 million, representing fees paid to financial advisors, were based on a percentage of the gross proceeds, partially offset by previously paid retainer fees of $4 million, for a net payment of $20 million reducing proceeds classified as net cash provided from investing activities within the Company's consolidated statements of cash flows for the nine months ended September 30, 2015.

(4) Security transaction taxes of $17 million were remitted to the Korean government as of the transaction close, reducing proceeds classified as net cash provided from investing activities within the Company's consolidated statements of cash flows for the nine months ended September 30, 2015.

(5) Net assets of $902 million, including assets, liabilities, accumulated other comprehensive income and non-controlling interests, were divested in connection with the Climate Transaction. Divested assets included $345 million of cash balances, reflected as a reduction of transaction proceeds classified as net cash provided from investing activities within the Company's consolidated statements of cash flows for the nine months ended September 30, 2015.

(6) In connection with the Climate Transaction, the Company has entered an agreement pursuant to which Visteon will provide information technology ongoing and separation services for HVCC to fully operate as an independent entity with estimated costs of approximately $53 million. The information technology liability is included in the Company's consolidated balance sheets as "Other current liabilities" as of September 30, 2016 and December 31, 2015.

(7) Employee related charges of $45 million include bonus payments, the Company's assumption of incentive plan liabilities, and impacts of employment change in control provisions. Bonus payments of $30 million are classified in the Company's net cash provided from operating activities within the Company's consolidated statements of cash flows for the nine months ended September 30, 2015. Amounts remaining to be paid are included in the Company's consolidated balance sheets as "Accrued employee liabilities" as of September 30, 2016 and December 31, 2015.

(8) In connection with the Climate Transaction, the Company has entered an agreement to purchase certain electronics operations located in India, expected to close in 2016. The Company has recorded a repurchase obligation of $50 million, representing the estimated purchase price of the subject business. The Company continues to consolidate the business, with net assets of approximately $22 million as of September 30, 2016, based on the Company’s continued controlling financial interest. The Company’s controlling financial interest was evaluated based on continued operating control and obligation to fund losses or benefit from earnings. The business is included in a legal entity currently owned by HVCC and therefore the Electronics business assets are not available for general corporate purposes. The repurchase obligation is included in the Company’s consolidated balance sheets as “Other current liabilities” as of September 30, 2016 and December 31, 2015.

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As of September 30, 2016 and December 31, 2015, held for sale balances include assets and liabilities associated with operations subject to the Interiors Divestiture located in Argentina and Brazil and climate operations pending sale in South Africa.

Held for sale balances, classified as "Other current assets" and "Other current liabilities" on the consolidated balance sheets are summarized as follows:

	September 30 2016	December 31 2015
	(Dollars in Millions)	
ASSETS HELD FOR SALE		
Cash and equivalents	$ 2	$ 1
Accounts receivable, net	13	9
Inventories, net	6	4
Other current assets	2	3
Total current assets held for sale	23	17
Total assets held for sale	$ 23	$ 17
LIABILITIES HELD FOR SALE		
Accounts payable	$ 9	$ 6
Employee benefits	3	2
Other current liabilities	1	1
Total current liabilities held for sale	13	9
Total liabilities held for sale	$ 13	$ 9

The Company has combined cash flows from discontinued operations with cash flows from continuing operations within the operating, investing and financing categories within the consolidated statements of cash flows. Cash and non-cash items for certain operating and investing activities related to discontinued operations for the nine months ended September 30, 2016 and 2015 are as follows:

	Nine Months Ended September 30	
	2016	2015
	(Dollars in Millions)	
Depreciation and amortization	$ —	$ 85
Asset impairments and losses on divestiture	$ 2	$ 16
Capital expenditures	$ 2	$ 81

NOTE 5. Restructuring Activities

During the three and nine months ended September 30, 2016, the Company recorded $5 million and $22 million of restructuring expenses, net of reversals. Given the economically-sensitive and highly competitive nature of the automotive electronics 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.

Electronics

During the first quarter of 2016, the Company announced a restructuring program to transform the Company's engineering organization and supporting functional areas to focus on execution and technology. The organization will be comprised of regional engineering, product management and advanced technologies, and global centers of competence. During the three and nine months ended September 30, 2016, the Company has recorded approximately $1 million and $13 million, respectively, of restructuring

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expenses under this program, associated with approximately 100 employees, of which $7 million remains accrued as of September 30, 2016. The Company expects to record additional restructuring costs related to this program as the underlying plan is finalized.

In connection with the Electronics Acquisition the Company commenced a restructuring program designed to achieve annual cost savings through transaction synergies. During the three and nine months ended September 30, 2015, the Company recorded $2 million and $14 million, respectively, of severance and termination benefits under this program associated with approximately 400 employees. As of September 30, 2016, $4 million remains accrued for this program and charges are considered substantially complete.

