WSFS FINANCIAL CORP
Form 10-K
March 16, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

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 001-35638

WSFS FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**22-2866913**
(State or other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
500 Delaware Avenue, Wilmington, Delaware	**19801**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s Telephone Number, Including Area Code: (302) 792-6000

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $0.01 par value	**The NASDAQ Stock Market LLC**

6.25% Senior Notes Due 2019

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. YES ¨ NO x

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 twelve 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 x 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 x No ¨

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant, based on the closing price of the registrant s common stock as quoted on NASDAQ as of June 30, 2014 was $641,771,858. For purposes of this calculation only, affiliates are deemed to be directors, executive officers and beneficial owners of greater than 10% of the outstanding shares.

As of March 5, 2015, there were issued and outstanding 9,412,395 Shares of the registrant s common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement for the Annual Meeting of Stockholders to be held on April 30, 2015 are incorporated by reference in Part III hereof.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, and exhibits thereto, contain estimates, predictions, opinions, projections and other forward-looking statements as that phrase is defined in the Private Securities Litigation Reform Act of 1995. Such statements include, without limitation, references to our financial goals, management s plans and objectives for future operations, financial and business trends, business prospects, strategic goals, and management s outlook or expectations for earnings, revenues, expenses, capital levels, liquidity levels, asset quality or other future financial or business performance, strategies or expectations. Such forward-looking statements are based on various assumptions (some of which may be beyond our control) and are subject to risks and uncertainties (which change over time) and other factors which could cause actual results to differ materially from those currently anticipated. Such risks and uncertainties include, but are not limited to:

difficult market conditions and unfavorable economic trends in the United States generally, and particularly in the market areas in which we operate and in which our loans are concentrated, including the effects of declines in housing markets, elevated unemployment levels and slowdowns in economic growth;

our level of nonperforming assets and the costs associated with resolving any problem loans including litigation and other costs;

changes in market interest rates which may increase funding costs and reduce earning asset yields thus reducing margin,

the impact of changes in interest rates and the credit quality and strength of underlying collateral and the effect of such changes on the market value of our investment securities portfolio;

the credit risk associated with the substantial amount of commercial real estate, construction and land development, and commercial and industrial loans in our loan portfolio;

additional loan losses and impairment of the collectability of loans;

possible changes in the speed of loan prepayments by our customers and loan originations or sales volumes;

possible acceleration of prepayments of mortgage-backed securities due to low interest rates, and the related acceleration of premium amortization on prepayments on mortgage-backed securities due to low interest rates;

the extensive federal and state regulation, supervision and examination governing almost every aspect of our operations including the changes in regulations affecting financial institutions, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and the rules and regulations being issued in accordance with this statute and potential expenses associated with complying with such regulations.

our ability to comply with applicable capital and liquidity requirements (including the finalized Basel III capital standards), including our ability to generate liquidity internally or raise capital on favorable terms;

possible changes in trade, monetary and fiscal policies, laws and regulations and other activities of governments, agencies, and similar organizations;

any impairment of our goodwill or other intangible assets;

failure of the financial and operational controls of our Cash Connect division;

conditions in the financial markets that may limit our access to additional funding to meet our liquidity needs;

the success of our growth plans, including the successful integration of past and future acquisitions;

negative perceptions or publicity with respect to our trust and wealth management business

system failure or cybersecurity breaches of our network security;

our ability to recruit and retain key employees;

the effects of problems encountered by other financial institutions that adversely affect us or the banking industry generally

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the effects of weather and natural disasters such as floods, droughts, wind, tornadoes and hurricanes as well as effects from geopolitical instability and man-made disasters including terrorist attacks;

regulatory limits on our ability to receive dividends from our subsidiaries and pay dividends to our shareholders; and

the effects of any reputational, credit, interest rate, market, operational, legal, liquidity, regulatory and compliance risk resulting from developments related to any of the items identified above.

Such risks and uncertainties may be, discussed herein, including under the heading Risk Factors, and in other documents filed by us with the Securities and Exchange Commission from time to time. Forward looking statements are as of the date they are made, and we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of us.

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PART I

ITEM 1. BUSINESS

OUR BUSINESS

WSFS Financial Corporation (WSFS, the Company or, as a consolidated institution, we) is parent to Wilmington Savings Fund Society, FSB (WSFS Bank or the Bank), the seventh oldest bank and trust company in the United States continuously operating under the same name. At nearly $5 billion in assets and $9.4 billion in fiduciary assets, WSFS Bank is also the largest bank and trust company headquartered in the Delaware Valley. WSFS Bank has been in operation for 183 years. In addition to its focus on stellar customer service, the Bank has continued to fuel growth and remain a leader in our community. We are a relationship-focused, locally-managed, community banking institution. For the ninth consecutive year, our Associates (what we call our employees) ranked us a Top Workplace in Delaware and for the fourth year in a row the readers of the Delaware News Journal voted us the Top Bank in the state. We state our mission simply: We Stand For Service.

Our core banking business is commercial lending funded by customer-generated deposits. We have built a $2.6 billion commercial loan portfolio by recruiting the best seasoned commercial lenders in our markets and by offering the high level of service and flexibility typically associated with a community bank. We fund this business primarily with deposits generated through commercial relationships and retail deposits in our 55 offices located in Delaware (45), Pennsylvania (8), Virginia (1) and Nevada (1). We also offer a broad variety of consumer loan products, retail securities and insurance brokerage services through our retail branches and mortgage and title services through those branches and through Pennsylvania-based Array Financial Group, Inc., and Arrow Land Transfer Company.

We offer trust and wealth management services through our wealth businesses, Christiana Trust, Cypress Capital Management, LLC (Cypress), WSFS Wealth Investment brokerage and our Private Banking group. The Christiana Trust division of WSFS Bank provides investment, fiduciary, agency, bankruptcy and commercial domicile services from locations in Delaware and Nevada and has $8.8 billion in assets under administration. These services are provided to individuals and families as well as corporations and institutions. Christiana Trust provides these services to customers locally, nationally and internationally. Cypress is an investment advisory firm that manages more than $660 million of portfolios for individuals, trusts, retirement plans and endowments. WSFS Investment Group, Inc. markets various investment and insurance products through the Bank s retail banking system. Our Private Banking group offers credit and deposit products to high net-worth individuals, and partners with our other trust and wealth management units to offer the most appropriate fee-based products to these clients.

Our Cash Connect division is a leading provider of ATM Vault Cash and related services in the United States. Cash Connect manages more than $486 million in vault cash in more than 15,000 ATMs nationwide. It also provides online reporting and ATM cash management, predictive cash ordering, armored carrier management, ATM processing and equipment sales. Cash Connect also operates over 450 ATMs for WSFS Bank. This is, by far, the largest branded ATM network in Delaware. Cash Connect is an innovator for our company and has various additional products and services in development.

WSFS POINTS OF DIFFERENTIATION

While all banks offer similar products and services, we believe that WSFS, through its service model, has set itself apart from other banks in our market and the industry in general. In addition, community banks such as WSFS have been able to distinguish themselves from large national or international banks that fail to provide their customers with the service levels, responsiveness and local decision making customers prefer. The following factors summarize what we believe are our points of differentiation:

Building Associate Engagement and Customer Advocacy

Our business model is built on a concept called Human Sigma, which we have implemented in our strategy of Engaged Associates delivering Stellar Service growing Customer Advocates and value for our Owners . The Human Sigma model, identified by Gallup, Inc., begins with Associates who have taken ownership of their jobs and therefore

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perform at a higher level. We invest significantly in recruitment, training, development and talent management because our Associates are the cornerstone of our business model. This strategy motivates Associates and unleashes innovation and productivity to engage our most valuable asset, our Customers, by providing them with Stellar Service experiences. As a result, we build Customer Advocates, or Customers who have developed an emotional attachment to the Bank. Research studies continue to show a direct link between Associate engagement, customer advocacy and a company s financial performance. Our success with this strategy creates a virtuous cycle, further building an environment of engagement and advocacy.

Surveys conducted for us by Gallup, Inc. indicate:

- Our Associate Engagement scores consistently rank in the top decile of companies polled. In 2014 our engagement ratio was 13.2:1, which means there were 13.2 engaged Associates for every disengaged Associate. This compares to a 2.6:1 ratio in 2003 and a national average of 1.53:1. Gallup, Inc. defines world-class as 11.7:1.

- Our customer advocacy scores rank in the top 15% of all companies. In 2014, 44% of our customers ranked us a five out of five, strongly agreeing with the statement I can t imagine a world without WSFS and 69% of our customers ranked us a five out of five, strongly agreeing with the statement WSFS is the perfect bank for me.

By fostering a culture of engaged and empowered Associates, we believe we have become the employer and bank of choice in our market. In 2014, for the ninth year in a row, we were recognized by *The Wilmington News Journal* as a Top Work Place for large corporations in the State of Delaware. Also in 2014, and for the fourth consecutive year, a *News Journal* survey of its readers also ranked us the *Top Bank* in Delaware, indicating the strength of our focus on customer service.

Community Banking Model

Our size and community banking model play a key role in our success. Our approach to business combines a service-oriented culture with a strong complement of products and services, all aimed at meeting the needs of our retail and business Customers. We believe the essence of being a community bank means that we are:

- Small enough to offer Customers responsive, personalized service and direct access to decision makers.

- Large enough to provide all the products and services needed by our target market customers.

As the financial services industry has consolidated, many independent banks have been acquired by national companies that have centralized their decision-making authority away from their customers and focused their mass-marketing on a regional or even national customer base. We believe this trend has frustrated smaller business owners who have become accustomed to dealing directly with their bank s senior executives and discouraged retail customers who often experience deteriorating levels of service in branches and other service outlets. Additionally, it frustrates bank employees who are no longer empowered to provide good and timely service to their customers.

WSFS Bank offers:

One primary point of contact. Each of our relationship managers is responsible for understanding his or her Customers needs and bringing together the right resources in the Bank to meet those needs.

A customized approach to our Customers. We believe this gives us an advantage over our competitors who are too large or centralized to offer customized products or services.

Products and services that our Customers value. This includes a broad array of banking, cash management and trust and trust and wealth management products, as well as a legal lending limit high enough to meet the credit needs of our Customers, especially as they grow.

Rapid response and a company that is easy to do business with. Our customers tell us this is an important differentiator from larger, in-market competitors.

Strong Market Demographics

Delaware is situated in the middle of the Washington, DC New York corridor which includes the urban markets of Philadelphia and Baltimore. The state benefits from this urban concentration as well as from a unique political, legal, tax and business environment. Delaware s rate of unemployment, median household income and rate of population growth all compare favorably to national averages.

(Most recent available statistics)	**Delaware**	**National Average**
Unemployment *(For December 2014)* [(1)]	5.4%	5.6%
Median Household Income *(2009-2013)* [(2)]	$ 59,878	$ 53,046
Population Growth *(2010-2014)* [(2)]	4.2%	3.3%

(1) Bureau of Labor Statistics, Economy at a Glance;
(2) U.S. Census Bureau, State & County Quick Facts

Balance Sheet Management

We put a great deal of focus on actively managing our balance sheet. This manifests itself in:

Prudent capital levels**.** Maintaining prudent capital levels is key to our operating philosophy. At December 31, 2014 our tangible capital ratio was 9.00% All regulatory capital levels for WSFS Bank maintained a meaningful cushion above well-capitalized levels. WSFS Bank s Tier 1 capital ratio was 12.79% as of December 31, 2014 more than $230 million in excess of the 6% well-capitalized level, under the banking agencies prompt corrective action framework then in effect and our total risk-based capital ratio was 13.83%, more than $147 million above the well-capitalized level of 10.00%.

Disciplined Lending. We maintain discipline in our lending with a particular focus on portfolio diversification and granularity. Diversification includes limits on loans to one borrower as well as industry and product concentrations. We supplement this portfolio diversification with a disciplined underwriting process and the benefit of knowing our customers. We have also taken a proactive approach to identifying trends in our local economy and have responded to areas of concern. As a result we improved all criticized, classified and nonperforming loans to 21.5% of Tier 1 capital plus Allowance for Loan Losses (ALLL) at December 31, 2014 from 29.7% at December 31, 2013. We diversify our loan portfolio to limit our exposure to any single type of credit. Such discipline supplements careful underwriting and the benefits of knowing our customers.

Focus on credit quality. We seek to control credit risk in our investment portfolio and use this portion of our balance sheet primarily to help us manage liquidity and interest rate risk, while providing marginal income and tax relief. Our philosophy and pre-purchase due diligence has allowed us to avoid the significant investment write-downs taken by many of our bank peers during the recent economic downturn (only $86,000 of other-than-temporary impairment charges recorded during this economic cycle).

Asset Strategies. We have created an investment portfolio that is in line with the Board s approved risk appetite and we believe the portfolio contains minimal risks due to our exclusion of non-Agency (Private label) MBS and other asset-backed securities (except for the well documented SASCO Reverse Mortgage securities). We also believe that our thorough due diligence is effective in mitigating the credit risk associated with municipal securities that we have added. Further, our portfolio is highly liquid given our large amount of Agency MBS.

Disciplined Capital Management

We understand that our capital (or stockholders equity) belongs to our stockholders. They have entrusted this capital to us with the expectation that it will earn an appropriate return relative to the risk we take. Mindful of this balance, we prudently, but aggressively, manage our capital.

Strong Performance Expectations and Alignment with Stockholder Priorities

We are focused on high-performing, long-term financial goals. We define high-performing as the top quintile of a relevant peer group in return on assets (ROA), return on tangible common equity (ROTCE) and earnings per share (EPS) growth. Management incentives are, in large part, based on driving performance in these areas. More details on management incentive plans will be included in the proxy statement for our 2015 annual meeting of stockholders.

During 2014, our performance reflected continued progress on our path towards becoming a sustainably high performing company. In 2014, WSFS reported ROA of 1.17% and core ROA exceeding 1% for the year, and improving during the year so that core ROA stood at 1.17% in the final quarter of 2014. We continued to track and report progress towards our target of a core ROA of at least 1.20% by the end of 2015.

Growth

We have achieved success over the long term in lending and deposit gathering, growing the Trust and Wealth Management group s assets under administration and growing Cash Connect s customer base and customer cross-sell. Our success has been the result of a focused strategy that provides service, responsiveness and careful execution in a consolidating marketplace. We plan to continue to grow by:

Developing talented, service-minded Associates. We have successfully recruited Associates with strong ties to, and the passion to serve, their communities to enhance our service in existing markets and to provide a strong start in new communities. We also focus efforts on developing talent and leadership from our current Associate base to better equip those Associates for their jobs and prepare them for leadership roles at WSFS.

Embracing the Human Sigma concept. We are committed to building Associate Engagement and Customer Advocacy as a way to differentiate ourselves and grow our franchise.

Building fee income through investment in and growth of our wealth and Cash Connect (ATM services) businesses.

Continuing strong growth in commercial lending by:

Offering local decision-making by seasoned banking professionals.

Executing our community banking model that combines Stellar Service with the banking products and services our business customers demand.

Adding seasoned lending professionals that have helped us win customers in our Delaware and southeastern Pennsylvania markets.

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Aggressively growing deposits. We have energized our retail branch strategy by combining Stellar Service with an expanded and updated branch network. We plan to continue to grow deposits by:

- Offering products through an expanded and updated branch network.
- Providing a Stellar Service experience to our Customers.
- Further expanding our commercial Customer relationships with deposit and cash management products.
- Finding creative ways to build deposit market share such as targeted marketing programs.
- Selectively opening new branches, including in preferred southeastern Pennsylvania locations.

Seeking strategic acquisitions. In 2014 we acquired First Wyoming Financial Corporation and its wholly-owned banking subsidiary, First National Bank of Wyoming (DE) (First Wyoming) and on March 10, 2015, we signed a definitive agreement to acquire Alliance Bancorp, Inc. of Pennsylvania and its wholly-owned subsidiary, Alliance Bank. Over the next several years we expect our growth will be approximately 80% organic and 20% through acquisitions, although each year s growth will reflect the opportunities available to us at the time.

Innovation

Our organization is committed to product and service innovation as a means to drive growth and to stay ahead of changing customer demands and emerging competition. Our organization has a focus on developing a strong culture of innovation that solicits, captures, prioritizes, and executes innovation initiatives, from product creation to process improvements. We intend to leverage technology and innovation to grow our business and to successfully execute on our strategy.

Values

Our values address integrity, service, accountability, transparency, honesty, growth and desire to improve. They are the core of our culture, they make us who we are and we live them every day.

At WSFS we:

- Do the right thing.
- Serve others.
- Are open and candid.
- Grow and improve.

Results

Our focus on these points of differentiation has allowed us to grow our core franchise and build value for our stockholders. Since 2008, our commercial loans have grown from $1.8 billion to $2.7 billion, a strong 7% compound annual growth rate (CAGR). Over the same period, customer funding has grown from $1.5 billion to $3.5 billion, a 15% CAGR. More importantly, over the last decade, stockholder value has increased at a far greater rate than our banking peers. An investment of $100 in WSFS stock in 2004 would be worth $141 at December 31, 2014. By comparison, $100 invested in the Nasdaq Bank Index in 2004 would be worth $105 at December 31, 2014.