The Company previously announced a restructuring program designed to reduce fixed costs and to improve operational efficiency by addressing certain under-performing operations. In connection with that program, the Company announced plans to realign its corporate and administrative functions directly to their corresponding operational beneficiary. The Company recorded $1 million and $4 million for restructuring expenses during the three and nine months ended September 30, 2015, respectively, primarily related to severance and termination benefits. As of September 30, 2016, this program is considered substantially complete.

Other

During the three and nine months ended September 30, 2016, the Company recorded $4 million and $11 million, respectively, of restructuring expenses, related to severance and termination benefits, in connection with the wind-down of certain operations in South America, of which $11 million remains accrued as of September 30, 2016. The Company expects to record additional restructuring costs related to this program as the underlying plan is finalized.

As of September 30, 2016, the Company retained approximately $2 million of restructuring reserves as part of the Interiors Divestiture associated with a previously announced program for the fundamental reorganization of operations at a facility in Brazil.

Restructuring Reserves

Restructuring reserve balances of $33 million and $38 million at September 30, 2016 and December 31, 2015, respectively, are classified as "Other current liabilities" on the consolidated balance sheets. The Company anticipates that the activities associated with the current restructuring reserve balance will be substantially complete by the end of 2017. The Company's consolidated restructuring reserves and related activity are summarized below, including amounts associated with discontinued operations.

	Electronics	Other	Total
	(Dollars in Millions)		
December 31, 2015	$33	$5	$38
Expense	11	—	11
Utilization	(13)	—	(13)
Reversals	(1)	—	(1)
Foreign currency	1	—	1
March 31, 2016	31	5	36
Expense	1	7	8
Utilization	(5)	—	(5)
Reversals	(1)	—	(1)
Foreign currency	(1)	—	(1)

June 30, 2016	25	12	37
Expense	1	4	5
Utilization	(7)	(2)	(9)
September 30, 2016	$ 19	$ 14	$ 33

Utilization represents payments for severance and other employee termination benefits and special termination benefits reclassified to pension and other postretirement employee benefit liabilities, where such payments are made from the Company's benefit plans.

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NOTE 6. Inventories

Inventories consist of the following components:

	September 30 2016	December 31 2015
	(Dollars in Millions)	
Raw materials	$97	$ 90
Work-in-process	44	53
Finished products	35	44
	$176	$ 187

NOTE 7. Other Assets

Other current assets are comprised of the following components:

	September 30 2016	December 31 2015
	(Dollars in Millions)	
Recoverable taxes	$75	$ 425
Prepaid assets and deposits	36	28
Joint venture receivables	33	44
Assets held for sale	23	17
Notes receivable	17	21
Contractually reimbursable engineering costs	8	34
Foreign currency hedges	2	6
Other	6	6
	$200	$ 581

Recoverable taxes as of December 31, 2015 included Korean capital gains tax withheld by the Purchasers and paid to the Korean government in connection with the Climate Transaction of $364 million adjusted for currency and interest impacts. In January 2016, the Company recovered the entire amount of the Korean capital gains withholding tax, adjusted for currency impacts, of $356 million.

Other non-current assets are comprised of the following components:

	September 30 2016	December 31 2015
	(Dollars in Millions)	
Deferred tax assets	$35	$ 34
Recoverable taxes	34	21
Long term notes receivable	26	13
Contractually reimbursable engineering costs	9	4
Other	16	16
	$120	$ 88

Current and non-current contractually reimbursable engineering costs of $8 million and $9 million, respectively, at September 30, 2016 and $34 million and $4 million, respectively, at December 31, 2015, are related to pre-production design and development costs incurred pursuant to long-term supply arrangements that are contractually guaranteed for reimbursement by customers. The Company expects to receive cash reimbursement payments of approximately $3 million during the remainder of 2016, $6 million in 2017, and $8 million in 2018 and thereafter.

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NOTE 8. Property and Equipment, net

Property and equipment, net consists of the following:

	September 30 2016	December 31 2015
	(Dollars in Millions)	
Land	$18	$ 15
Buildings and improvements	69	64
Machinery, equipment and other	411	353
Construction in progress	35	75
	533	507
Accumulated depreciation	(208)	(170)
	325	337
Product tooling, net of amortization	17	14
	$342	$ 351

Property and equipment is depreciated principally using the straight-line method of depreciation over the related asset's estimated useful life. Generally, buildings and improvements are depreciated over a 40-year estimated useful life, leasehold improvements are depreciated on a straight-line basis over the initial lease term period, and machinery, equipment and other 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 six years. Depreciation and amortization expenses for property and equipment, excluding discontinued operations, are summarized as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
	(Dollars in Millions)			
Depreciation	$16	$ 17	$ 49	$ 49
Amortization	1	—	2	2
	$17	$ 17	$ 51	$ 51

NOTE 9. Intangible Assets, net

Intangible assets, net at September 30, 2016 and December 31, 2015, are comprised of the following:

	Estimated Weighted Average Useful Life (years)	September 30, 2016			December 31, 2015		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
		(Dollars in Millions)					
Definite-Lived:							
Developed technology	7	$41	$ 24	$ 17	$39	$ 20	$ 19
Customer related	10	87	24	63	84	17	67
Other	32	8	1	7	8	1	7

Subtotal	136	49	87	131	38	93
Indefinite-Lived:						
Goodwill	50	—	50	40	—	40
Total	$186	$ 49	$ 137	$171	$ 38	$ 133

In connection with the AllGo Purchase, the Company recorded intangible assets including patented and unpatented technology of $2 million and customer related assets of $5 million. These definite lived intangible assets are being amortized using the straight-

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line method over their estimated useful lives of 10 years for patented technology, 12 years for unpatented technology and 7 to 12 years for customer related assets. Additionally, the Company recorded goodwill of $12 million for the excess of the purchase price over the net of the fair values of the identifiable assets and liabilities acquired.
The Company recorded approximately $4 million and $11 million of amortization expense related to definite-lived intangible assets for the three and nine months ended September 30, 2016. The Company currently estimates annual amortization expense to be $14 million for 2016, $12 million each year from 2017 through 2019, and $11 million for 2020. Indefinite-lived intangible assets are not amortized but are tested for impairment at least annually, or earlier when events and circumstances indicate that it is more likely than not that such assets have been impaired.

A roll-forward of the carrying amounts of intangible assets is presented below:

	Definite-lived intangibles			Indefinite-lived intangibles	
	Developed Technology	Customer Related	Other	Goodwill	Total
	(Dollars in Millions)				
December 31, 2015	$ 19	$ 67	$ 7	$ 40	$ 133
Additions	2	5	—	12	19
Foreign currency	—	(2)	—	(2)	(4)
Amortization	(4)	(7)	—	—	(11)
September 30, 2016	$ 17	$ 63	$ 7	$ 50	$ 137

Additions represent the fair value of intangibles associated with the AllGo Purchase, disclosed in Note 3 "Business Acquisition."

NOTE 10. Other Liabilities

Other current liabilities are summarized as follows:

	September 30 2016	December 31 2015
	(Dollars in Millions)	
Electronics operations repurchase commitment	$ 50	$ 50
Product warranty and recall accruals	40	26
Restructuring reserves	33	38
Contribution payable	33	33
Rent and royalties	30	33
Joint venture payables	17	18
Liabilities held for sale	13	9
Dividends payable	12	6
Foreign currency translation loss	11	—
Deferred income	10	11
Information technology separation and service obligations	7	37
Non-income taxes payable	6	20
Foreign currency hedges	5	1
Income taxes payable	4	63
Other	22	25
	$ 293	$ 370

In connection with the Climate Transaction, the Company entered into an agreement to purchase certain electronics operations located in India, expected to close in 2016. The Company has recorded a repurchase commitment of $50 million during 2015, representing the estimated purchase price of the subject business.

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In connection with the Germany Interiors Divestiture, the Company will make a final contribution payment of approximately $33 million by December 2016.

As of September 30, 2016 and December 31, 2015 liabilities held for sale of $13 million and $9 million, respectively, represent liabilities associated with operations subject to the Interiors Divestiture located in Argentina and Brazil. See Note 4 "Discontinued Operations" for additional disclosures.

On July 18, 2016, the Company reached an agreement to sell its South Africa climate operations. The sale is expected to close during 2016 for proceeds of approximately $2 million. The Company recorded a charge of approximately $11 million related to foreign currency translation amounts recorded in accumulated other comprehensive loss, and classified as "Other liabilities" until the transaction close date.

Information technology separation and service obligations were established in connection with the Climate Transaction and Interiors Divestiture, representing ongoing and separation services for the divested businesses to operate as independent entities. As of September 30, 2016 and December 31, 2015 remaining obligations totaled $7 million and $37 million, respectively.

Other non-current liabilities are summarized as follows:

	September 30 2016	December 31 2015
	(Dollars in Millions)	
Income tax reserves	$ 22	$ 25
Deferred income	16	15
Product warranty and recall accruals	15	12
Non-income tax reserves	10	10
Other	19	13
	$ 82	$ 75

NOTE 11. Debt

The Company’s short and long-term debt consists of the following:

	September 30 2016	December 31 2015
	(Dollars in Millions)	
Short-Term Debt:		
Current portion of long-term debt	$ 1	$ 3
Short-term borrowings	23	34
	$ 24	$ 37
Long-Term Debt:		
Term debt facility	$ 345	$ 345
Other	2	1
	$ 347	$ 346

As of December 31, 2015 previously issued debt issuance costs were reclassified as a reduction of the corresponding debt liability in accordance with ASU No. 2015-3, "Simplifying the Presentation of Debt Issuance Cost". These costs approximated $1 million as of September 30, 2016 and December 31, 2015.