SUBSIDIARIES

The Company has two consolidated direct subsidiaries, WSFS Bank and Cypress Capital Management, LLC (Cypress) and one unconsolidated subsidiary, WSFS Capital Trust III (the Trust).

WSFS Bank has two wholly-owned subsidiaries, WSFS Wealth Investments and Monarch Entity Services, LLC (Monarch). WSFS Wealth Investments markets various third-party investment and insurance products such as single-premium annuities, whole life policies and securities, primarily through our retail banking system and directly to the public. Monarch offers commercial domicile services which include providing employees, directors, sublease of office facilities and registered agent services in Delaware and Nevada.

Cypress is a Wilmington-based registered investment advisor servicing high net-worth individuals and institutions and has over $660 million in assets under management at December 31, 2014.

The Trust is our unconsolidated subsidiary, and was formed in 2005 to issue $67.0 million aggregate principal amount of Pooled Floating Rate Capital Securities.

SEGMENT INFORMATION

For financial reporting purposes, our business has three reporting segments: WSFS Bank, Cash Connect, and Trust and Wealth Management. The WSFS Bank segment provides loans and other financial products to commercial and retail customers. Cash Connect provides turnkey ATM services through strategic partnerships with several of the largest network, manufacturers and service providers in the ATM industry. The Trust and Wealth Management segment provides a broad array of fiduciary, investment management, credit and deposit products to clients.

Segment financial information for the years ended December 31, 2014, 2013 and 2012 is provided in Note 20 to the Consolidated Financial Statements in this report.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS EQUITY

Condensed average balance sheets for each of the last three years and analyses of net interest income and changes in net interest income due to changes in volume and rate are presented in Results of Operations included in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations.

CREDIT EXTENSION ACTIVITIES

Over the past several years we have focused on growing the more profitable segments of our loan portfolio. Our current portfolio lending activity is concentrated on lending to small- to mid-sized businesses in the mid-Atlantic region of the United States, primarily in Delaware, contiguous counties in Pennsylvania, Maryland and New Jersey, as well as in northern Virginia. Since 2010, our commercial and industrial (C&I) loans have increased by $469.6 million, or 37.9%. Our C&I loans, including owner-occupied commercial real estate loans, accounted for approximately 54.1% of our loan portfolio in 2014, compared to 48.1% in 2010. Based on current market conditions, we expect our focus on growing C&I loans and other relationship-based commercial loans to continue into 2015 and beyond.

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The following table shows the composition of our loan portfolio at year-end for the last five years.

(In Thousands)	At December 31, 2014 Amount	2014 Percent	2013 Amount	2013 Percent	2012 Amount	2012 Percent	2011 Amount	2011 Percent	2010 Amount	2010 Percent
Types of Loans										
Commercial real estate:										
Commercial mortgage	**$ 805,459**	**25.5%**	$ 725,193	25.0%	$ 631,365	23.2%	$ 626,739	23.1%	$ 625,379	24.2%
Construction	**142,497**	**4.5**	106,074	3.6	133,375	4.9	106,268	3.9	140,832	5.5
Total commercial real estate	**947,956**	**30.0**	831,267	28.6	764,740	28.1	733,007	27.0	766,211	29.7
Commercial (1)	**920,072**	**29.1**	810,882	27.9	704,491	25.9	1,460,812	53.9	1,239,102	48.1
Commercial owner occupied (1)	**788,598**	**25.0**	786,360	27.1	770,581	28.3				
Total commercial loans	**2,656,626**	**84.1**	2,428,509	83.6	2,239,812	82.3	2,193,819	80.9	2,005,313	77.8
Consumer loans:										
Residential real estate	**218,329**	**6.9**	221,520	7.6	243,627	8.9	274,105	10.5	308,857	12.6
Consumer	**327,543**	**10.4**	302,234	10.4	289,001	10.6	290,979	10.7	309,722	12.0
Total consumer loans	**545,872**	**17.3**	523,754	18.0	532,628	19.5	565,084	21.2	618,579	24.6
Gross loans	**$ 3,202,498**	**101.4**	$ 2,952,263	101.6	$ 2,772,440	101.8	$ 2,758,903	102.1	$ 2,623,892	102.4
Less:										
Deferred fees (unearned income)	**6,420**	**0.2**	6,043	0.2	4,602	0.2	3,234	0.1	2,185	0.1
Allowance for loan losses	**39,426**	**1.2**	41,244	1.4	43,922	1.6	53,080	2.0	60,339	2.3
Net loans (2)	**$ 3,156,652**	**100.0%**	$ 2,904,976	100.0%	$ 2,723,916	100.0%	$ 2,702,589	100.0%	$ 2,561,368	100.0%

(1) Prior to 2012, owner occupied commercial loans were included in commercial loan balances.

(2) Excludes $28,508; $31,491; $12,758; $10,185 and $14,522 of residential mortgage loans held-for-sale at December 31, 2014, 2013, 2012, 2011, and 2010, respectively.

The following table shows the remaining time until our loans mature. The first table details the total loan portfolio by type of loan. The second table details the total loan portfolio by those with fixed interest rates and those with adjustable interest rates. The tables show loans by remaining contractual maturity. Loans may be pre-paid, so the actual maturity may be earlier than the contractual maturity. Prepayments tend to be highly dependent upon the interest rate environment. Loans having no stated maturity or repayment schedule are reported in the Less than One Year category.

(In Thousands)	Less than One Year	One to Five Years	Over Five Years	Total
Commercial mortgage loans	$ 109,530	$ 462,737	$ 233,192	$ 805,459
Construction loans	62,202	43,728	36,567	142,497
Commercial loans	323,800	328,917	267,355	920,072
Commercial owner occupied loans	43,674	299,025	445,899	788,598
Residential real estate loans (1)	2,577	4,622	211,130	218,329
Consumer loans	22,106	36,508	268,929	327,543
	$ 563,889	$ 1,175,537	$ 1,463,072	$ 3,202,498

Rate sensitivity:

Fixed	$ 48,559	$ 502,069	$ 538,149	$ 1,088,777
Adjustable [2]	515,330	673,468	924,923	2,113,721
Gross loans	$ 563,889	$ 1,175,537	$ 1,463,072	$ 3,202,498

(1) Excludes loans held-for-sale.
(2) Includes hybrid adjustable-rate mortgages.

Commercial Real Estate, Owner Occupied Commercial, Construction and Commercial Lending

Pursuant to section 5(c) of the Home Owners Loan Act (HOLA), federal savings banks are generally permitted to invest up to 400% of their total regulatory capital in nonresidential real estate loans and up to 20% of their assets in commercial loans. As a federal savings bank that was formerly chartered as a Delaware savings bank, the Bank has certain additional lending authority.

Commercial, owner occupied commercial, commercial mortgage and construction lending have higher levels of risk than residential mortgage lending. These loans typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties is typically dependent on the successful operation of the related real estate project and may be more subject to adverse conditions in the commercial real estate market or in the general economy. The majority of our commercial and commercial real estate loans are concentrated in Delaware, southeastern Pennsylvania (Chester and Delaware counties) and nearby areas.

We offer commercial real estate mortgage loans on multi-family properties and on other commercial real estate. Generally, loan-to-value ratios for these loans do not exceed 80% of appraised value at origination.

Our commercial mortgage portfolio was $805.5 million at December 31, 2014. Generally, this portfolio is diversified by property type, with no type representing more than 30% of the portfolio. The largest type is retail-related (shopping centers, malls and other retail) with balances of $227.0 million. The average loan size of a loan in the commercial mortgage portfolio is $685,000 and only eight loans are greater than $8.0 million, with no loans greater than $14.0 million.

We offer commercial construction loans to developers. In some cases these loans are made as construction/permanent loans, which provides for disbursement of loan funds during construction with automatic conversion to mini-permanent loans (one five years) upon completion of construction. These construction loans are short-term, usually not exceeding two years, with interest rates indexed to our WSFS prime rate, the Wall Street prime rate or London InterBank Offered Rate (LIBOR), in most cases, and are adjusted periodically as these rates change. The loan appraisal process includes the same evaluation criteria as required for permanent mortgage loans, but also takes into consideration: completed plans, specifications, comparables and cost estimates. Prior to approval of each loan, these criteria are used as a basis to determine the appraised value of the subject property when completed. Our policy requires that all appraisals be reviewed independently from our commercial business development staff. At origination, the loan-to-value ratios for construction loans generally do not exceed 75%. The initial interest rate on the permanent portion of the financing is determined by the prevailing market rate at the time of conversion to the permanent loan. At December 31, 2014, $244.0 million was committed for construction loans, of which $142.5 million was outstanding. Residential construction and land development (CLD) represented $128.0 million, or 4%, of the loan portfolio and 24% of Tier 1 capital (Tier 1 + ALLL). Our commercial CLD portfolio was $51.0 million, or 1.6%, of total loans, and our land hold loans, which are land loans not currently being developed, were $30.0 million, or less than 1%, of total loans, at December 31, 2014.

Commercial and industrial and owner occupied commercial loans make up the remainder of our commercial portfolio and include loans for working capital, financing equipment and real estate acquisitions, business expansion and other business purposes. These loans generally range in amounts of up to $30.0 million (with a few relationships exceeding this level) with an average loan balance in the portfolio of $311,000 and terms ranging from less than one year to ten years. The loans generally carry variable interest rates indexed to our WSFS prime rate, national prime rate or LIBOR. As of December 31, 2014, our commercial and industrial and owner occupied commercial loan portfolios were $1.7 billion and represented 53% of our total loan portfolio. These loans are diversified by industry, with no industry representing more than 16% of the portfolio.

Federal law limits the Bank s extensions of credit to any one borrower to 15% of our unimpaired capital (approximately $80.0 million), and an additional 10% if the additional extensions of credit are secured by readily marketable collateral. Extensions of credit include outstanding loans as well as contractual commitments to advance funds, such as standby letters of credit. At December 31, 2014, no borrower had collective (relationship) outstanding balances exceeding these legal lending limits. Only two commercial relationships, when all loans related to the relationship are combined, reach outstanding balances in excess of $30.0 million.

Residential Real Estate Lending

Generally, we originate residential first mortgage loans with loan-to-value ratios of up to 80% and require private mortgage insurance for up to 35% of the mortgage amount for mortgage loans with loan-to-value ratios exceeding 80%.

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We do not have any significant concentrations of such insurance with any one insurer. On a very limited basis, we have originated or purchased loans with loan-to-value ratios exceeding 80% without a private mortgage insurance requirement. At December 31, 2014, the balance of all such loans was approximately $2.2 million.

Generally, our residential mortgage loans are underwritten and documented in accordance with standard underwriting criteria published by the FHLMC and other secondary market participants to assure maximum eligibility for subsequent sale in the secondary market. Typically, we sell only those loans originated specifically with the intention to sell on a flow basis.

To protect the propriety of our liens, we require title insurance be obtained. We also require fire, extended coverage casualty and flood insurance (where applicable) for properties securing residential loans. All properties securing our residential loans are appraised by independent, licensed and certified appraisers and are subject to review in accordance with our standards.

The majority of our adjustable-rate, residential real estate loans have interest rates that adjust yearly after an initial period. The change in rate for the first adjustment date could be higher than the typical limited rate change of two percentage points at each subsequent adjustment date. Adjustments are generally based upon a margin (currently 2.75% for U.S. Treasury index; 2.5% for LIBOR index) over the weekly average yield on U.S. Treasury securities adjusted to a constant maturity, as published by the Board of Governors of the Federal Reserve System (the Federal Reserve).

Usually, the maximum rate on these loans is six percent above the initial interest rate. We underwrite adjustable-rate loans under standards consistent with private mortgage insurance and secondary market underwriting criteria. We do not originate adjustable-rate mortgages with payment limitations that could produce negative amortization.

The adjustable-rate mortgage loans in our loan portfolio help mitigate our risk to changes in interest rates. However, there are unquantifiable credit risks resulting from potential increased costs to the borrower as a result of re-pricing adjustable-rate mortgage loans. It is possible that during periods of rising interest rates, the risk of default on adjustable-rate mortgage loans may increase due to the upward adjustment of interest costs to the borrower. Further, although adjustable-rate mortgage loans allow us to increase the sensitivity of our asset base to changes in interest rates, the extent of this interest sensitivity is limited by the periodic and lifetime interest rate adjustment limitations. Accordingly, there can be no assurance that yields on our adjustable-rate mortgages will adjust sufficiently to compensate for increases to our cost of funds during periods of extreme interest rate increases.

The original contractual loan payment period for residential loans is normally 10 to 30 years. Because borrowers may refinance or prepay their loans without penalty, these loans tend to remain outstanding for a substantially shorter period of time. First mortgage loans customarily include due-on-sale clauses. This provision gives us the right to declare a loan immediately due and payable in the event the borrower sells or otherwise disposes of the real property subject to the mortgage. We enforce due-on-sale clauses through foreclosure and other legal proceedings to the extent available under applicable laws.

In general, loans are sold without recourse except for the repurchase right arising from standard contract provisions covering violation of representations and warranties or, under certain investor contracts, a default by the borrower on the first payment. We also have limited recourse exposure under certain investor contracts in the event a borrower prepays a loan in total within a specified period after sale, typically 120 days. The recourse is limited to a pro rata portion of the premium paid by the investor for that loan, less any prepayment penalty collectible from the borrower. There were no such repurchases in 2013 and 2012, and two repurchases totaling $354,000 in 2014.

We have a limited amount of loans originated as subprime loans, $6.4 million, at December 31, 2014 (less than 0.3% of total loans) and no negative amortizing loans or interest-only first mortgage loans.

Consumer Lending

Our primary consumer credit products (excluding first mortgage loans) are home equity lines of credit and equity-secured installment loans. At December 31, 2014, home equity lines of credit outstanding totaled $218.7 million and equity-secured installment loans totaled $73.0 million. In total, these product lines represented 89.1% of total consumer loans. Some home equity products grant a borrower credit availability of up to 100% of the appraised value (net of any senior mortgages) of their residence. Maximum loan to value (LTV) limits are 89% for primary residences and 75% for all other properties. At December 31, 2014, we had $397.8 million in total commitments for home equity lines of credit. Home equity lines of credit offer customers potential Federal income tax advantages, the convenience of checkbook access, revolving credit features for a portion of the life of the loan and typically are more attractive in a low interest rate environment. Home equity lines of credit expose us to the risk that falling collateral values may leave us inadequately secured. The risk on installment products like home equity loans is mitigated as they amortize over time.

The following table shows our consumer loans at year-end, for the last five years.

	At December 31,									
	2014		2013		2012		2011		2010	
(In Thousands)	Amount	Percent of Total Consumer Loans	Amount	Percent of Total Consumer Loans	Amount	Percent of Total Consumer Loans	Amount	Percent of Total Consumer Loans	Amount	Percent of Total Consumer Loans
Equity secured installment loans	**$ 73,011**	**22.3%**	$ 69,230	22.9%	$ 59,091	20.4%	$ 74,721	25.7%	$ 82,188	26.5%
Home equity lines of credit	**218,652**	**66.8**	193,255	63.9	195,936	67.8	192,917	66.3	205,244	66.3
Personal loans	**16,082**	**4.9**	16,397	5.4	12,408	4.3	7,192	2.5	6,834	2.2
Unsecured lines of credit	**9,415**	**2.9**	13,147	4.4	9,197	3.2	8,378	2.9	7,758	2.5
Other	**10,383**	**3.1**	10,205	3.4	12,369	4.3	7,771	2.6	7,648	2.5
Total consumer loans	**$ 327,543**	**100.0%**	$ 302,234	100.0%	$ 289,001	100.0%	$ 290,979	100.0%	$ 309,722	100.0%

Loan Originations, Purchases and Sales

We engage in traditional lending activities primarily in Delaware, southeastern Pennsylvania, and contiguous areas of neighboring states. As a federal savings bank, however, we may originate, purchase and sell loans throughout the United States. We have purchased limited amounts of loans from outside our normal lending area when such purchases are deemed appropriate. We originate fixed-rate and adjustable-rate residential real estate loans through our banking offices.

During 2014, we originated $316.1 million of residential real estate loans. This compares to originations of $350.8 million in 2013. From time to time, we have purchased whole loans and loan participations in accordance with our ongoing asset and liability management objectives. There were no such purchases in either 2014 or 2013. Residential real estate loan sales totaled $201.8 million in 2014 and $194.8 million in 2013. We sell certain newly originated mortgage loans in the secondary market as a means of generating fee income to control the interest rate sensitivity of our balance sheet and to manage overall balance sheet mix. We hold certain fixed-rate mortgage loans for investment, consistent with our current asset/liability management strategies.