Short-Term Debt

Short-term borrowings are primarily related to the Company's non-U.S. consolidated joint ventures and are payable in USD, Chinese Yuan, Indian Rupee and Thai Baht. The Company had international affiliate short-term borrowings of $23 million and $34 million as of September 30, 2016 and December 31, 2015 respectively. Availability under outstanding affiliate credit facilities as of September 30, 2016 is approximately $34 million.

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Long-Term Debt

The Credit Agreement, dated as of April 9, 2014 and as amended by Waiver and Amendment No. 1 dated as of March 25, 2015 (the “Credit Agreement”), by and among the Company, as borrower, each lender from time to time party thereto, each letter of credit issuer from time to time party thereto and Citibank, N.A., as administrative agent, provides for (i) an aggregate principal of $350 million (the “Term Facility”) and (ii) a $200 million revolving credit facility (the “Revolving Facility”). The Term Facility matures on April 9, 2021 and the Revolving Facility matures on April 9, 2019. The Credit Agreement requires the Company and its subsidiaries to comply with customary affirmative and negative covenants, including financial covenants and contains customary events of default. The Company was in compliance with such covenants as of September 30, 2016.

Other Long-Term Debt

The Company had $2 million and $1 million of other long-term debt outstanding as of September 30, 2016 and December 31, 2015, respectively, primarily related to information technology software leases.

NOTE 12. Employee Benefit Plans

Defined Benefit Plans

The Company's net periodic benefit costs for all defined benefit plans for the three month periods ended September 30, 2016 and 2015 were as follows:

	U.S. Plans		Non-U.S. Plans	
	2016	2015	2016	2015
	(Dollars in Millions)			
Costs Recognized in Income:				
Service cost	$—	$—	$1	$1
Interest cost	7	8	3	6
Expected return on plan assets	(10)	(11)	(3)	(4)
Amortization of losses and other	—	—	—	1
Net pension (income) expense	$(3)	$(3)	$1	$4

The Company's net periodic benefit costs for all defined benefit plans for the nine month periods ended September 30, 2016 and 2015 were as follows:

	U.S. Plans		Non-U.S. Plans	
	2016	2015	2016	2015
	(Dollars in Millions)			
Costs Recognized in Income:				
Service cost	$—	$—	$2	$14
Interest cost	21	25	9	18
Expected return on plan assets	(31)	(32)	(9)	(15)
Settlements and curtailments	—	—	1	—
Amortization of losses and other	—	—	—	6
Net pension (income) expense	$(10)	$(7)	$3	$23

During the nine months ended September 30, 2016, cash contributions to the Company's U.S. and non-U.S. defined benefit pension plan were $9 million. The Company expects to make cash contributions to its defined benefit pension plans of $13 million in 2016. The Company’s expected 2016 contributions may be revised.

On April 28, 2016, the Company purchased a non-participating annuity contract for all participants of the Canada non-represented plan. The annuity purchase covered 52 participants and resulted in the use of $5 million of plan assets for pension benefit obligation settlements of approximately $5 million. In connection with the annuity purchase, the Company recorded a settlement loss of approximately $1 million during the three months ended June 30, 2016.

2016 Discount Rate for Estimated Service and Interest Cost: Through December 31, 2015, the Company recognized service and interest cost components of pension expense using a single weighted average discount method representing the constant annual

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rate required to discount all future benefit payments related to past service. During the fourth quarter of 2015, the Company changed the method used to estimate service and interest components of net periodic benefit cost for pension benefits for its U.S. and certain non-U.S. plans. The Company has elected to utilize a disaggregated discount rate approach resulting in different amounts of interest cost compared to the traditional single weighted-average discount rate approach because of different weightings given to each subset of payments.

This change does not affect the measurement of the total benefit obligation, but resulted in a decrease in the service and interest components of benefit cost beginning in 2016. Based on current economic conditions, the Company estimates that service cost and interest cost for the affected plans will be reduced by approximately $7 million in 2016 as a result of the change in method. The Company has accounted for this as a change in accounting estimate that is inseparable from a change in accounting principle, and accordingly has accounted for it on a prospective basis.

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. For the U.S. defined contribution plan, the Company matches 100% of contributions on the first 6% of pay contributed. The expense related to matching contributions was approximately $2 million and $2 million for the three months ended September 30, 2016 and 2015, respectively. The expense related to matching contributions was approximately $6 million and $8 million for the nine months ended September 30, 2016 and 2015, respectively.