At December 31, 2014, we serviced approximately $125.2 million of residential mortgage loans for others, compared to $121.9 million at December 31, 2013. We also serviced residential mortgage loans for our own portfolio totaling $218.3 million and $258.9 million at December 31, 2014 and 2013, respectively.

Our consumer lending activity is conducted mainly quarterly through our branch offices and referrals from other parts of our business. We originate a variety of consumer credit products including home improvement loans, home equity lines of credit, automobile loans, unsecured lines of credit and other secured and unsecured personal installment loans.

We offer government-insured reverse mortgages to our customers. Our activity has been limited to acting as a correspondent originator for these loans. During 2014, we originated and sold $1.8 million in reverse mortgages compared to $3.2 million during 2013.

We originate commercial real estate and commercial loans through our commercial lending division. Commercial loans are made for working capital, financing equipment acquisitions, business expansion and other business purposes. During 2014, we originated $925.6 million of commercial and commercial real estate loans compared to $965.6 million in 2013. To reduce our exposure on certain types of these loans, and/or to maintain relationships within internal lending

limits, at times we will sell a portion of our commercial loan portfolio, typically through loan participations. Commercial loan sales totaled $39.9 million and $4.4 million in 2014 and 2013, respectively. These amounts represent gross contract amounts and do not necessarily reflect amounts outstanding on those loans. We also periodically buy participations from other banks. Commercial loan participation purchases totaled $35.2 million and $23.3 million in 2014 and 2013, respectively.

Any significant modification or additional exposure to one borrowing relationship exceeding $3.5 million must be approved by the Senior Management Loan Committee (SLC). The Executive Committee of the Board of Directors reviews the minutes of the SLC meetings. The Executive Committee also approves new credit exposures exceeding $10 million and new credit exposures in excess of $5 million for customers with higher risk profiles, larger existing relationship exposures, or multiple policy exceptions. Depending upon their experience and management position, individual officers of the Bank have the authority to approve smaller loan amounts. Our credit policy includes a $30 million House Limit to any one borrowing relationship. In rare circumstances, we will approve exceptions to the House Limit . Our policy allows for only 15 such relationships with an aggregate exposure of 10% of Tier I Capital plus Allowance for Loan Losses (ALLL). Currently, we have two relationships exceeding this limit. At December 31, 2014, the aggregate exposure over House Limit totaled 1.12% of Tier I Capital plus ALLL. Those two relationships were approved to exceed the House Limit because the credit profile was deemed strong, or because of a long relationship history with the borrower(s).

Fee Income from Lending Activities

We earn fee income from lending activities, including fees for originating loans, servicing loans and selling loans and loan participations. We also receive fee income for making commitments to originate construction, residential and commercial real estate loans. Additionally, we collect fees related to existing loans which include prepayment charges, late charges, assumption fees and swap fees. In addition, as part of the loan application process, the borrower may pay us for out-of-pocket costs to review the application, whether or not the loan is closed.

Most loan fees are not recognized in our Consolidated Statements of Operations immediately, but are deferred as adjustments to yield in accordance with U.S. generally accepted accounting principles (GAAP), and are reflected in interest income over the expected life of the loan. Those fees represented interest income of $3.1 million, $2.5 million, and $2.1 million during 2014, 2013, and 2012, respectively. Loan fee income was mainly due to fee accretion on new and existing loans (including the acceleration of the accretion on loans that paid early), loan growth and prepayment penalties. The overall increase in loan fee income was the result of the growth in certain loan categories during 2014 and 2013.

LOAN LOSS EXPERIENCE, PROBLEM ASSETS AND DELINQUENCIES

Our results of operations can be negatively impacted by nonperforming assets, which include nonaccruing loans, nonperforming real estate investments, assets acquired through foreclosure and restructured loans. Nonaccruing loans are those on which the accrual of interest has ceased. Loans are placed on nonaccrual status immediately if, in our opinion, collection is doubtful, or when principal or interest is past due 90 days and collateral is insufficient to cover principal and interest payments. Interest accrued, but not collected at the date a loan is placed on nonaccrual status, is reversed and charged against interest income. In addition, the accretion of net deferred loan fees is suspended when a loan is placed on nonaccrual status. Subsequent cash receipts are applied either to the outstanding principal balance or recorded as interest income, depending on our assessment of the ultimate collectability of principal and interest.

We endeavor to manage our portfolio to identify problem loans as promptly as possible and take immediate actions to minimize losses. To accomplish this, our Loan Administration and Risk Management Department monitors the asset quality of our loans and investments in real estate portfolios and reports such information to the Credit Policy, Audit and Executive Committees of the Board of Directors and the Bank s Controller s Department.

SOURCES OF FUNDS

We manage our liquidity risk and funding needs through our treasury function, Asset/Liability Committee and Investment Committee. Historically, we have had success in growing our loan portfolio. For example, during the year ended December 31, 2014, net loan growth resulted in the use of $85.7 million in cash. The loan growth was primarily due to the FNBW acquisition in the third quarter 2014 and our continued success increasing lending. We expect this trend to continue. As a result of increased deposit growth, our loan-to-total customer funding ratio at December 31, 2014 was 92%, better than our 2014 strategic goal of 103%. We have significant experience managing our funding needs through both borrowings and deposit growth.

As a financial institution, we and the Bank have access to several sources of funding. Among these are:

- Deposit growth
- Brokered deposits
- Borrowing from the Federal Home Loan Bank of Pittsburgh (FHLB)
- Federal Reserve Discount Window access
- Other borrowings such as repurchase agreements
- Cash flow from securities and loan sales and repayments
- Net income

Our branch expansion and renovation program has been focused on expanding our retail footprint in Delaware and southeastern Pennsylvania and attracting new customers in part to provide additional deposit growth. However, in recent years we have purposefully reduced reliance on higher-cost, typically single-service certificate of deposit (CD) accounts. Core customer deposit growth (deposits excluding CDs) was strong, equaling $401.2 million during 2014 a 16% increase over 2013.

Deposits

WSFS is the largest independent full-service bank and trust institution headquartered and operating in Delaware. The Bank primarily attracts deposits through its retail branch offices and loan production offices, in Delaware s New Castle, Sussex and Kent Counties, as well as nearby southeastern Pennsylvania.

The Bank offers various deposit products to our customers, including savings accounts, demand deposits, interest-bearing demand deposits, money market deposit accounts and certificates of deposit. In addition, we accept jumbo certificates of deposit with balances in excess of $100,000 from individuals, businesses and municipalities in Delaware.

The following table shows the maturities of certificates of deposit of $100,000 or more as of December 31, 2014:

(In Thousands) **Maturity Period**	**December 31, 2014**
Less than 3 months	$ 91,434
Over 3 months to 6 months	55,896
Over 6 months to 12 months	59,040

Over 12 months	41,301
	$ 247,671

Federal Home Loan Bank Advances

As a member of the FHLB, we are able to obtain FHLB advances. At December 31, 2014, we had $405.9 million in FHLB advances with a weighted average rate of 0.52%. Outstanding advances from the FHLB had rates ranging from 0.27% to 1.12% at December 31, 2014. Pursuant to collateral agreements with the FHLB, the advances are secured by qualifying first mortgage loans, qualifying fixed-income securities, FHLB stock and an interest-bearing demand deposit account with the FHLB. We are required to purchase and hold shares of capital stock in the FHLB in an amount at least equal to 4.60% of our borrowings from it, plus 0.35% of our member asset value. As of December 31, 2014, our FHLB stock investment totaled $23.3 million.

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We received $1.4 million in dividends from the FHLB during 2014. For additional information regarding FHLB stock, see Note 11 to the Consolidated Financial Statements.

Trust Preferred Borrowings

In 2005, the Trust issued $67.0 million aggregate principal amount of Pooled Floating Rate Securities at a variable interest rate of 177 basis points over the three-month LIBOR rate. These securities are callable and have a maturity date of June 1, 2035.

Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

During 2014 and 2013, we purchased federal funds as a short-term funding source. At December 31, 2014, we had purchased $103.2 million in federal funds at an average rate of 0.29%, compared to $72.0 million in federal funds at a rate of 0.28% at December 31, 2013.

As of December 31, 2014, we had securities under agreements to repurchase as a funding source. At both December 31, 2014 and 2013, we had $25.0 million of securities sold under agreements to repurchase with a fixed rate of 2.98% and a scheduled maturity of January 1, 2015. The underlying securities were MBS with a book value of $35.5 million as of December 31, 2014.

Senior Debt

In 2012 we issued and sold $55.0 million in aggregate principal amount of 6.25% Senior Notes due 2019 (Senior Debt). The Senior Debt is unsecured and ranks equally with all of our other present and future unsecured, unsubordinated obligations. The Senior Debt is effectively subordinated to our secured indebtedness and structurally subordinated to the indebtedness of our subsidiaries. Interest payments on the Senior Debt are due quarterly in arrears on March 1, June 1, September 1 and December 1 of each year. At our option, the Senior Debt is callable, in whole or in part, after five years at a price equal to the outstanding principal amount to be redeemed plus accrued and unpaid interest. The Senior Debt matures on September 1, 2019.

PERSONNEL

As of December 31, 2014, we had 841 full-time equivalent Associates (employees). Our Associates are not represented by a collective bargaining unit. We believe our relationship with our Associates is very good, as evidenced by being our named a Top Workplace by an independent survey of our Associates for the last nine years.

REGULATION

Overview

The Company and the Bank are subject to extensive federal and state banking laws, regulations, and policies that are intended primarily for the protection of depositors, the Deposit Insurance Fund of the federal Deposit Insurance Corporation (FDIC), and the banking system as a whole, not for the protection of our other creditors and stockholders. The Office of the Comptroller of the Currency (OCC) is the Bank s primary regulator and the Federal Reserve is the Company s primary regulator.

The statutes enforced by, and regulations and policies of, these agencies affect most aspects of our business, including prescribing permissible types of activities and investments, the amount of required capital and reserves, requirements for branch offices, the permissible scope of our activities and various other requirements.

The Bank s deposits are insured by the FDIC to the fullest extent allowed by law. As an insurer of bank deposits, the FDIC promulgates regulations, conducts examinations, requires the filing of reports and generally supervises the operations of all institutions to which it provides deposit insurance.

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Financial Reform Legislation

Proposals to change the laws and regulations governing the banking industry are frequently introduced in Congress, in the state legislatures and by various bank regulatory agencies.

In 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act. The Dodd-Frank Act imposed new restrictions and an expanded framework of regulatory oversight for financial institutions and their holding companies, including depository institutions. The new law also established an independent federal consumer protection bureau within the Federal Reserve. The following discussion summarizes significant aspects of the new law that may affect us. Certain significant regulations under the Dodd-Frank Act have not been finalized and therefore we cannot yet determine the full impact on our business and operations.

The following aspects of the Dodd-Frank Act are related to the operations of our Bank:

The Office of Thrift Supervision, formerly the primary regulator of federal savings associations and savings and loan holding companies, was merged into the OCC and the Federal Reserve and the federal savings association charter has been preserved under OCC jurisdiction.

An independent Consumer Financial Protection Bureau has been established within the Federal Reserve, empowered to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws. Depository institutions of less than $10 billion in total assets, like our Bank, are subject to the supervision and enforcement of their primary federal banking regulator with respect to the federal consumer financial protection laws.

The prohibition on payment of interest on demand deposits has been repealed.

Federal preemption of state laws applied to federal savings associations has been repealed. Now, state law is preempted with respect to federal savings associations to the same extent such laws would be preempted with respect to a national bank. State consumer financial laws are preempted whenever the state consumer financial law has a discriminatory intent or effect on a federal savings association compared to state-chartered institutions; the state consumer financial law prevents or significantly interferes with a federal savings association s federal powers; or the state consumer financial law is preempted by a federal law other than the National Bank Act. The OCC must make a preemption determination on a case-by-case basis with respect to a particular state consumer financial law or other state law with substantively equivalent terms. In addition, state consumer financial laws are no longer preempted with respect to the activities of a federal savings association s subsidiaries.

Deposit insurance has been permanently increased to $250,000.

The deposit insurance assessment base has been changed to equal a depository institution s total consolidated assets minus the sum of its average tangible equity during the assessment period.

The minimum reserve ratio of the Deposit Insurance Fund increased to 1.35% of estimated annual insured deposits or assessment base. However, the FDIC was directed to offset the effect of the increased reserve ratio for insured depository institutions with total consolidated assets of less than $10 billion.

The following aspects of the Dodd-Frank Act are related to the operations of the Company:

Supervisory authority over savings and loan holding companies has been transferred to the Federal Reserve.

Leverage capital requirements and risk-based capital requirements applicable to depository institutions and bank holding companies have been extended to savings and loan holding companies following a five year grace period.

The Federal Deposit Insurance Act (FDIA) was amended to direct federal regulators to require depository institution holding companies to serve as a source of strength for their depository institution subsidiaries.

The Federal Reserve can require a grandfathered unitary savings and loan holding company that conducts commercial or manufacturing activities or other nonfinancial activities in addition to financial activities to conduct all or part of its financial activities in an intermediate savings and loan holding company. The Federal Reserve is required to promulgate rules setting forth the criteria for when a grandfathered unitary savings and loan holding company would be required to establish an intermediate holding company, but to date it has not yet proposed any such rules.

Public companies will be required to provide their shareholders with a nonbinding vote (i) at least once every three years on the compensation paid to executives, and (ii) at least once every six years on whether they should have such say on pay vote every one, two or three years.

Additional provisions, including some not specifically aimed at savings associations and savings and loan holding companies, nonetheless may have an impact on us.

Some of these provisions have the consequence of increasing our expenses, decreasing our revenues, and changing the activities in which we choose to engage. We expect that the Dodd-Frank Act will continue to increase our operating and compliance costs. Specific impacts of the Dodd-Frank Act on our current activities or new financial activities will become evident in the future, and our financial performance and the markets in which we operate will continue to depend on the manner in which the relevant agencies develop and implement the required rules and the reaction of market participants to these regulatory developments. Many aspects of the Dodd-Frank Act continue to be subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us, our customers, or the financial industry in general.

RECENT LEGISLATION

Basel III

On July 2, 2013, the Board of Governors of the Federal Reserve System, FDIC and the OCC approved the final rules implementing the Basel Committee on Banking Supervision s (BCBS) capital guidelines for U.S. banks. Under the final rules, minimum requirements will increase for both the quantity and quality of capital held by the Company. The rules include a new common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.5%, raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0%, require a minimum ratio of Total capital to risk-weighted assets of 8.0%, and require a minimum Tier 1 leverage ratio of 4.0%. The final rules also establish a new capital conservation buffer, comprised of common equity Tier 1 capital, above the regulatory minimum capital requirements. This capital conservation buffer will be phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increase each subsequent year by an additional 0.625% until reaching its final level of 2.5% on January 1, 2019. The final rules also revise the standards for an insured depository institution to be well-capitalized under the banking agencies prompt corrective action framework, requiring a common equity Tier 1 capital ratio of 6.5%, Tier 1 capital ratio of 8.0% and total capital ratio of 10.0%, while leaving unchanged the existing 5.0% leverage ratio requirement. Strict eligibility criteria for regulatory capital instruments were also implemented under the final rules. Newly issued trust preferred securities and cumulative perpetual preferred stock may no longer be included in Tier 1 capital. However, for depository institution holding companies of less than $15 billion in total consolidated assets, such as the Company, most outstanding trust preferred securities and other non-qualifying securities issued prior to May 19, 2010 are permanently grandfathered to be included in Tier 1 capital (up to a limit of 25% of Tier 1 capital, excluding non-qualifying capital instruments).

The phase-in period for the final rules began for us on January 1, 2015, with full compliance with all of the final rule s requirements phased in over a multi-year schedule and should be fully phased-in by January 1, 2019. Management believes that our capital levels will remain characterized as well-capitalized under the new rules.

In October 2014 the BCBS published Basel III: The Net Stable Funding Ratio. The net stable funding ratio (NSFR) is a significant component of Basel III as it requires banks to maintain a stable funding position in relation to their on- and off-balance sheet activities over a one year horizon. It is being implemented to reduce the likelihood that disruptions to a bank s normal source of funding will not significantly erode its liquidity position. This requirement will become effective January 1, 2018. . The BCBS NSFR applies to internationally active banks, but may also be applied to other banks. The U.S. banking regulators have not yet proposed a rule implementing the NSFR, and as such, it is not known whether the NSFR will apply to banks of our size and profile in the U.S. We are mindful of this and other potential risk management and reporting requirements. Management will continue to monitor any additional developments and their potential impact to our liquidity requirements.

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Debit Card Interchange Fees

On June 29, 2011, the Federal Reserve issued a final rule (Regulation II Debit Card Interchange Fees and Routing) under the Durbin Amendment of the Dodd-Frank Act, establishing standards for debit card interchange fees, which limited the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction to the sum of 21 cents per transaction and five basis points multiplied by the value of the transaction. In addition, the Federal Reserve also approved a final rule on July 27, 2012 that allows for an upward adjustment of no more than one cent to an issuer s debit card interchange fee if the issuer develops and implements policies and procedures reasonably designed to achieve the fraud-prevention standards set out in the rule. The provisions regarding debit card interchange fees became effective October 1, 2011, and the fraud prevention adjustment became effective October 1, 2012. On July 31, 2013, a U.S. District Court judge declared invalid provisions of the final rule, ruling that the Federal Reserve, when determining the amount of the fee cap, erred in using criteria outside the scope Congress intended to determine the fee cap, thereby causing the fee cap to be set higher than warranted. The court also ruled that the Durbin Amendment required merchants to be given a choice between multiple unaffiliated networks (signature and PIN networks) for each debit card transaction, as opposed to the Federal Reserve s rule allowing debit card networks and issuers to make only one network available for each type of debit transaction.

On March 21, 2014, a panel of the U.S. Court of Appeals for the District of Columbia (the Court) overturned the U.S. District Court s opinion, upholding the final rule as a reasonable interpretation of the statute. On January 20, 2015, the U.S. Supreme Court declined to hear the retailers appeal.

In accordance with the statute, issuers that, together with their affiliates, have assets of less than $10.0 billion on the annual measurement date (December 31), such as the Bank, are exempt from the debit card interchange fee standards.

The Volker Rule

On December 10, 2013, the OCC, the Federal Reserve, the FDIC and the SEC released their rule Prohibitions and Restrictions on Proprietary Trading and Certain Interests in and Relationships with Hedge Funds and Private Equity Funds also known as the Volker Rule . The Volcker Rule prohibits insured deposit institutions and companies affiliated with them from engaging in proprietary trading of certain securities, derivatives, commodity futures, and options. The Volcker Rule also prohibits, with certain exclusions banking entities from having an ownership interest in, sponsoring, or having certain other relationships with, hedge funds and private equity funds and numerous other types of covered funds. The compliance date for the proprietary trading and covered fund restrictions is July 21, 2015, and banking entities currently have until July 21, 2016 to divest certain legacy investments in covered funds.

Regulation of the Company

General

The Company is a registered savings and loan holding company and is subject to the regulation, examination, supervision and reporting requirements of the Federal Reserve.

The company is also a public company subject to the reporting requirements of the United States Securities and Exchange Commission (the SEC). Certain reports that we file with or furnish to the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports, are available free of charge on the investor relations page of our website at www.wsfsbank.com. The information on our website is not incorporated by reference in this Annual Report on Form 10-K.

Sarbanes-Oxley Act of 2002

In July 2002, Congress enacted the Sarbanes-Oxley Act of 2002, which addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. Section 404 of the Sarbanes-Oxley Act, and regulations adopted by the SEC, require us to include in our Annual Reports on Form 10-K a report stating management s responsibility to establish and maintain adequate internal controls over financial reporting and management s conclusion on the effectiveness of the internal controls at year end. Additionally, our independent registered public accounting firm is required to attest to and report on management s evaluation of internal control over financial reporting.

Restrictions on Acquisitions

Federal law generally prohibits a savings and loan holding company, without prior regulatory approval, from acquiring direct or indirect control of all, or substantially all, of the assets of any other savings association or savings and loan holding company, or more than 5% of the voting shares of a savings association or savings and loan holding company. These provisions also prohibit, among other things, any director or officer of a savings and loan holding company, or any individual who owns or controls more than 25% of the voting shares of such holding company, from acquiring control of any savings association that is not a subsidiary of such savings and loan holding company, unless the acquisition is approved by the Federal Reserve.

The company is a grandfathered unitary thrift holding company. Should we lose that status, we will be constrained in our ability to acquire companies or business lines that engage in non-banking activities, and may be required to divest any companies that we already own that engage in non-banking activities.

Safe and Sound Banking Practices

Savings and loan holding companies and their non-banking subsidiaries are prohibited from engaging in activities that represent unsafe and unsound banking practices or constitute violations of laws or regulations. For example, for bank holding companies, the Federal Reserve s Regulation Y requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities if the consideration to be paid, together with the consideration paid for any repurchases in the preceding year, is equal to 10% or more of the company s consolidated net worth. The Federal Reserve may oppose the transaction if it believes the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. As another example, a holding company could not impair its subsidiary bank s soundness by causing it to make funds available to non-banking subsidiaries or their customers if the Federal Reserve believed it not prudent to do so. The Federal Reserve may apply same or similar standards to savings and loan holding companies. The Federal Reserve can assess civil money penalties on a party for activities conducted on a knowing or reckless basis, if those activities caused more than a minimal loss to an institution or pecuniary gain to the party. The penalties can be as high as $1,000,000 for each day the activity continues.

Source of Strength

In accordance with FDIA, the company is expected to act as a source of financial and managerial strength to the Bank. Under this policy, the holding company is expected to commit resources to support its bank subsidiary, including at times when the holding company may not be in a financial position to provide it.

The Dodd-Frank Act has added additional guidance regarding the source of strength doctrine and has directed the regulatory agencies to promulgate regulations to increase the capital requirements for holding companies to a level that is not less than those applicable to depository institutions.

Dividends

The principal source of the holding company s cash is from dividends from the Bank. Our earnings and activities are affected by federal, state and local laws and regulations. For example, these include limitations on the ability of the Bank to pay dividends to the holding company and our ability to pay dividends to our stockholders. It is the policy of the Federal Reserve that holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization s expected future capital needs and current and prospective financial condition. The policy provides that holding companies should not maintain a level of cash dividends that undermines the holding company s ability to serve as a source of strength to its banking subsidiary. Consistent with this policy, a banking organization should have comprehensive policies on dividend payments that clearly articulate the organization s objectives and approaches for maintaining a strong capital position and achieving the objectives of the Federal Reserve s policy statement.

In 2009, the Federal Reserve issued a supervisory letter providing greater clarity to its policy statement on the payment of dividends by holding companies. In this letter, the Federal Reserve stated that when a holding company s board of directors is considering the payment of dividends, it should consider, among other things, the following factors: (i) overall asset quality, potential need to increase reserves and write down assets, and concentrations of credit; (ii) potential for unanticipated losses and declines in asset values; (iii) implicit and explicit liquidity and credit commitments, including off-balance sheet and contingent liabilities; (iv) quality and level of current and prospective earnings, including earnings capacity under a number of plausible economic scenarios; (v) current and prospective cash flow and liquidity; (vi) ability to serve as an ongoing source of financial and managerial strength to depository institution subsidiaries insured by the FDIC, including the extent of double leverage and the condition of subsidiary depository institutions; (vii) other risks that affect the holding company s financial condition and are not fully captured in regulatory capital calculations; (viii) level, composition, and quality of capital; and (ix) ability to raise additional equity capital in prevailing market and economic conditions (the Dividend Factors). It is particularly important for a holding company s board of directors to ensure that the dividend level is prudent relative to the organization s financial position and is not based on overly optimistic earnings scenarios. In addition, a holding company s board of directors should strongly consider, after careful analysis of the Dividend Factors, reducing, deferring, or eliminating dividends when the quantity and quality of the holding company s earnings have declined or the holding company is experiencing other financial problems, or when the macroeconomic outlook for the holding company s primary profit centers has deteriorated. The Federal Reserve further stated that, as a general matter, a holding company should eliminate, defer or significantly reduce its distributions if: (i) its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (ii) its prospective rate of earnings retention is not consistent with its capital needs and overall current and prospective financial condition, or (iii) it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. Failure to do so could result in a supervisory finding that the holding company is operating in an unsafe and unsound manner.

Additionally, as discussed above, the Federal Reserve possesses enforcement powers over savings and loan holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices, or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by bank and savings and loan holding companies.

Regulation of WSFS Bank

General

As a federally chartered savings institution the Bank is subject to regulation by the OCC. The lending activities and other investments of the Bank must comply with various federal regulatory requirements. The OCC periodically examines the Bank for compliance with regulatory requirements. The FDIC also has the authority to conduct special examinations of the Bank. The Bank must file reports with the OCC describing its activities and financial condition. The Bank is also subject to certain reserve requirements promulgated by the Federal Reserve.

Transactions with Affiliates; Tying Arrangements

The Bank is subject to certain restrictions in its dealings with us and our affiliates. Transactions between savings associations and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act, with additional limitations found in Section 11 of the Home Owners Loan Act. An affiliate of a savings association, generally, is any company or entity which controls or is under common control with the savings association or any subsidiary of the savings association that is commonly controlled by an affiliate or a bank or savings association. In a holding company context, the parent holding company of a savings association (such as the Company) and any companies which are controlled by such parent holding company are affiliates of the savings association. Generally, Sections 23A and 23B (i) limit the extent to which the savings institution or its subsidiaries may engage in covered transactions with any one affiliate to an amount equal to 10% of such institution s capital stock and surplus, and limit the aggregate of all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those that would be provided to a non-affiliate. The term covered transaction includes the making of loans to the affiliate, purchase of assets from the affiliate, issuance of a guarantee on behalf of the affiliate and several other types of transactions. In addition to the restrictions imposed by Sections 23A and 23B, the Home Owners Loan Act also prohibits a savings association from (i) lending or otherwise extending credit to an affiliate that engages in any activity impermissible for bank holding companies, or (ii) purchasing or investing in any stocks, bonds, debentures, notes or similar obligations of any affiliate, except for the purchase of shares of a subsidiary.

Regulatory Capital Requirements

Under revised capital regulations effective January 1, 2015 for the Bank, savings institutions must maintain tangible capital equal to 1.5% of average total assets, common equity Tier 1 equal to 4.5% of risk-weighted assets, Tier 1 capital equal to 6% of risk-weighted assets, total capital (a combination of Tier 1 and Tier 2 capital) equal to 8% of risk-weighted assets, and a leverage ratio of tier 1 capital to average total consolidated assets equal to 4%. The OCC s revised prompt corrective action regulations require that in order to be well capitalized , a savings association must have a common equity Tier 1 capital ratio of 6.5%, Tier 1 capital ratio of 8.0%, total capital ratio of 10.0%, and 5.0% leverage ratio, and not be subject to any written agreement, order or capital directive, or prompt corrective action directive issued by the OCC. In addition, the prompt corrective action regulations impose certain restrictions on savings associations that have a total risk-based capital ratio that is less than 8.0%, a ratio of Tier 1 capital to risk-weighted assets of less than 6.0% or a ratio of common Tier 1 capital to risk-weighted assets of less than 5.0%.

The revised capital rules define common equity Tier 1 capital is predominantly comprised of common stock instruments (including retained earnings), related surplus, certain minority interests in the equity accounts of fully consolidated subsidiaries (subject to certain limitations), less certain intangible assets and, subject to certain limitations, mortgage and non-mortgage servicing rights and deferred tax assets. Additional Tier 1 capital includes noncumulative perpetual preferred stock and related surplus, and certain minority interests in the equity accounts of fully consolidated subsidiaries not included in common equity Tier 1 capital (subject to certain limitations). Tier 2 capital includes subordinated debt with a minimum original maturity of five years, related surplus, certain minority interests in in the equity accounts of fully consolidated subsidiaries not included in Tier 1 capital (subject to certain limitations), and limited amounts of a bank s allowance for loan and lease losses (ALLL). Tangible capital is given the same definition as Tier 1 capital. The capital rule requires that common equity Tier 1 capital be reduced by an amount equal to a savings institution s debt and equity investments in non-includable subsidiaries engaged in activities not permissible to national banks, other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or their holding companies. At December 31, 2014, the Bank was in compliance with the minimum Tier 1 capital, total capital, tangible capital and leverage capital requirements then in effect.

The risk weights assigned by the risk-based capital regulation range from 0% for cash, U.S. government securities, and certain other assets, 50% for qualifying residential mortgage exposures, 100% for corporate exposures and non-qualifying mortgage loans and certain other assets, to over 100% for certain past-due exposures and equity exposures.

Dividend Restrictions

OCC regulations govern capital distributions by savings institutions, which include cash dividends, stock repurchases and other transactions charged to the capital account of a savings institution to make capital distributions. A savings institution must file an application for OCC approval of the capital distribution if either (1) the total capital distributions for the applicable calendar year (including the proposed capital distribution) exceed the sum of the institution s net income for that year to date plus the institution s retained net income for the preceding two years, (2) the institution would not be at least adequately capitalized following the distribution, (3) the distribution would violate any applicable statute, regulation, agreement or OCC-imposed condition, or (4) the institution is not eligible for expedited treatment of its filings. If an application is not required to be filed, savings institutions that are a subsidiary of a savings and loan holding company, such as the Bank (as well as certain other institutions) must still file a notice with the OCC at least 30 days before the board of directors declares a dividend or approves a capital distribution.

An institution that either before or after a proposed capital distribution fails to meet its then-applicable minimum capital requirement may not make any capital distributions without the prior written approval of the OCC. In addition, the OCC may prohibit a proposed capital distribution, which would otherwise be permitted by OCC regulations, if the OCC determines that such distribution would constitute an unsafe or unsound practice.

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Under federal law, an insured depository institution may not make any capital distribution if the capital distribution would cause the institution to become undercapitalized or if it is already undercapitalized. In addition, federal regulators have the authority to restrict or prohibit the payment of dividends for safety and soundness reasons. The FDIC also prohibits an insured depository institution from paying dividends on its capital stock or interest on its capital notes or debentures (if such interest is required to be paid only out of net profits) or distributing any of its capital assets while it remains in default in the payment of any assessment due the FDIC. The Bank is currently not in default in any assessment payment to the FDIC.

Insurance of Deposit Accounts

The Bank s deposits are insured to the maximum extent permitted by the Deposit Insurance Fund. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OCC an opportunity to take such action.

Pursuant to the Dodd-Frank Act, the FDIA was amended to increase the maximum deposit insurance amount per depositor per depository institution from $100,000 to $250,000.

The FDIC has adopted a risk-based premium system that provides for quarterly assessments. In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize the predecessor to the Deposit Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2019.

In 2011, the FDIC issued a final rule to implement changes to its assessment base used to determine risk-based premiums for insured depository institutions as required under the Dodd-Frank Act and also changed the risk-based pricing system necessitated by changes to the assessment base. These changes took effect for the quarter beginning April 1, 2011. Under the revised system, the assessment base was changed to equal average consolidated total assets less average tangible equity. Institutions other than large and highly complex institutions are placed in one of four risk categories.

The FDIC assessment rates range from approximately 5 basis points to 45 basis points (depending on applicable adjustments for unsecured debt and brokered deposits) until such time as the FDIC s reserve ratio equals 1.15%. Once the FDIC s reserve ratio reaches 1.15% and the reserve ratio for the immediately prior assessment period is less than 2.0%, the applicable assessment rates may range from 3 basis points to 30 basis points (subject to applicable adjustments for unsecured debt and brokered deposits). If the prior assessment period is equal to or greater than 2.0% and less than 2.5%, the assessment rates may range from 2 basis points to 28 basis points and if the prior assessment period is greater than 2.5%, the assessment rates may range from 1 basis point to 25 basis points. The minimum reserve ratio of the Deposit Insurance Fund has increased to 1.35% of estimated annual insured deposits or assessment base, however, the FDIC is directed to offset the effect of the increased reserve ratio for insured depository institutions with total consolidated assets of less than $10 billion.

Future changes in insurance premiums could have an adverse effect on the operating expenses and results of operations and we cannot predict what insurance assessment rates will be in the future.

The FDIC may terminate the deposit insurance of any insured depository institution, including us, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. Management is not aware of any existing circumstances that would result in termination of our deposit insurance.

Federal Reserve System

Pursuant to regulations of the Federal Reserve, a savings institution must maintain reserves against its transaction accounts. As of January 22, 2015, no reserves were required to be maintained on the first $14.5 million of transaction accounts, reserves of 3% were required to be maintained against the next $89.1 million of transaction accounts and a reserve of 10% was required to be maintained against all remaining transaction accounts. These percentages are subject to adjustment by the Federal Reserve. Because required reserves must be maintained in the form of vault cash or in a non-interest bearing account at a Federal Reserve Bank, the effect of the reserve requirement may reduce the amount of an institution s interest-earning assets.

ITEM 1A. RISK FACTORS

Investing in our securities involves risks. You should carefully consider the following risks, in addition to the other information in this report, before deciding to invest in our securities.

Risks Related to WSFS

Difficult market conditions and unfavorable economic trends could adversely affect our industry and our business.