NOTE 13. Income Taxes

During the three and nine month periods ended September 30, 2016, the Company recorded a provision for income tax on continuing operations of $5 million and $27 million, respectively, which 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 pretax losses and/or recognize tax expense for pretax income in certain jurisdictions (including the U.S.) due to valuation allowances. Pretax losses from continuing operations in jurisdictions where valuation allowances are maintained and no income tax benefits are recognized totaled $38 million and $31 million, for the nine months ended September 30, 2016 and 2015, respectively, resulting in an increase in the Company's effective tax rate in those years. As described further below, the Company's estimated annual effective tax rate is updated each quarter and was favorably impacted by incorporating certain transfer pricing adjustments between the U.S. and Japan consistent with the anticipated transfer pricing methodology expected to be agreed upon pursuant to the Company's impending bilateral advance pricing agreement ("APA") submission between those two countries.

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 that are not considered permanently reinvested at each tier of the legal entity structure.
During the nine month period ended September 30, 2016 and 2015, the Company recognized expense primarily related to non-U.S. withholding taxes, of $3 million and $4 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. In determining the estimated annual effective tax rate, the Company analyzes various factors, including forecasts of projected annual earnings, taxing jurisdictions in which the pretax income and/or pretax losses will be generated, the ability to use tax credits and net operating loss carryforwards, and available tax planning strategies. The Company's estimated annual effective tax rate is updated each quarter and may be significantly impacted by changes to the mix of forecasted earnings by tax jurisdiction. The tax impact of adjustments to the estimated annual effective tax rate are recorded in the period such estimates are revised. 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 uncertain tax positions, and changes in tax laws or rates, in the interim period in which they occur, rather than included in the estimated annual effective tax rate.

The need to maintain valuation allowances against deferred tax assets in the U.S. and other affected countries will 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 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

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more likely than not the deferred tax assets will not be realized, a valuation allowance is recorded. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses. In regards to the full valuation allowance recorded against the U.S. net deferred tax assets, significant judgment is applied in determining whether a carryback opportunity related to the 2015 tax year provides an incremental source of taxable income to support partial realization of the U.S. net deferred tax assets, which includes estimating the amount of future tax losses that would be available to carryback.

Unrecognized Tax Benefits

Gross unrecognized tax benefits at September 30, 2016 and December 31, 2015, including amounts attributable to discontinued operations, were $33 million and $37 million, respectively. Of these amounts approximately $18 million and $29 million at September 30, 2016 and December 31, 2015, 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, 2016 and December 31, 2015 were $4 million and $3 million, respectively.

The $4 million net decrease in gross unrecognized tax benefits reflects $7 million in decreases primarily related to settling tax assessments from the Korean tax authorities related to underpayment of withholding taxes, and favorable developments in connection with an ongoing audit in Hungary. These decreases were partially offset by increases for audit developments in Mexico and anticipated transfer pricing-related exposures worldwide totaling $3 million.
The $11 million net decrease in the unrecognized tax benefits, that, if recognized, would impact the effective tax rate, reflects the $7 million settlement and $1 million net increase for ongoing audit developments described above, and $5 million in decreases related primarily to change in estimates associated with the filing of the Company’s U.S. tax returns that resulted in a reduction in U.S. income tax after utilizing available tax attributes related to the 2015 Climate Transaction.

With few exceptions, the Company is no longer subject to U.S. federal tax examinations for years before 2012 or state and local, or non-U.S. income tax examinations for years before 2003 although U.S. net operating losses carried forward into open tax years technically remain open to adjustment. 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 Europe, Asia, Mexico and the U.S. 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. The long-term portion of uncertain income tax positions (including interest) in the amount of $22 million is included in Other non-current liabilities on the consolidated balance sheet.
A reconciliation of the beginning and ending amount of unrecognized tax benefits including amounts attributable to discontinued operations is as follows:

	Nine Months Ended September 30, 2016 (Dollars in Millions)

Beginning balance	$ 37
Tax positions related to current period:	
Additions	2
Tax positions related to prior periods:	
Additions	1
Settlements with tax authorities	(7)
Ending balance	$ 33

During 2012, Brazil tax authorities issued tax assessment notices to Visteon Sistemas Automotivos ("Sistemas") related to the sale of its chassis business to a third party, which required a deposit in the amount of $15 million during 2013 necessary to open a judicial proceeding against the government in order to suspend the debt and allow Sistemas to operate regularly before the tax authorities after attempts to reopen an appeal of the administrative decision failed. Adjusted for currency impacts and accrued

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interest, the deposit amount is approximately $15 million, as of September 30, 2016. 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, as well as income tax refund claims associated with other jurisdictions, total $16 million as of September 30, 2016, and are included in Other non-current assets on the consolidated balance sheet.