We are particularly exposed to downturns in the Delaware, mid-Atlantic and overall U.S. economy and housing markets. Beginning in 2007, declines in the housing market combined with a weak economy and elevated unemployment negatively impacted the credit performance of mortgage, construction and other loans and resulted in significant write-downs of assets by many financial institutions. In addition, the values of real estate collateral supporting many loans declined. While certain economic conditions in the United States have shown signs of improvement, economic growth has been slow and uneven as consumers continue to recover from previously high unemployment rates, lower housing values, concerns about the level of U.S. government debt and fiscal actions that may be taken to address this, as well as economic and political conditions in the global markets. Unfavorable general economic trends, reduced availability of commercial credit and sustained high unemployment can negatively impact the credit performance of commercial and consumer credit, resulting in increased write-downs. These negative trends can cause economic pressure on consumers and businesses and diminish confidence in the financial markets, which may adversely affect our business, financial condition, results of operations and ability to access capital. A worsening of these conditions, such as a recession or economic slowdown, would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial services industry. In particular, we may face the following risks in connection with these events:

- An increase in the number of customers unable to repay their loans in accordance with the original terms, which could result in a higher level of loan losses and provision for loan losses;

- Impaired ability to assess the creditworthiness of customers as the models and approaches we use to select, manage and underwrite our customers become less predictive of future performance;

- Impaired ability to estimate the losses inherent in our credit exposure as the process we use, which requires difficult, subjective and complex judgments based on forecasts of economic or market conditions that might impair the ability of our customers to repay their loans, becomes less accurate and thus less reliable;;

- Increases in foreclosures, delinquencies and customer bankruptcies, as well as more restricted access to commercial credit;

- Changes in the regulatory environment, including regulations promulgated or to be promulgated under the Dodd-Frank Act, also could influence recognition of loan losses and our allowance for loan losses;

- Downward pressure on our stock price; and

Increased competition due to intensified consolidation of the financial services industry.

Significant increases of nonperforming assets from the current level, or greater than anticipated costs to resolve these credits, will have an adverse effect on our earnings.

Our nonperforming assets (which consist of nonaccrual loans, assets acquired through foreclosure and troubled debt restructurings), totaled $52.4 million at December 31, 2014. Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans and assets acquired through foreclosure. We must establish an allowance for loan losses which reserves for losses inherent in the loan portfolio that are both probable and reasonably estimable. From time to time, we also write down the value of properties in our portfolio of assets acquired through foreclosure to reflect changing market values. Additionally, there are legal fees associated with the resolution of problem assets as well as carrying costs such as taxes, insurance and maintenance related to assets acquired through foreclosure. The resolution of nonperforming assets requires the active involvement of management, which can distract management from its overall supervision of operations and other income producing activities. Finally, if our estimate of the allowance for loan losses is inadequate, we will have to increase the allowance for loan losses accordingly, which will have an adverse effect on our earnings.

Changes in interest rates and other factors beyond our control could have an adverse impact on our earnings.

Our operating income and net income depend to a significant extent on our net interest margin, which is the difference between the interest yields we receive on loans, securities and other interest-earning assets and the interest rates we pay on interest-bearing deposits and other liabilities. The net interest margin is affected by changes in market interest rates, because different types of assets and liabilities may react differently, and at different times, to market interest rate changes. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a period, an increase in market rates of interest could reduce net interest income. Similarly, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could reduce net interest income. These rates are highly sensitive to many factors beyond our control, including competition, general economic conditions and monetary and fiscal policies of various governmental regulatory agencies, including the Federal Reserve.

We attempt to manage our risk from changes in market interest rates by adjusting the rates, maturity, repricing, and balances of the different types of interest-earning assets and interest-bearing liabilities, but interest rate risk management techniques are not exact. As a result, a rapid increase or decrease in interest rates could have an adverse effect on our net interest margin and results of operations. The results of our interest rate sensitivity simulation models depend upon a number of assumptions which may prove to be inaccurate. There can be no assurance that we will be able to successfully manage our interest rate risk. Increases in market rates and adverse changes in the local residential real estate market, the general economy or consumer confidence would likely have a significant adverse impact on our non-interest income, as a result of reduced demand for residential mortgage loans that we pre-sell.

The market value of our investment securities portfolio may be impacted by the level of interest rates and the credit quality and strength of the underlying collateral.

As of December 31, 2014, we owned investment securities classified as available-for-sale with an aggregate historical cost of $739.4 million and an estimated fair value of $740.1 million. Future changes in interest rates may reduce the market value of these and other securities.

Our net interest income varies as a result of changes in interest rates as well as changes in interest rates across the yield curve. When interest rates are low, borrowers have an incentive to refinance into mortgages with longer initial fixed rate periods and fixed rate mortgages, causing our securities to experience faster prepayments. Increases in prepayments on our portfolio will cause our premium amortization to accelerate, lowering the yield on such assets. If this happens, we could experience a decrease in interest income, which may negatively impact our results of operations and financial position.

In addition, our securities portfolio is subject to risk as a result of credit quality and the strength of the underlying issuers or their related collateral. Any decrease in the value of the underlying collateral will likely decrease the overall value of our securities, affecting equity and possibly impacting earnings.

Our loan portfolio includes a substantial amount of commercial real estate, construction and land development and commercial and industrial loans. The credit risk related to these types of loans is greater than the risk related to residential loans.

Our commercial loan portfolio, which includes commercial and industrial loans, commercial real estate loans and construction and land development loans, totaled $2.7 billion at December 31, 2014, comprising 83% of net loans.

Commercial and industrial loans generally carry larger loan balances and involve a greater degree of risk of nonpayment or late payment than home equity loans or residential mortgage loans. Any significant failure to pay or late payments by our customers would adversely affect our earnings. The increased credit risk associated with these types of loans is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the size of loan balances, and the effects of general economic conditions on income-producing properties. A portion of our commercial real estate, construction and land development and commercial and industrial loan portfolios includes a balloon payment feature. A number of factors may affect a borrower s ability to make or refinance a balloon payment, including the financial condition of the borrower, the prevailing local economic conditions and the prevailing interest rate environment.

Furthermore, commercial real estate loans secured by owner-occupied properties are dependent upon the successful operation of the borrower s business. If the operating company suffers difficulties, including reduction in sales volume and/or profitability, the borrower s ability to repay the loan may be impaired. Loans secured by properties where repayment is dependent upon payment of rent by third party tenants or the sale of the property may be impacted by loss of tenants, lower lease rates needed to attract new tenants or the inability to sell a completed project in a timely fashion and at a profit.

Concentration of loans in our primary markets may increase our risk.

Our success depends primarily on the general economic conditions and housing markets in the State of Delaware, southeastern Pennsylvania and northern Virginia, as a large portion of our loans are made to customers in these markets. This makes us vulnerable to a downturn in the local economy and real estate markets in these areas. Declines in real estate valuations in these markets would lower the value of the collateral securing those loans, which could cause us to realize losses in the event of increased foreclosures. Local economic conditions have a significant impact on the ability of borrowers to repay loans as well as our ability to originate new loans. In addition, weakening in general economic conditions such as inflation, recession, unemployment, natural disasters or other factors beyond our control could negatively affect demand for loans, the performance of our borrowers and our financial results.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable or incurred losses in our loan portfolio, resulting in additions to our allowance. While we believe that our allowance for loan losses was appropriate at December 31, 2014, there is no assurance that it will be sufficient to cover future loan losses, especially if there is a significant deterioration in economic conditions. Material additions to our allowance could materially decrease our net income.

Our inability to grow deposits in the future could materially adversely affect our liquidity and ability to grow our business.

A key part of our future growth strategy is to aggressively grow deposits. The market for deposits is highly competitive, with intense competition in attracting and retaining deposits. We compete on the basis of the rates we pay on deposits, features and benefits of our products, the quality of our customer service and the competitiveness of our digital banking capabilities. Our ability to originate and maintain deposits is also highly dependent on the strength of the Bank and the perceptions of customers and others of our business practices and our financial health. Adverse perceptions regarding our reputation could lead to difficulties in attracting and retaining deposits accounts. Negative public opinion could result from actual or alleged conduct in a number of areas, including lending practices, regulatory compliance, inadequate protection of customer information or sales and marketing activities, and from actions taken by regulators or others in response to such conduct.

The demand for the deposit products we offer may also be reduced due to a variety of factors, such as demographic patterns, changes in customer preferences, reductions in consumers disposable income, regulatory actions that decrease customer access to particular products or the availability of competing products. Competition from other financial services firms and others that use deposit funding products may affect deposit renewal rates, costs or availability. Changes we make to the rates offered on our deposit products may affect our profitability and liquidity.

The FDIA prohibits an insured bank from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank s normal market area or nationally (depending upon where the deposits are solicited), unless it is well capitalized, or it is adequately capitalized and receives a waiver from the FDIC. A bank that is adequately capitalized and accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates. There are no such restrictions under the FDIA on a bank that is well capitalized and at December 31, 2014, the Bank met or exceeded all applicable requirements to be deemed well capitalized for purposes of the FDIA. However, there can be no assurance that the Bank will continue to meet those requirements. Limitations on the Bank s ability to accept brokered deposits for any reason (including regulatory limitations on the amount of brokered deposits in total or as a percentage of total assets) in the future could materially adversely impact our funding costs and liquidity. Any limitation on the interest rates the Bank can pay on deposits could competitively disadvantage us in attracting and retaining deposits and have a material adverse effect on our business.

We are subject to extensive regulation which could have an adverse effect on our operations.

We are subject to extensive federal and state regulation, supervision and examination governing almost all aspects of our operations. The laws and regulations governing our business are intended primarily to protect depositors, our customers, the public, the FDIC s Deposit Insurance Fund, and the banking system as a whole, not our noteholders or shareholders. Since July 21, 2011, the Federal Reserve has been the primary federal regulator for the Company and the OCC has been the Bank s primary regulator. The banking laws, regulations and policies applicable to us govern a variety of matters, including certain debt obligations, changes in control, maintenance of adequate capital, and general business operations, including permissible types, amounts and terms of loans and investments, the amount of reserves held against deposits, restrictions on dividends, establishment of new offices and the maximum interest rate that may be charged by law. In addition, federal and state banking regulators have broad authority to supervise our banking business, including the authority to prohibit activities that represent unsafe or unsound banking practices or constitute violations of statute, rule, regulation or administrative order. Failure to appropriately comply with any such laws, regulations or regulatory policies could result in sanctions by regulatory agencies, civil money penalties or damage to our reputation, all of which could adversely affect our business, results of operations, financial condition or prospects.

We are subject to changes in federal and state banking statutes, regulations and governmental policies, and their interpretation or implementation. Regulations affecting banks and other financial institutions in particular are undergoing continuous review and frequently change and the ultimate effect of such changes cannot be predicted. Regulations and laws may be modified at any time, and new legislation may be enacted that will affect us. Any changes in any federal and state law, as well as regulations and governmental policies could affect us in substantial and unpredictable ways, including ways that may adversely affect our business, results of operations, financial condition or prospects.

Some of the regulatory changes mandated by the Dodd Frank Act have increased our expenses, decreased our revenues and changed the activities in which we choose to engage. Many of these and other provisions of the Dodd-Frank Act remain subject to regulatory rulemaking and implementation, the effects of which are not yet known. We may be forced to invest significant management attention and resources to make any necessary changes related to the Dodd-Frank Act and any regulations promulgated thereunder, which may adversely affect our business, results of operations, financial condition or prospects. We cannot predict the specific impact and long-term effects the Dodd-Frank Act and the regulations promulgated thereunder will have on our financial performance, the markets in which we operate and the financial industry generally.

In addition to changes resulting from the Dodd-Frank Act, in July 2013, the Board of Governors of the Federal Reserve System, FDIC and the OCC approved final rules (Final Capital Rules) implementing revised capital rules to reflect the requirements of the Dodd-Frank Act and the Basel III international capital standards. Under the Final Capital Rules, minimum requirements will increase for both the quantity and quality of capital held by the Company. The rules include a new common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.5%, raise the minimum ratio of

Tier 1 capital to risk-weighted assets from 4.0% to 6.0%, require a minimum ratio of total capital to risk-weighted assets of 8.0%, and require a minimum Tier 1 leverage ratio of 4.0%. The Final Capital Rules also establish a new capital conservation buffer, comprised of common equity Tier 1 capital, is also established above the regulatory minimum capital requirements. This capital conservation buffer will be phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increase each subsequent year by an additional 0.625% until reaching its final level of 2.5% on January 1, 2019. Strict eligibility criteria for regulatory capital instruments were also implemented under the final rules. The Final Capital Rules became applicable to us beginning on January 1, 2015 with conservation buffers phasing in over the subsequent 5 years.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports when appropriate. They also mandate that we are ultimately responsible to ensure our third party vendors adhere to the same laws and regulations. In addition to other bank regulatory agencies, the federal Financial Crimes Enforcement Network of the Department of the Treasury is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the state and federal banking regulators, as well as the U.S. Department of Justice, Consumer Financial Protection Bureau, Drug Enforcement Administration, and Internal Revenue Service.

We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control of the Department of the Treasury regarding, among other things, the prohibition of transacting business with, and the need to freeze assets of, certain persons and organizations identified as a threat to the national security, foreign policy or economy of the United States. If our policies, procedures and systems or those of our third party vendors are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including any acquisition plans. Any of these results could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Consumer Financial Protection Bureau, the Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution s performance under the Community Reinvestment Act or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and future prospects.

The fiscal, monetary and regulatory policies of the federal government and its agencies could have a material adverse effect on our results of operations.

The Federal Reserve regulates the supply of money and credit in the United States. Its policies determine in large part the cost of funds for lending and investing and the return earned on those loans and investments, both of which affect the net interest margin. Its policies can also adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve policies and our regulatory environment generally are beyond our control, and we are unable to predict what changes may occur or the manner in which any future changes may affect our business, financial condition and results of operation.

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Impairment of goodwill and/or intangible assets could require charges to earnings, which could negatively impact our results of operations.

Goodwill and other intangible assets arise when a business is purchased for an amount greater than the net fair value of its identifiable assets. We have recognized goodwill as an asset on the balance sheet in connection with several recent acquisitions. At December 31, 2014, we had $57.6 million of goodwill and intangible assets. We evaluate goodwill and intangibles for impairment at least annually by comparing fair value to carrying amount. Although we have determined that goodwill and other intangible assets were not impaired during 2014, a significant and sustained decline in our stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates or other factors could result in impairment of goodwill or other intangible assets. If we were to conclude that a future write-down of the goodwill or intangible assets is necessary, then we would record the appropriate charge to earnings, which could be materially adverse to our results of operations and financial position.

Our Cash Connect division relies on multiple financial and operational controls to track and settle the cash it provides to its customers in the ATM industry. Our results of operations and financial condition could be materially adversely affected if our Cash Connect division s established policies, procedures and controls are inadequate to prevent a misappropriation of funds, or if a misappropriation of funds is not insured or not fully covered through insurance.

The profitability of Cash Connect is reliant upon its ability to accurately and efficiently distribute, track, and settle large amounts of cash to its customers ATMs. This depends on the successful implementation and monitoring of a comprehensive series of financial and operational controls that are designed to help prevent, detect, and recover any potential loss of funds. These controls require the implementation and maintenance of complex proprietary software, the ability to track and monitor an extensive network of armored car companies, and the ability to settle large amounts of electronic funds transfer (EFT), funds from various ATM networks. It is possible for those associated with armored car companies, ATM networks and processors, ATM operators, or other parties to misappropriate funds belonging to Cash Connect. Cash Connect has experienced such occurrences in the past. If our Cash Connect division s established policies, procedures and controls are inadequate to prevent a misappropriation of funds, or if a misappropriation of funds is not insured or not fully covered through any insurance maintained by us, it could result in an adverse impact on our results of operations and financial condition

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Such events would not materially and adversely affect our results of operations.

Our recent business strategy has included significant investment in growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth and investment in branch infrastructure effectively.

We have pursued a significant growth strategy for our business. Our growth initiatives have required us to recruit experienced personnel to assist in such initiatives. The failure to retain such personnel would place significant limitations on our ability to successfully execute our growth strategy. In addition, as we expand our lending beyond our current market areas, we could incur additional risk related to those new market areas. We may not be able to expand our market presence in our existing market areas or successfully enter new markets.

A weak economy, low demand and competition for credit may impact our ability to successfully execute our growth plan and adversely affect our business, financial condition, results of operations, reputation and growth prospects. While we believe we have the executive management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or that we will successfully manage our growth.

We regularly evaluate potential acquisitions and expansion opportunities. If appropriate opportunities present themselves, we expect to engage in selected acquisitions or other business growth initiatives or undertakings. We may not successfully identify appropriate opportunities, may not be able to negotiate or finance such activities and such activities, if undertaken, may not be successful.

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We have in the past and may in the future pursue acquisitions, which may disrupt our business and adversely affect our operating results, and we may fail to realize all of the anticipated benefits of any such acquisition.

We have historically pursued acquisitions, and may seek acquisitions in the future. We may not be able to successfully identify suitable candidates, negotiate appropriate acquisition terms, complete proposed acquisitions, successfully integrate acquired businesses into the existing operations, or expand into new markets. Once integrated, acquired operations may not achieve levels of revenues, profitability, or productivity comparable with those achieved by our existing operations, or otherwise perform as expected.

Acquisitions involve numerous risks, including difficulties in the integration of the operations, technologies, services and products of the acquired companies, and the diversion of management s attention from other business concerns. We may not properly ascertain all such risks prior to an acquisition or prior to such a risk impacting us while integrating an acquired company. As a result, difficulties encountered with acquisitions could have a material adverse effect on our business, financial condition, and results of operations.