NOTE 14. Stockholders' Equity and Non-controlling Interests

Changes in equity for the three months ended September 30, 2016 and 2015 are as follows:

	2016			2015		
	Visteon	NCI	Total	Visteon	NCI	Total
	(Dollars in Millions)					
Three Months Ended September 30						
Beginning balance	$616	$148	$764	$2,688	$162	$2,850
Net income from continuing operations	21	4	25	16	5	21
Net income (loss) from discontinued operations	7	—	7	(11)	—	(11)
Net income	28	4	32	5	5	10
Other comprehensive income (loss)						
Foreign currency translation adjustments	3	—	3	(23)	(4)	(27)
Benefit plans	—	—	—	2	—	2
Unrealized hedging gain (loss)	—	—	—	(3)	—	(3)
Total other comprehensive income (loss)	3	—	3	(24)	(4)	(28)
Stock-based compensation, net	1	—	1	1	—	1
Warrant exercises	—	—	—	15	—	15
Dividends to non-controlling interests	—	(6)	(6)	—	—	—
Ending balance	$648	$146	$794	$2,685	$163	$2,848

Changes in equity for the nine months ended September 30, 2016 and 2015 are as follows:

	2016			2015		
	Visteon	NCI	Total	Visteon	NCI	Total
	(Dollars in Millions)					
Nine Months Ended September 30						
Beginning balance	$1,057	$142	$1,199	$865	$956	$1,821
Net income from continuing operations	88	12	100	93	17	110
Net (loss) income from discontinued operations	(15)	—	(15)	2,170	24	2,194
Net income	73	12	85	2,263	41	2,304
Other comprehensive income (loss)						
Foreign currency translation adjustments	26	(2)	24	(23)	(16)	(39)
Benefit plans	1	—	1	35	1	36
Unrealized hedging gain (loss)	(4)	—	(4)	2	2	4
Total other comprehensive income (loss)	23	(2)	21	14	(13)	1
Stock-based compensation, net	(5)	—	(5)	13	—	13
Warrant exercises	—	—	—	30	—	30
Share repurchase	(500)	—	(500)	(500)	—	(500)
Business divestitures	—	—	—	—	(785)	(785)
Dividends to non-controlling interests	—	(6)	(6)	—	(36)	(36)
Ending balance	$648	$146	$794	$2,685	$163	$2,848

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Share Repurchase Program

On June 16, 2015, the Company announced an accelerated stock buyback ("ASB") program with a third-party financial institution to purchase shares of common stock for an aggregate purchase price of $500 million, as the first of announced shareholder return actions. Under the program, the Company paid the financial institution $500 million and received an initial delivery of 3,712,297 shares of common stock using a reference price of $107.75. The program concluded in December 2015 and the Company received an additional 1,058,965 shares. The final settlement price for all shares delivered under this 2015 ASB program was $104.79.

During the fourth quarter of 2015, the Company entered into an agreement with a third party financial institution to purchase up to $150 million of Visteon common stock in accordance with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934 ("10b5-1 Share Repurchase Program"). During the period of the program, which concluded on March 1, 2016, the Company paid approximately $105 million to repurchase 1,607,849 shares at an average price of $65.05.

On March 1, 2016, the Company entered into another ASB program with a third-party financial institution to purchase shares of common stock for an aggregate purchase price of $395 million. Under the program, the Company paid the financial institution $395 million and received an initial delivery of 4,370,678 shares of common stock using a reference price of $72.30. The program was concluded in October 2016 and the Company received additional 1,211,979 shares. In total, the Company purchased 5,582,657 shares at an average price of $70.75 under this ASB program.

The Company anticipates that additional repurchases of common stock, if any, would occur from time to time in open market transactions or in privately negotiated transactions depending on market and economic conditions, share price, trading volume, alternative uses of capital and other factors.

Distribution

On December 9, 2015, the Company declared a special distribution of $43.40 per share of its common stock outstanding as of January 15, 2016, or approximately $1.75 billion in the aggregate. On January 22, 2016 approximately $1.74 billion was paid, the remaining $15 million will be paid over a two-year period upon vesting and settlement of restricted stock units and performance-based share units previously granted to the Company's employees. These amounts were classified as "Distribution payable" on the Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015. The special cash distribution was funded from Climate Transaction proceeds.

Non-Controlling Interests

Non-controlling interests in the Visteon Corporation economic entity are as follows:

	September 30 2016	December 31 2015
	(Dollars in Millions)	
Yanfeng Visteon Automotive Electronics Co., Ltd.	$106	$ 100
Shanghai Visteon Automotive Electronics, Co., Ltd.	38	41
Other	2	1
	$146	$ 142

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Accumulated Other Comprehensive (Loss) Income

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
	(Dollars in Millions)			
Changes in AOCI:				
Beginning balance	$(170)	$(261)	$(190)	$(299)
Other comprehensive income (loss) before reclassification, net of tax	2	(25)	24	(67)
Amounts reclassified from AOCI	1	1	(1)	(3)
Climate divestiture	—	—	—	84
Ending balance	$(167)	$(285)	$(167)	$(285)
Changes in AOCI by Component:				
Foreign currency translation adjustments				
Beginning balance	$(132)	$(138)	$(155)	$(138)
Other comprehensive income before reclassification, net of tax (a)	3	(23)	26	(86)
Climate divestiture (b)	—	—	—	63
Ending balance	(129)	(161)	(129)	(161)
Benefit plans				
Beginning balance	(35)	(123)	(36)	(156)
Other comprehensive income before reclassification, net of tax (a)	—	—	—	8
Amounts reclassified from AOCI (c)	—	2	1	7
Climate divestiture (b)	—	—	—	20
Ending balance	(35)	(121)	(35)	(121)
Unrealized hedging (loss) gain				
Beginning balance	(3)	—	1	(5)
Other comprehensive income (loss) before reclassification, net of tax (d)	(1)	(2)	(2)	11
Amounts reclassified from AOCI	1	(1)	(2)	(10)
Climate divestiture (b)	—	—	—	1
Ending balance	(3)	(3)	(3)	(3)
Total AOCI	$(167)	$(285)	$(167)	$(285)

(a) There were no income tax effects for the three and nine month periods ending September 30, 2016 and 2015, due to the recording of valuation allowance.

(b) Amounts are included in Income (loss) from discontinued operations, net of tax, on the consolidated statements of comprehensive income.

(c) Amount included in the computation of net periodic pension cost. (See Note 12, "Employee Benefit Plans" for additional details.)

(d) Net tax tax benefit of $1 million are related to unrealized hedging (loss) gain for both the three months ended September 30, 2016 and 2015. Net tax benefit of $0 million and net tax expense of $2 million are related to unrealized hedging gain for the nine months ended September 30, 2016 and 2015, respectively.

Stock Warrants

During the three and nine months ended September 30, 2015, the Company received payments of $15 million and $30 million related to approximately 266,000 and 569,000 warrants, respectively, converted to shares of common stock at an exercise price of $58.80 per share.

NOTE 15. Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to Visteon 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. 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.

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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	
	2016	2015	2016	2015
	(In Millions, Except Per Share Amounts)			
Numerator:				
Net income from continuing operations attributable to Visteon	$21	$16	$88	$93
Income (loss) from discontinued operations, net of tax	7	(11)	(15)	2,170
Net income attributable to Visteon	$28	$5	$73	$2,263
Denominator:				
Average common stock outstanding - basic	34.0	40.5	35.6	42.9
Dilutive effect of performance based share units and other	0.4	0.9	0.4	1.0
Diluted shares	34.4	41.4	36.0	43.9
Basic and Diluted Per Share Data:				
Basic earnings (loss) per share attributable to Visteon:				
Continuing operations	$0.62	$0.39	$2.47	$2.17
Discontinued operations	0.21	(0.27)	(0.42)	50.58
	$0.83	$0.12	$2.05	$52.75
Diluted earnings (loss) per share attributable to Visteon:				
Continuing operations	$0.61	$0.38	$2.44	$2.12
Discontinued operations	0.20	(0.26)	(0.41)	49.43
	$0.81	$0.12	$2.03	$51.55

NOTE 16. Fair Value Measurements and Financial Instruments

The Company is exposed to various market risks including, but not limited to, changes in foreign currency exchange rates and market interest rates. The Company manages these risks, in part, through the use of derivative financial instruments. The maximum length of time over which the Company hedges the variability in the future cash flows for forecast transactions excluding those forecast transactions related to the payment of variable interest on existing debt is up to eighteen months from the date of the forecast transaction. The maximum length of time over which the Company hedges forecast transactions related to the payment of variable interest on existing debt is the term of the underlying debt. The use of derivative financial instruments creates exposure to credit loss in the event of nonperformance by the counter-party to the derivative financial instruments.

The Company uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. 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.

Fair Value of Debt

The Company's fair value of debt was approximately $377 million and $385 million at September 30, 2016 and December 31, 2015, respectively. Fair value estimates were based on the current rates offered to the Company for debt of the same remaining maturities. Accordingly, the Company's debt fair value disclosures are classified as Level 2, "Other Observable Inputs" in the fair value hierarchy.

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Financial Instruments

The Company presents its derivative positions and any related material collateral under master netting arrangements that provide for the net settlement of contracts, by counterparty, in the event of default or termination. Derivative financial instruments designated and non-designated as hedging instruments are included in the Company’s consolidated balance sheets. There is no cash collateral on any of these derivatives.
Foreign Exchange Risk: 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. 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 periodically and any natural offsets are considered prior to entering into a derivative financial instrument. The Company’s current primary hedged foreign currency exposures include the Euro, Japanese Yen and Mexican Peso. Where possible, the Company utilizes a strategy of partial coverage for transactions in these currencies.

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.