Furthermore, we must generally receive federal regulatory approval before we can acquire a bank or bank holding company. In determining whether to approve a proposed bank acquisition, federal bank regulators will consider, among other factors, the effect of the acquisition on competition, financial condition, future prospects, including current and projected capital levels, the competence, experience, and integrity of management, compliance with laws and regulations, the convenience and needs of the communities to be served, including the acquiring institution s record of compliance under the Community Reinvestment Act, and the effectiveness of the acquiring institution in combating money laundering activities. In addition, we cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. Consequently, we may not obtain regulatory approval for a proposed acquisition on acceptable terms or at all, in which case we would not be able to complete the acquisition despite the time and expenses invested in pursuing it.

We originate, sell, service and portfolio reverse mortgages, which subjects us to additional risks that could have a material adverse effect on our business, reputation, liquidity, financial condition and results of operations.

We originate, sell, service and portfolio reverse mortgages. The reverse mortgage business is subject to substantial risks, including market, credit, interest rate, liquidity, operational, reputational and legal risks. Generally, a reverse mortgage is a loan available to seniors aged 62 or older that allows homeowners to borrow money against the value of their home. No repayment of the mortgage is required until the borrower dies, moves out of the home or the home is sold. A decline in the demand for reverse mortgages may reduce the number of reverse mortgages we originate, and adversely affect our ability to sell reverse mortgages in the secondary market. Although foreclosures involving reverse mortgages generally occur less frequently than forward mortgages, loan defaults on reverse mortgages leading to foreclosures may occur if borrowers fail to maintain their property or fail to pay taxes or home insurance premiums. A general increase in foreclosure rates may adversely impact how reverse mortgages are perceived by potential customers and thus reduce demand for reverse mortgages. Finally, we could become subject to negative headline risk in the event that loan defaults on reverse mortgages lead to foreclosures or evictions of elderly homeowners. All of the above factors could have a material adverse effect on our business, reputation, liquidity, financial condition and results of operations.

We could experience an unexpected inability to obtain needed liquidity.

Liquidity is essential to our business, as we use cash to fund loans and investments, other interest-earning assets and deposit withdrawals that occur in the ordinary course of our business. We also are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. Our principal sources of liquidity include customer deposits, FHLB borrowings, brokered certificates of deposit, sales of loans, repayments to the Bank from borrowers and paydowns and sales of investment securities. If our ability to obtain funds from these sources becomes limited or the costs to us of those funds increases, whether due to factors that affect us specifically, including our financial performance or the imposition of regulatory restrictions on us, or due to factors that affect the capital markets or other events, including weakening economic conditions or negative views and expectations about the prospects for the financial services industry as a whole, then our ability to meet our obligations or grow our banking business would be adversely affected and our financial condition and results of operations could be harmed.

Our risk management processes and procedures may not be effective in mitigating our risks.

Our risk management processes and procedures seek to appropriately balance risk and return and mitigate risks. We have established processes and procedures intended to identify, measure, monitor and control the types of risk to which we are subject, including credit risk, market risk, liquidity risk, strategic risk and operational risk. Credit risk is the risk of loss that arises when an obligor fails to meet the terms of an obligation. We are exposed to both customer credit risk, from our loans, and institutional credit risk, principally from our various business partners and counterparties. Market risk is the risk of loss due to changes in external market factors such as interest rates. Liquidity risk is the risk that financial condition or overall safety and soundness are adversely affected by an inability, or perceived inability, to meet obligations and support business growth. Strategic risk is the risk from changes in the business environment, improper implementation of decisions or inadequate responsiveness to changes in the business environment. Operational risk is the risk of loss arising from inadequate or failed processes, people or systems, external events (i.e., natural disasters) or compliance, reputational or legal matters and includes those risks as they relate directly to the Company as well as to third parties with whom we contract or otherwise do business.

We seek to monitor and control our risk exposure through a framework that includes our risk appetite statement, enterprise risk assessment process, risk policies, procedures and controls, reporting requirements, credit risk culture and governance structure. Management of our risks in some cases depends upon the use of analytical and/or forecasting models. If the models that we use to manage these risks are ineffective at predicting future losses or are otherwise inadequate, we may incur unexpected losses or otherwise be adversely affected. In addition, the information we use in managing our credit and other risk may be inaccurate or incomplete as a result of error or fraud, both of which may be difficult to detect and avoid. There may also be risks that exist, or that develop in the future, that we have not appropriately anticipated, identified or mitigated including when processes are changed or new products and services are introduced. If our risk management framework does not effectively identify and control our risks, we could suffer unexpected losses or be adversely affected, and that could have a material adverse effect on our business, results of operations and financial condition.

Litigation or legal proceedings could expose us to significant liabilities and damage our reputation.

From time to time, and particularly in light of the recent economic downturn, and the negative sentiment towards banks, we have and may become party to various litigation claims and legal proceedings. Management evaluates these claims and proceedings to assess the likelihood of unfavorable outcomes and estimates, if possible, the amount of potential losses. We may establish a reserve, as appropriate, based upon our assessments and estimates in accordance with accounting policies. We base our assessments, estimates and disclosures on the information available to us at the time and rely on the judgment of our management with respect to those assessments, estimates and disclosures. Actual outcomes or losses may differ materially from assessments and estimates, which could adversely affect our reputation, financial condition and results of operations.

Our Trust and Wealth division is subject to a number of risks, including reputational risk.

Our Trust and Wealth division derives the majority of its revenue from noninterest income which consists of trust, investment and other servicing fees. Success in this business segment is highly dependent on reputation. Our ability to attract trust and wealth management clients is highly dependent upon external perceptions of this division s level of service, trustworthiness, business practices and financial condition. Negative perceptions or publicity regarding these matters could damage the division s and our reputation among existing customers and corporate clients, which could make it difficult for the Trust and Wealth division to attract new clients and maintain existing ones. Adverse developments with respect to the financial services industry may also, by association, negatively impact the division s or our reputation, or result in greater regulatory or legislative scrutiny or litigation against us. Although we monitor developments for areas of potential risk to the division s and our reputation and brand, negative perceptions or publicity could materially and adversely impact both revenue and net income.

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System failure or cybersecurity breaches of our network security could subject us to increased operating costs as well as litigation and other potential losses.

Failure in or breach of our computer systems and network infrastructure, or those of our third party vendors or other service providers, including as a result of cyber-attacks, could disrupt our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure utilized by us, including our Internet banking activities, against damage from physical break-ins, cybersecurity breaches and other disruptive problems caused by the Internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and damage to our reputation, and may discourage current and potential customers from using our Internet banking services. As customer, public and regulatory expectations regarding operational and information security have increased, we have added additional security measures to our computer systems and network infrastructure to mitigate the possibility of cybersecurity breaches including firewalls and penetration testing. We continue to investigate cost effective measures as well as insurance protection though these mitigation activities may not prevent future potential losses from system failures or cybersecurity breaches.

In the normal course of business, we collect, process, and retain sensitive and confidential information regarding our customers. Although we devote significant resources and management focus to ensuring the integrity of our systems through information security and business continuity programs, our facilities and systems, and those of our third-party service providers, are vulnerable to external or internal security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming or human errors, or other similar events. We and our third-party service providers have experienced all of these events in the past and expect to continue to experience them in the future. These events could interrupt our business or operations, result in significant legal and financial exposure, supervisory liability, damage to our reputation, loss of customers and business or a loss of confidence in the security of our systems, products and services. Although the impact to date from these events has not had a material adverse effect on us, we cannot be sure this will be the case in the future. Any of these occurrences could have a material adverse effect on our financial condition and results of operations.

Information security risks for financial institutions like us have increased recently in part because of new technologies, the use of the internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers recently have engaged in attacks against large financial institutions that are designed to disrupt key business services, such as consumer-facing web sites. We are not able to anticipate or implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. We employ detection and response mechanisms designed to contain and mitigate security incidents, but early detection may be thwarted by sophisticated attacks and malware designed to avoid detection.

Key employees may be difficult to retain.

Our Associates are our most important resource and, in many areas of the financial services industry, competition for qualified personnel is intense. We invest significantly in recruitment, training, development and talent management as our Associates are the cornerstone of our model. If we were unable to continue to attract and retain qualified key employees to support the various functions of our businesses, our performance, including our competitive position, could be materially adversely affected. As economic conditions improve, we may face increased difficulty in retaining top performers and critical skilled employees. If key personnel were to leave us and equally knowledgeable or skilled personnel are unavailable within the Company or could not be sourced in the market, our ability to manage our business may be hindered or impaired.

Our ability to receive dividends from our subsidiaries could affect our liquidity and ability to pay dividends.

We are a separate and distinct legal entity from our subsidiaries, including the Bank. We receive substantially all of our revenue from dividends from our subsidiaries. These dividends are the principal source of funds to pay dividends on our Common Stock and interest and principal on our debt. Various federal and/or state laws and regulations limit the amount of dividends that our Bank and certain of our nonbank subsidiaries may pay us. Also, our right to participate in a distribution of assets upon a subsidiary s liquidation or reorganization is subject to the prior claims of the subsidiary s creditors. Limitations on our ability to receive dividends from our subsidiaries could have a material adverse effect on our liquidity and on our ability to pay dividends on common stock. Additionally, if our subsidiaries earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, we may not be able to make dividend payments to our common stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The following table sets forth the location and certain additional information regarding our offices and other material properties as of December 31, 2014:

Location	Owned/ Leased	Date Lease Expires	Net Book Value of Property or Leasehold Improvements [1]	Deposits
			(In Thousands)	
WSFS Bank Center Branch	Leased	2025	$ 550	$ 1,035,460
Main Office				
500 Delaware Avenue				
Wilmington, DE 19801				
Union Street Branch	Leased	2022	291	

Diluted earnings (loss) per share:						
Continuing operations	$ 1.93	$ 2.62	$ 1.66	$7.10	$1.31	$(4.77)
Discontinued operations	(0.05)	(1.08)	—	0.11	(0.33)	(0.49)
Diluted earnings (loss) attributable to Visteon Corporation	$ 1.88	$ 1.54	$ 1.66	$7.21	$0.98	$(5.26)
Balance Sheet Data						
Total assets	$ 5,156	$ 4,969	$ 5,208	N/A	$5,019	$5,248
Total debt	$ 569	$ 599	$ 561	N/A	$231	$2,762
Total Visteon Corporation stockholders' equity (deficit)	$ 1,385	$ 1,307	$ 1,260	N/A	$(772)	$(887)
Statement of Cash Flows Data						
Cash provided from (used by) operating activities	$ 239	$ 175	$ 154	$20	$141	$(116)
Cash used by investing activities	$ (40)	$ (331)	$ (76)	$(75)	$(123)	$(208)
Cash used by financing activities	$ (115)	$ (3)	$ (40)	$(42)	$(259)	$(193)

On August 1, 2012, the Company completed the sale of its Lighting operations and the respective results of operations of the Lighting business have been reclassified to (Loss) income from discontinued operations, net of tax for all periods presented.

During the nine-month predecessor period ended October 1, 2010 the Company recorded a pre-tax gain of approximately $1.1 billion for reorganization related items in connection with the plan of reorganization. This gain included $956 million related to the cancellation of certain pre-petition obligations previously recorded as liabilities subject to compromise in accordance with terms of the plan of reorganization. Additionally, on the Effective Date, the Company became a new entity for financial reporting purposes and adopted fresh-start accounting, which requires, among other things, that all assets and liabilities be recorded at fair value resulting in a gain of $106 million.

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

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

Executive Summary

Description of Business

Visteon Corporation (the "Company" or "Visteon") is a global supplier of climate, electronics and interiors systems, modules and components to automotive original equipment manufacturers ("OEMs") including BMW, Chrysler, Daimler, Ford, General Motors, Honda, Hyundai, Kia, Nissan, PSA Peugeot Citroën, Renault, Toyota and Volkswagen. Visteon delivers value to its customers, and shareholders through a family of businesses including:

- Halla Visteon Climate Control, majority-owned by Visteon and the world's second largest global supplier of automotive climate components and systems.
- Visteon Electronics, a global provider of audio/infotainment, driver information, center stack electronics and feature control modules.
- Visteon Interiors, a global provider of vehicle cockpit modules, instrument panels, consoles and door trim modules.
- Yanfeng Visteon Automotive Trim Systems Co., Ltd., a 50% owned and non-consolidated China-based partnership between Visteon and Shanghai Automotive Industry Corporation's automotive components group, Huayu Automotive Systems Co., Ltd.

Visteon, headquartered in Van Buren Township, Michigan, has an international network of manufacturing operations, technical centers and joint venture operations, supported by approximately 22,000 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. The Company's sales for the year ended December 31, 2012 totaled $6.9 billion and were distributed by product group, geographic region, and customer as follows.

Strategic Transformation

On May 28, 2009, Visteon and certain of its U.S. subsidiaries (the "Debtors") filed voluntary petitions for reorganization relief under chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Court") (the "Chapter 11 Proceedings") in response to sudden and severe declines in global automotive production during the latter part of 2008 and early 2009 and the resulting adverse impact on the Company's cash flows and liquidity. On August 31, 2010 (the "Confirmation Date"), the Court entered an order (the "Confirmation Order") confirming the Debtors' joint plan of reorganization (as amended and supplemented, the "Plan"). On October 1, 2010 (the "Effective Date"), all conditions precedent to the effectiveness of the Plan and related documents were satisfied or waived and the Company emerged from bankruptcy and became a new entity for financial reporting purposes. Accordingly, the consolidated financial statements for the reporting entity subsequent to the Effective Date (the "Successor") are not comparable to the consolidated financial statements for the reporting entity prior to the Effective Date (the "Predecessor").

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Following emergence from the Chapter 11 Proceedings, the Company continued its efforts to transform its business portfolio and to rationalize its cost structure including, among other things, the investigation of potential transactions for the sale, merger or other combination of certain businesses. During January 2012 the Company reached agreements for the closure of the Cadiz Electronics operation in El Puerto de Santa Maria, Spain. In April 2012, the Company sold its corporate headquarters, consisting of land and building, which had a net book value of approximately $60 million, for cash proceeds of approximately $80 million and entered into an agreement to lease back the corporate offices over a period of 15 years. On August 1, 2012, the Company completed the sale of its Lighting business for cash proceeds of approximately $70 million. On August 31, 2012, Visteon completed the sale of its 50% ownership interest in R-Tek, Ltd., a UK-based Interiors joint venture, for proceeds of approximately $30 million, resulting in a net gain on the sale of approximately $19 million.

In September 2012, the Company announced a comprehensive value creation plan founded on the pillars of industrial logic, customer focus and financial discipline. The comprehensive value creation plan includes the following primary elements.

- Climate consolidation - Historically, the Company's Climate operations have been comprised of Halla Climate Control Corporation ("Halla"), a 70% owned and consolidated Korean subsidiary, and a series of wholly-owned Visteon Climate operations and other Visteon Climate joint ventures. By combining these businesses, the Company expects to achieve synergies through improved global scale and common business practices. During the first quarter of 2013, Halla purchased certain subsidiaries and intellectual property relating to Visteon's global climate business for a total purchase price of $410 million. This combination forms the world's second largest global supplier of automotive climate components and systems under the name of Halla Visteon Climate Control ("HVCC"). HVCC is majority-owned by Visteon and headquartered in South Korea. In connection with the transaction, Visteon will provide transition services and lease certain U.S. based employees.
- Interiors strategy - The Company has determined that its Interiors business is not aligned with its long-term strategic goals and intends to explore various alternatives including, but not limited to, divestiture, partnership or alliance. During 2009 and in connection with the Chapter 11 Proceedings, the Company exited its Interiors businesses in North America leaving a solid and capable regional business, but one without a complete global footprint. 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.
- Electronics optimization - The Company's Electronics business has undergone a transition away from powertrain, body and security electronics over the last several years and today is focused solely on electronics in the cockpit of the vehicle delivering innovative audio, infotainment, clusters and displays to OEM customers. The market for cockpit electronics is projected to grow to $35 billion by 2018, or approximately 35% of the vehicle electronics business. The Company's Electronics business has a balanced global footprint, an integrated global development capability, a series of solid OEM relationships, and a successful joint venture with Yanfeng Visteon Automotive Trim Systems Co., Ltd. that provides an important source of global electronics development and engineering capability. The Company believes that its Electronics business is well-positioned to capitalize on a rapidly changing consumer-driven technology landscape and the Company intends to optimize the size and scale of this business associated with its cockpit electronics 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. The Company recorded restructuring charges of approximately $35 million associated with this program during the three months ended December 31, 2012. The Company anticipates recording additional restructuring charges related to this program in future periods as underlying plans are finalized.
- Balance sheet enhancement - During 2012 the Company offered an accelerated pension payment program to most of its U.S. deferred vested defined benefit plan participants, whereby such participants could elect to receive a single lump sum payout. Approximately 70% of eligible participants elected to receive a single lump sum payout resulting in a reduction of the Company's U.S. retirement plan obligations of $408 million and a reduction in plan assets of $301

million, respectively. In December 2012, the Company exercised its right to repurchase $50 million or 10% of its outstanding 6.75% senior notes due April 2019 for a redemption price of 103% of the principal amount, plus accrued and unpaid interest to the redemption date.

During 2012, the Company's board of directors authorized the repurchase of up to $100 million of the Company's common stock. During 2012, the Company repurchased 1,005,559 shares of its outstanding common stock at an average price of $49.72 per share, excluding commissions, for the aggregate purchase price of $50 million. In January 2013, the board of directors reauthorized the current $100 million and increased the repurchase amount to an additional $200 million over the next two years. The Company anticipates that repurchases of common stock 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.

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In January 2013, the Company completed the sale of its 50% equity interest in Visteon TYC Corporation for proceeds of approximately $17 million. In February 2013, the Company entered into an agreement to sell its 20% equity interest in Dongfeng Visteon Automotive Trim Systems Co., Ltd. for cash proceeds of approximately $20 million.

Global Automotive Industry

The Company conducts its business in the automotive industry, which is capital intensive, highly competitive and sensitive to economic conditions. During 2012 the global automotive industry experienced modest global growth with increases in light vehicle sales and production levels in all geographic regions, with the exception of Europe where weak economic conditions continued to weigh on consumer confidence. North America led the way in 2012, fueled by a recovering U.S. economy. Consumer demand in many emerging markets continued to contribute to global automotive growth. Light vehicle sales and production levels for 2012 by geographic region are provided below (units in millions):

	Light Vehicle Sales			Light Vehicle Production		
	2012	2011	Change	2012	2011	Change
Global	79.7	75.6	5.3 %	81.5	76.8	6.1 %
North America	17.2	15.3	12.5 %	15.4	13.1	17.4 %
South America	5.8	5.6	4.7 %	4.3	4.3	(0.5)%
Europe	18.2	19.3	(5.7)%	19.2	20.2	(4.7)%
China	18.8	17.6	6.8 %	18.3	17.3	5.8 %
Japan/Korea	6.7	5.7	18.9 %	14.0	12.5	11.6 %
India	3.3	3.0	12.3 %	3.8	3.6	5.3 %
ASEAN	3.0	2.5	21.3 %	4.1	2.9	43.6 %

Source: IHS Automotive
Further deterioration of market conditions in Europe, resulting in a sustained adverse impact on the global automotive sector could adversely impact the Company's financial results, including potential asset impairments and restructuring charges.

Financial Results Summary

Highlights of the Company's financial results for the year ended December 31, 2012 include the following.

- The Company recorded sales of $6,857 million, a decrease of approximately 9% compared with the prior year. The decrease is largely attributable to the deconsolidation of Duckyang Industry Co. Ltd in October 2011 and unfavorable currency, as partially offset by increased production volumes.
- Net income attributable to Visteon was $100 million, an increase of 25% compared with the prior year. The increase represents higher equity in net income of non-consolidated affiliates, lower selling, general and administrative expenses and lower losses associated with discontinued operations, as partially offset by higher restructuring and other expenses.
- The Company generated $239 million of cash from operating activities, an increase of $64 million compared with the prior year. The increase is due to higher cash dividends from non-consolidated affiliates, lower bankruptcy claim settlement payments, and lower employee benefit related payments, as partially offset by lower customer accommodation agreement receipts and higher restructuring payments.
- Total cash balances were $845 million, $99 million higher than December 31, 2011. The Company's total debt was $569, $30 million lower than December 31, 2011. As of December 31, 2012 the Company had $276 million cash in excess of total debt.

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Consolidated Results of Operations - 2012 Compared with 2011

The Company's consolidated results of operations for the years ended December 31, 2012 and 2011 were as follows:

	Year Ended December 31		
	2012	2011	Change
	(Dollars in Millions)		
Sales	$6,857	$7,532	$(675)
Cost of sales	6,268	6,914	(646)
Gross margin	589	618	(29)
Selling, general and administrative expenses	369	387	(18)
Equity in net income of non-consolidated affiliates	226	168	58
Restructuring expenses	79	24	55
Interest expense, net	35	27	8
Other expense, net	41	11	30
Provision for income taxes	121	127	(6)
Net income from continuing operations	170	210	(40)
Loss from discontinued operations	(3)	(56)	53
Net income	$167	$154	$13
Net income attributable to Visteon Corporation	$100	$80	$20
Adjusted EBITDA*	$628	$685	$(57)

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

Sales

Sales for the year ended December 31, 2012 totaled $6,857 million, which represents a decrease of $675 million compared with the same period of 2011. Approximately $549 million of this decrease is due to the deconsolidation of Duckyang Industry Co. Ltd ("Duckyang"), an Interiors joint venture, which resulted from the October 2011 sale of a controlling ownership interest in the entity ("Duckyang Share Sale"). Unfavorable currency of $307 million, primarily attributable to the Euro, Indian Rupee, Brazilian Real and Korean Won currencies, also contributed to the decline. Other reductions of $79 million were associated with price productivity net of design actions. These declines were partially offset by sales increases of $241 million associated with higher global production volumes as increases Asia and North America more than offset decreases in Europe and higher commercial agreements of $19 million.

Cost of Sales

Cost of sales decreased $646 million for the year ended December 31, 2012 when compared with the prior year. The decrease includes $541 million attributable to the deconsolidation of Duckyang and $257 million attributable to currency primarily driven by the Euro, Brazilian Real, Indian Rupee, and the Korean Won. Cost of sales also decreased by $136 million attributable to production efficiencies including material design and usage economics as well as lower depreciation and amortization expense of $29 million. These decreases were partially offset by costs associated with increased production volumes and changes in product mix, which increased cost of sales by $283 million. Other changes, totaling $34 million, primarily relate to commodity pricing and design actions and customer design and development recoveries.

Gross Margin

The Company's gross margin was $589 million or 8.6% of sales for the year ended December 31, 2012 compared to $618 million or 8.2% of sales for the same period of 2011. The decrease in gross margin of $29 million was associated with unfavorable currency of $50 million, unfavorable product mix of $42 million, and the Duckyang deconsolidation of $8 million. Lower depreciation and amortization expense of $29 million, net cost performance of $23 million and customer recoveries of $19 million, were partial offsets.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses were $369 million and $387 million during the years ended December 31, 2012 and 2011, respectively, for a year over year decrease of $18 million. The decrease includes $23 million associated with lower employee costs including incentive compensation expense, favorable currency of $11 million, and the Duckyang deconsolidation of $5 million. These decreases were partially offset by higher corporate office rent expense of $3 million, pension settlement losses of $4 million, note receivable impairment of $4 million, and higher professional fees of $5 million.

Equity in Net Income of Non-Consolidated Affiliates

Equity in the net income of non-consolidated affiliates totaled $226 million and $168 million for the years ended December 31, 2012 and 2011, respectively, representing an increase of $58 million. Equity earnings for the year ended December 31, 2012 included $63 million representing Visteon's equity interest in a non-cash gain recorded by Yanfeng Visteon Automotive Trim Systems Co., Ltd ("Yanfeng") resulting from the excess of fair value over the carrying value of a former equity investee that was consolidated effective June 1, 2012. The amounts recorded by Yanfeng are based on preliminary estimates of enterprise value, which remain subject to finalization. Final determination of the values may result in adjustments to the amount of the gain reported herein.

The following table presents summarized statement of operations data for the Company's non-consolidated affiliates representing 100% of the results of operations of such non-consolidated affiliates.

	Net Sales			Gross Margin			Net Income		
	December 31			December 31			December 31		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
	(Dollars in Millions)								
Yanfeng	$5,171	$3,014	$2,573	$782	$473	$398	$369	$246	$218
All other	1,757	1,681	893	194	176	142	92	90	71
	$6,928	$4,695	$3,466	$976	$649	$540	$461	$336	$289

Yanfeng sales and gross margin for the year ended December 31, 2012 include approximately $1,733 million and $278 million, respectively, related to activity of a former equity investee that was consolidated effective June 1, 2012. Yanfeng net income for the year ended December 31, 2012 includes approximately $130 million associated with a non-cash gain on the consolidation of a former equity investee.

Restructuring Expenses

During the year ended December 31, 2012, the Company recorded $79 million of restructuring expenses compared to $24 million, net of reversals, for the year ended December 31, 2011. The following is a summary of the Company's consolidated restructuring reserve and related activity for the year ended December 31, 2012.

	Electronics	Interiors	Climate	Corporate	Total
	(Dollars in Millions)				
Restructuring reserve - December 31, 2011	$19	$6	$1	$—	$26
Expenses	36	34	5	4	79
Utilization	(54)	(6)	(5)	(1)	(66)
Restructuring reserve - December 31, 2012	$1	$34	$1	$3	$39

During 2011 the Company announced its intention to permanently cease production and to close the Cadiz Electronics facility located in Spain. During January 2012 the Company reached agreements with the local unions and Spanish government for the closure of the Cadiz Electronics operation. During the three months ended March 31, 2012, the Company recorded one-time termination benefits, in excess of the previously recorded statutory minimum requirement, of approximately $31 million and other exit costs of $5 million. Utilization during the year ended December 31, 2012 associated with the Cadiz closure included $49 million of cash payments for employee severance and termination benefits and $5 million for other exit costs, primarily governmental registration of contributed assets. The Company recovered approximately $23 million of these costs pursuant to the Release Agreement with Ford, including $19 million during 2012 and $4 million during 2011.

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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 quarter ended December 31, 2012 and in connection with that program, the Company announced a plan to restructure three European Interiors facilities. The Company recorded approximately $30 million for employee severance and termination benefits associated with approximately 230 employees. These cash benefits are expected to be paid to employees during 2013 and remain accrued on the Company's consolidated balance sheet as of December 31, 2012. The Company also recorded severance and termination benefit costs of $4 million under this program associated with the realignment of its corporate and administrative functions directly to their corresponding operational beneficiary to right-sizing such functions and reduce related costs. Benefits associated with these actions are expected to be paid to employees during 2013 and remain accrued on the Company's consolidated balance sheet as of December 31, 2012. The Company expects to record additional costs of up to $65 million related to this program in future periods as underlying plans are finalized.

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 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.

Interest Expense, Net

Interest expense for the year ended December 31, 2012 of $49 million included $33 million associated with the Company's 6.75% Senior Notes due April 15, 2019, $7 million for commitment fees and amortization of debt issuance costs, $5 million related to the Korean Bridge Loan, and $4 million associated with affiliate debt. During the year ended December 31, 2011, interest expense was $48 million, including $25 million on the 6.75% Senior Notes due April 15, 2019, $11 million associated with the $500 million secured term loan due October 1, 2017 which was repaid on April 16, 2011, $6 million for commitment fees and amortization of debt issuance costs, and $6 million associated with affiliate debt. Interest income of $14 million for the year ended December 31, 2012 decreased by $7 million when compared to $21 million for the same period of 2011 due to a change in the regional mix of cash, lower rates, and lower average cash balances.

Other Expense, Net

Other expense, net consists of the following:

	Year Ended December 31	
	2012	2011
	(Dollars in Millions)	
Transformation costs	$33	$7
Gain on sale of joint venture interest	(19)	—
Loss on asset contribution	14	—
Loss on debt extinguishment	6	24
Asset impairments	5	—
Reorganization-related costs, net	2	8
Deconsolidation gains	—	(8)
UK Administration recovery	—	(18)
Gain on sale of assets	—	(2)
	$41	$11

During the year ended December 31, 2012, the Company continued to transform its business portfolio and to rationalize its cost structure including, among other things, the investigation of potential transactions for the sale, merger or other combination of certain businesses. Business transformation costs of $33 million and $7 million incurred during the years ended December 31, 2012 and December 31, 2011, respectively relate principally to financial and advisory fees.

In August 2012, Visteon sold its 50% ownership interest in R-Tek Ltd., a UK-based Interiors joint venture, for cash proceeds of approximately $30 million, resulting in a gain of $19 million.

In connection with the closure of the Cadiz Electronics operation the Company agreed to transfer land, building and machinery with a net book value of approximately $14 million for the benefit of employees.

Loss on debt extinguishment of $6 million for the year ended December 31, 2012 included $4 million of unamortized amounts attributable to the Korean Bridge Loan that was repaid during the third quarter 2012 and $2 million for the 103% redemption premium paid on the December 2012 repurchase of $50 million of the Company's 6.75% Senior Notes due April 15, 2019. In April 2011, the Company completed the sale of $500 million aggregate principal amount of 6.75% senior notes due April 15, 2019. Concurrently with the completion of the sale of the senior notes, the Company repaid its obligations under the $500 million secured term loan due October 1, 2017 and recorded a loss on early extinguishment of $24 million for unamortized original issue discount, debt fees and other debt issue costs associated with the term loan.

In connection with the expected sale of the Company's 50% equity interest in Visteon TYC Corporation ("VYTC"), the Company recorded an other-than temporary decline in value of $5 million during the three months ended December 31, 2012, reflecting the difference between carrying value and expected proceeds. In January 2013, the Company completed the sale of its interest in VTYC for proceeds of approximately $17 million.

In December 2011, the Company received a distribution of $18 million, in connection with the liquidation and recovery process under the UK Administration. This distribution represented recoveries associated with loss claims on amounts owed to Visteon for various trade and loan receivables due from the UK Debtor.

As of October 31, 2011 the Company deconsolidated total assets of $217 million, total liabilities of $159 million, non-controlling interests of $29 million and related amounts deferred as Accumulated other comprehensive income from its balance sheet related to Duckyang pursuant to the Duckyang Share Sale. The Company recorded a gain on the transaction of $8 million including amounts associated with the deconsolidation and remeasurement of the retained 50% non-controlling interest to fair value.

Income Taxes

The Company's provision for income tax was $121 million for year ended December 31, 2012 and reflects income tax expense related to those countries where the Company is profitable, accrued withholding taxes, ongoing assessments related to the recognition and measurement of uncertain tax benefits, the inability to record a tax benefit for pre-tax losses in the U.S. and certain other jurisdictions, and other non-recurring tax items. The Company's provision for income taxes decreased $6 million for the year ended December 31, 2012 compared with 2011. The decrease in tax expense includes $5 million associated with tax law changes and $1 million attributable to the overall changes in the mix of earnings and tax rates between jurisdictions.

During 2012, the Company recorded a tax benefit of $8 million attributable to the elimination of deferred tax asset valuation allowances at several foreign subsidiaries in China, India and the Czech Republic. The Company recorded a similar amount during 2011 attributable to the elimination of deferred tax asset valuation allowances at its UK subsidiary. Additionally, other changes in the Company's deferred tax asset valuation allowances did not materially impact net tax expense during the years ended December 31, 2012 or 2011.

Visteon's emergence from bankruptcy in 2010 resulted in a change of ownership within the meaning of Internal Revenue Code (“IRC”) Sections 382 and 383, causing the use of Visteon's pre-emergence U.S. federal net operating loss (“NOL”) and various other tax attributes to be limited in the post-emergence period. However, NOLs and other tax attributes generated in the post-emergence period are generally not limited by the emergence from bankruptcy, but could be limited if there is a subsequent change of ownership. If the Company were to have another change of ownership within the meaning of IRC Sections 382 and 383, its post-emergence NOL and other tax attributes could be limited to an amount equal to its market capitalization at the time of the subsequent ownership change multiplied by the federal long-term tax exempt rate. The Company cannot provide any assurance that such an ownership change will not occur, in which case the availability of the Company's NOLs and other tax attributes could be significantly limited or possibly eliminated. In order to continue to protect the Company's pre and post-emergence period tax attributes and reduce the likelihood that the Company will experience an additional ownership change, once the Company's market capitalization falls below $1.5 billion Board of Director approval is required should a person or group become a 5-percent shareholder and/or an existing 5-percent shareholder intend to increase its ownership interest.

Discontinued Operations

On August 1, 2012, the Company completed the sale of its Lighting operations for proceeds of approximately $70 million (the "Lighting Transaction"). In connection with the Lighting Transaction, the results of operations of the Lighting business were reclassified to (Loss) income from discontinued operations, net of tax in the Consolidated Statements of Comprehensive Income for the years ended December 31, 2012 and 2011.

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Discontinued operations are summarized as follows:

	Year Ended December 31	
	2012	2011
	(Dollars in Millions)	
Sales	$297	$515
Cost of sales	264	490
Gross margin	33	25
Selling, general and administrative expenses	7	11
Asset impairments	19	66
Interest expense	2	2
Other expense	4	2
Income (loss) from discontinued operations before income taxes	1	(56)
Provision for income taxes	4	—
Loss from discontinued operations, net of tax	$(3)	$(56)

The Company recorded impairment charges principally related to property and equipment of approximately $19 million and $66 million during the years ended December 31, 2012 and 2011, respectively. Included in the provision for income taxes in 2012 is $3 million related to the establishment of a valuation allowance against certain deferred tax credits in Mexico, the realization of which is no longer considered more likely than not due to insufficient projected future taxable income, offset by favorable adjustments of $2 million associated with uncertain tax positions.