As of September 30, 2016 and December 31, 2015, the Company had derivative instruments that consisted primarily of option and forward contracts to hedge changes in foreign currency exchange rates with notional amounts of approximately $145 million and $147 million, respectively. Fair value estimates of these contracts are based on quoted market prices and other observable inputs. As of September 30, 2016 and December 31, 2015, respectively, approximately $111 million and $114 million of the instruments have been designated as cash flow hedges with the effective portion of the gain or loss reported in the "Accumulated other comprehensive loss" component of Stockholders’ equity in the Company’s consolidated balance sheet. There was no ineffectiveness associated with such derivatives as of September 30, 2016 and the fair value of these derivatives was an asset of $2 million. The difference between the gross and net value of these derivatives is not material.

During 2015, the Company entered into currency exchange derivatives with a notional amount of $150 million to manage foreign currency exposure on certain non-U.S. denominated foreign entities. These derivatives have been designated as hedges of the Company's net investments in European affiliates with the effective portion of the gain or loss reported in the "Accumulated other comprehensive loss" component of Stockholder's equity in the Company's consolidated balance sheet. There was no ineffectiveness associated with such derivatives as of September 30, 2016 and the fair value of these derivatives was a liability of $2 million.

In December 2014, the Company entered into a foreign currency option contract with a notional amount of $2,229 million to manage foreign currency exposure on anticipated KRW denominated proceeds in connection with the Climate Transaction. During the nine months ended September 30, 2015, the Company entered into offsetting foreign currency option contracts and non-deliverable forwards with notional amounts of $2,229 million each to lower related premium expenses. Final settlement of these hedges occurred during the second quarter of 2015 in connection with the closing of the Climate Transaction. The Company recorded a gain of $3 million for the nine months ended September 30, 2015, reflecting the change in the fair value of the foreign currency option and forward contracts, which was classified as "Other expense, net" in the Company’s consolidated statements of comprehensive income.

Interest Rate Risk: The Company is subject to interest rate risk principally in relation to variable-rate debt. The Company uses derivative financial instruments to manage exposure to fluctuations in interest rates in connection with its risk management policies. During 2015, the Company entered into interest rate swaps with a notional amount of $150 million that effectively convert designated cash flows associated with underlying interest payments on the Term Facility from a variable interest rate to a fixed interest rate, the maturities of these swaps will not exceed the underlying Term Facility. The instruments have been designated as cash flow hedges with the effective portion of the gain or loss reported in "Accumulated other comprehensive loss" component of Stockholders' equity in the Company's consolidated balance sheets and such gains and losses will be reclassified at the time the underlying hedged transactions are realized. The ineffective portion of these swaps is assessed based on the hypothetical derivative method and is recorded as interest expense in the Company's consolidated statements of comprehensive income. As of September 30, 2016 there was no ineffectiveness associated with these derivatives and the fair value was a liability of $3 million.

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The interest rate swaps are valued 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, and can be derived from observable data or supported by observable levels at which transactions are executed in the marketplace. Accordingly, the Company's interest rate swaps are classified as Level 2, "Other Observable Inputs" in the fair value hierarchy.

Financial Statement Presentation

Gains and losses on derivative financial instruments for the three and nine months ended September 30, 2016 and 2015 are as follows:

	Recorded (Loss) Income into AOCI, net of tax		Reclassified from AOCI into (Income) Loss		Recorded in (Income) Loss	
	2016	2015	2016	2015	2016	2015
	(Dollars in Millions)					
Three Months Ended September 30						
Foreign currency risk - Cost of sales:						
Cash flow hedges	$(3)	$(1)	$—	$ 1	$—	$—
Net investment hedges	(1)	—	—	—	—	—
Non-designated cash flow hedges	—	—	—	—	(2)	(1)
Interest rate risk - Interest expense, net:						
Interest rate swap	2	—	1	—	—	—
	$(2)	$(1)	$ 1	$ 1	$(2)	$(1)
Nine Months Ended September 30						
Foreign currency risk - Cost of sales						
Cash flow hedges	$—	$13	$(3)	$ 10	$—	$—
Net investment hedges	(3)	—	—	—	—	—
Non-designated cash flow hedges	—	—	—	—	(3)	(4)
Interest rate risk - Interest expense, net:						
Interest rate swap	(2)	—	1	—	—	—
Foreign currency risk - Other expense, net:						
KRW option and forward contracts	—	(4)	—	(8)	—	5
	$(5)	$9	$(2)	$ 2	$(3)	$ 1

Concentrations of Credit Risk

Financial instruments including cash equivalents, derivative contracts, and accounts receivable, expose the Company to counter-party credit risk for non-performance. The Company’s counterparties for cash equivalents 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 substantial investment and commercial banks with significant experience using such derivatives. The Company manages its credit risk through policies requiring minimum credit standing and limiting credit exposure to any one counter-party and through monitoring counter-party credit risks.

The Company's credit risk with any individual customer does not exceed ten percent of total accounts receivables except for Ford and its affiliates which represents 19% and 18% at