Net Income

Net income attributable to Visteon was $100 million for the year ended December 31, 2012 compared to $80 million for the same period of 2011. Adjusted EBITDA (a non-GAAP financial measure, as defined below) was $628 million for the year ended December 31, 2012, representing a decrease of $57 million when compared with Adjusted EBITDA of $685 million for the same period of 2011. The decrease in Adjusted EBITDA included $42 million of unfavorable volume and mix attributable to continued economic weakness in European markets, $40 million of unfavorable currency primarily reflecting weaker Euro and Indian Rupee currencies, $8 million of lower earnings associated with the Company's discontinued Lighting operations which were disposed during third quarter 2012, and $6 million associated with the non-recurrence of a 2011 Brazil land sale. Higher favorable commercial agreements and engineering cost recoveries of $33 million.

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

Adjusted EBITDA is not a recognized term under accounting principles generally accepted in the United States and does not purport to be a substitute for net income as an indicator of operating performance or cash flows from operating activities as a measure of liquidity. Adjusted EBITDA has limitations as an analytical tool and is not intended to be a measure of cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. In addition, the Company uses Adjusted EBITDA (i) as a factor in incentive compensation decisions, (ii) to evaluate the effectiveness of the

Company's business strategies and (iii) because the Company's credit agreements use measures similar to Adjusted EBITDA to measure compliance with certain covenants. Adjusted EBITDA, as determined and measured by the Company should not be compared to similarly titled measures reported by other companies.

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The reconciliation of Adjusted EBITDA to net income attributable to Visteon for the years ended December 31, 2012 and 2011 is as follows:

	Year Ended December 31		
	2012	2011	Change
	(Dollars in Millions)		
Adjusted EBITDA	$628	$685	$(57)
Interest expense, net	35	27	8
Provision for income taxes	121	127	(6)
Depreciation and amortization	258	295	(37)
Restructuring expenses	79	24	55
Other expense, net	41	11	30
Equity investment gain	(63)	—	(63)
Other non-operating costs, net	27	30	(3)
Discontinued operations	30	91	(61)
Net income attributable to Visteon Corporation	$100	$80	$20

Segment Results of Operations - 2012 compared with 2011

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.

Sales

	Climate	Electronics	Interiors	Eliminations	Total
	(Dollars in Millions)				
Year ended December 31, 2011 - Successor	$4,053	$1,367	$2,285	$(173)	$7,532
Volume and mix	418	(47)	(172)	42	241
Currency	(146)	(54)	(107)	—	(307)
Duckyang deconsolidation	—	—	(589)	40	(549)
Other	(39)	(16)	(5)	—	(60)
Year ended December 31, 2012 - Successor	$4,286	$1,250	$1,412	$(91)	$6,857

Climate sales increased during the year ended December 31, 2012 by $233 million. Higher production volumes in Asia, North America, and Europe, increased sales by $418 million. Unfavorable currency, primarily related to the Euro, Indian Rupee and Korean Won, resulted in a decrease of $146 million. Other changes, totaling $39 million, reflected price productivity, partially offset by increases in revenue related to commercial agreements, commodity pricing and design actions.

Electronics sales decreased during the year ended December 31, 2012 by $117 million. Volume declines of $47 million reflect historical customer sourcing actions and weakened economic conditions in Europe, partially offset by higher production volumes in North America and Asia. Unfavorable currency, primarily related to the Euro and the Indian Rupee, further decreased product sales by $54 million. Other changes, totaling $16 million, reflected price productivity, partially offset by increases in revenue related to commercial agreements, commodity pricing and design actions.

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Interiors sales decreased during the year ended December 31, 2012 by $873 million, including the Duckyang deconsolidation of $589 million (prior to eliminations), unfavorable volume and product mix of $172 million reflecting customer sourcing actions and weakened economic conditions in Europe, and unfavorable currency related to the Euro and Brazilian Real of $107 million.

Cost of Sales

	Climate	Electronics	Interiors	Eliminations	Total
	(Dollars in Millions)				
Year ended December 31, 2011 - Successor	$3,702	$1,239	$2,146	$(173)	$6,914
Material	162	(37)	(690)	82	(483)
Freight and duty	22	(6)	(15)	—	1
Labor and overhead	30	(24)	(99)	(2)	(95)
Depreciation and amortization	(12)	(12)	(7)	(6)	(37)
Other	5	(36)	(9)	8	(32)
Year ended December 31, 2012 - Successor	$3,909	$1,124	$1,326	$(91)	$6,268

Climate material costs increased by $162 million, including $240 million related to higher production volumes and $16 million related to higher aluminum, resin and other commodity costs and design changes, partially offset by $95 million of manufacturing efficiencies and purchasing improvements. Labor and overhead increased by $30 million, including $25 million related to production volumes and currency and $5 million related to higher manufacturing costs, net of efficiencies. Depreciation and amortization decreased by $12 million, as the cessation of depreciation on assets with short useful lives established in connection with fresh-start accounting more than offset depreciation from current year capital expenditures.

Electronics material costs decreased by $37 million, including $15 million related to production volumes and currency and $30 million associated with purchasing improvement efforts and design efficiencies, partially offset by $8 million related to the impact of commodity price increases and design changes. Labor and overhead decreased by $24 million, including $18 million related to lower production volumes, the exit of the Cadiz facility and currency and $6 million related to lower manufacturing costs, net of economics. Depreciation and amortization decreased by $12 million, as the cessation of depreciation on assets with short useful lives established in connection with fresh-start accounting more than offset depreciation from current year capital expenditures. Other decreases of $36 million primarily relate to currency hedging and the non-recurrence of costs related to the closure of the Cadiz facility.

Interiors material costs decreased by $690 million, including $532 million related to the deconsolidation of Duckyang (prior to eliminations), $144 million related to production volumes and currency and $14 million related to the impact of resin commodity costs and design changes. Labor and overhead decreased by $99 million, including $40 million associated with Duckyang (prior to eliminations), $66 million related to production volumes and currency, partially offset by $4 million related to increases in net manufacturing costs. Other reductions of $9 million include design and development recoveries of $15 million, partially offset by the non-recurrence of a Brazil land sale in 2011.

Adjusted EBITDA

Adjusted EBITDA by segment for the years ended December 30, 2012 and 2011 is presented in the table below.

	Year Ended December 31		
	2012	2011	Change
	(Dollars in Millions)		
Climate	$315	$300	$15
Electronics	101	126	(25)

Interiors	185	224	(39)
Discontinued operations	27	35	(8)
Total consolidated	$628	$685	$(57)

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Changes in Adjusted EBITDA by segment are presented in the table below.

	Climate	Electronics	Interiors	Total
	(Dollars in Millions)			
Year ended December 31, 2011	$300	$126	$224	$650
Volume and mix	30	(26)	(46)	(42)
Currency	(16)	(10)	(14)	(40)
Other	1	11	21	33
Year ended December 31, 2012	$315	$101	$185	601
Discontinued operations				27
Total				$628

Adjusted EBITDA for the Climate segment for the year ended December 31, 2012 increased by $15 million compared to the same period of 2011. The increase in Climate Adjusted EBITDA primarily reflects increased volume of $30 million associated with net new business including Hyundai in Asia and Europe, Kia in North America, and Ford in Asia and Europe partially offset by declines in Europe and North America. Favorable commercial agreements contributed $12 million to the increase in Climate Adjusted EBITDA. Unfavorable currency decreased Climate Adjusted EBITDA by $16 million primarily reflecting weaker Euro and Indian Rupee currencies. Material, design and other cost efficiencies more than offset higher engineering and other costs associated with current year launch activity and customer price productivity

Electronics Adjusted EBITDA for the year ended December 31, 2012 decreased by $25 million compared to the same period of 2011. The decrease in Electronics Adjusted EBITDA includes unfavorable volume and currency of $26 million and $10 million, respectively. The decline in volumes reflected continued economic weakness in Europe and historical unfavorable customer sourcing actions associated with Vehicle Electronics products. Approximately three-quarters of the Electronics Adjusted EBITDA decline is associated with Vehicle Electronics products, primarily powertrain control modules. Adjusted EBITDA for all other Electronics products decreased $6 million reflecting material, manufacturing, and design cost savings in excess of customer price productivity more than offset by the impact of unfavorable currency primarily attributable to a weaker Euro and Indian Rupee.

Interiors Adjusted EBITDA was $185 million for the year ended December 31, 2012, representing a decrease of $39 million compared to the same period of 2011. The decrease in Interiors Adjusted EBITDA includes $46 million of unfavorable volume reflecting lower production volumes in Europe and South America, $14 million of unfavorable currency reflecting weaker Euro and Brazilian Real currencies and $6 million related to the non-recurrence of a 2011 Brazil land sale. These decreases were partially offset by favorable design and development cost recoveries of $15 million and material, design and other cost efficiencies more than offset customer price productivity.

In connection with the preparation of the December 31, 2012 financial statements, the Company determined that an indicator of impairment existed in relation to the net assets of its Interiors business, which approximated $140 million as of December 31, 2012. 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 recoverable and no impairment was recorded as of December 31, 2012. 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 December 31, 2012 the Company did not meet the specific criteria necessary for the Interiors assets to be considered held for sale.

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Consolidated Results of Operations - 2011 Compared with 2010

The Company's consolidated results of operations for the year ended December 31, 2011, the three month Successor period ended December 31, 2010 and the nine month Predecessor period ended October 1, 2010 are provided in the table below.

	Successor		Predecessor	
	Year Ended December 31	Three Months Ended December 31	Nine Months Ended October 1	
	2011	2010	2010	Change
	(Dollars in Millions)			
Sales (including services)	$7,532	$1,778	$5,244	$510
Cost of sales (including services)	6,914	1,534	4,695	685
Gross margin	618	244	549	(175)
Selling, general and administrative expenses	387	107	263	17
Equity in net income of non-consolidated affiliates	168	41	105	22
Restructuring expenses	24	27	14	(17)
Interest expense, net	27	9	159	(141)
Reorganization gains, net	—	—	(938)	938
Other expense, net	11	13	26	(28)
Provision for income taxes	127	24	148	(45)
Net income from continuing operations	210	105	982	(877)
(Loss) income from discontinued operations	(56)	—	14	(70)
Net income	$154	$105	$996	$(947)
Net income attributable to Visteon Corporation	$80	$86	$940	$(946)
Adjusted EBITDA*	$685	$109	$505	$71

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

Sales

The Company's sales totaled $7,532 million for the year ended December 31, 2011, which represents an increase of $510 million when compared with the three-month Successor period and the nine-month Predecessor period in 2010. The increase included $625 million associated with higher production volumes in all regions and $358 million of favorable currency primarily attributable to the Euro and Korean Won currencies. These increases were partially offset by lower services revenue of $143 million as the Company ceased providing substantially all transition and other services to ACH in connection with a July 26, 2010 agreement between the Company, Visteon Global Technologies, Inc., ACH and Ford. Additional sales declines included $166 million due to divestitures and closures, $83 million for the Duckyang deconsolidation, and $81 million associated with price productivity net of commodity pricing and design actions.

Cost of Sales

Cost of sales totaled $6,914 million for the year ended December 31, 2011 for an increase of $685 million compared with the three-month Successor period and the nine-month Predecessor period in 2010. The increase includes $319 million of currency primarily driven by the Euro, Korean Won and Brazilian Real. Net volume and mix increased cost of sales by $390 million including increases in Asia for Climate, North America and Europe for Electronics and Europe and Asia for Interiors. Other increases include the non-recurrence of the 2010 U.S. OPEB termination impact of $198 million, increased depreciation and amortization of $57 million due to the impact of fresh-start accounting on asset values and non-production labor and overhead of $19 million for a European plant closure. Decreases include the impact of divestitures and closures of $150 million related to the exit of North America businesses as well as $82 million attributable to the deconsolidation of Duckyang. Other changes primarily relate to commodity pricing and design actions.

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Gross Margin

The Company recorded gross margin of $618 million for the year ended December 31, 2011, which represents a decrease of $175 million when compared to the three-month Successor period and the nine-month Predecessor period in 2010. The decrease in gross margin was associated with the non-recurrence of the 2010 OPEB termination benefit of $198 million, increased depreciation due to asset values established under fresh start accounting $57 million, non-production labor and overhead associated with the Cadiz Electronics facility closure of $19 million, and other North America divestitures of $16 million, partially offset by favorable product mix and volumes of $88 million and favorable currency of $39 million. Other reductions represent price productivity net of commodity pricing and design actions.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses were $387 million during the year ended December 31, 2011. Selling, general, and administrative expenses were $107 million and $263 million during the three-month Successor period ended December 31, 2010 and the nine-month Predecessor period ended October 1, 2010, respectively. For the year ended December 31, 2011, selling, general and administrative expenses increased due to higher performance based incentive compensation of $12 million, intangible asset amortization of $10 million, currency impact of $10 million, and $5 million related to employee severance and termination benefits. These increases were partially offset by net administrative efficiencies of $16 million and the non-recurrence of 2010 OPEB termination expenses of $5 million.

Equity in Net Income of Non-Consolidated Affiliates

Equity in net income of non-consolidated affiliates of $168 million for the year ended December 31, 2011 represents an increase of $22 million when compared to the three-month Successor period and the nine-month Predecessor period in 2010. The increase was primarily attributable to YFV and its related affiliates and resulted from higher OEM production levels in China and continued growth of the YFV entity.

Restructuring Expenses

The Company recorded restructuring expenses, net of reversals, of $24 million for the year ended December 31, 2011, compared to $27 million and $14 million for the three-month Successor period ended December 31, 2010 and the nine-month Predecessor period ended October 1, 2010, respectively. The following is a summary of the Company’s consolidated restructuring reserves and related activity for the year ended December 31, 2011. Information in the table below includes amounts associated with the Company's discontinued operations.

	Interiors	Climate	Electronics	Corporate	Total
	(Dollars in Millions)				
Successor - December 31, 2010	$37	$2	$3	$1	$43
Expenses	7	3	24	—	34
Reversals	(7)	(1)	(2)	—	(10)
Exchange	2	—	(2)	—	—
Utilization	(33)	(3)	(4)	(1)	(41)
Successor - December 31, 2011	$6	$1	$19	$—	$26

During the year ended December 31, 2011 the Company recorded $7 million for employee severance and termination benefits in connection with previously announced exits of two European Interiors facilities. Utilization of $33 million relates to cash payments for the settlement of employee severance and termination benefits. The Company recovered approximately $18 million of such costs during 2011 in accordance with a customer support agreement. The Company reversed approximately $7 million of previously established accruals for employee severance and termination benefits at a European Interiors facility pursuant to a March 2011 contractual agreement to cancel the related social plan.

During 2011 the Company announced its intention to permanently cease production and to close the Cadiz Electronics facility. In connection with the announcement, the Company recorded $24 million of restructuring expenses primarily related to employee severance and termination benefits representing the minimum amount of employee separation costs pursuant to statutory regulations. A significant portion of these employee severance and termination benefits remained accrued on the consolidated balance sheet at December 31, 2011. The Company also reversed approximately $2 million of previously recorded restructuring

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accruals due to lower than estimated severance and termination benefit costs associated with the consolidation of the Company's Electronics operations in South America.

Interest Expense, Net

Interest expense for the year ended December 31, 2011 of $48 million included $25 million associated with the 6.75% Senior Notes due April 15, 2019, $11 million associated with the $500 million secured term loan due October 1, 2017 which was repaid on April 16, 2011, $6 million related to affiliate debt and $6 million associated with commitment fees and amortization of debt issuance costs. Interest expense for the three-month Successor period ended December 31, 2010 of $15 million included $12 million associated with the $500 million secured term loan due October 1, 2017 and $3 million primarily on affiliate debt. During the nine-month Predecessor period ended October 1, 2010, interest expense was $169 million, including $152 million of contractual interest on the pre-petition $1.5 billion seven-year secured term loans, $4 million of adequate protection on the pre-petition ABL facility, $5 million on the DIP Credit Agreement and $8 million primarily on affiliate debt.

Other Expense, Net

Other expense, net consists of the following.

	Successor		Predecessor
	Year Ended December 31	Three Months Ended December 31	Nine Months Ended October 1
	2011	2010	2010
	(Dollars in Millions)		
Loss on debt extinguishment	$24	$—	$—
Reorganization-related costs, net	8	14	—
Transformation costs	7	—	—
Asset impairments	—	—	4
Deconsolidation gains	(8)	—	—
UK Administration recovery	(18)	—	—
Gain on sale of assets	(2)	(1)	22
	$11	$13	$26

The Company recorded reorganization-related costs, net of $8 million and $14 million for the year ended December 31, 2011 and three month Successor period ended December 31, 2010, respectively. On March 8, 2010, the Company completed the sale of substantially all of the assets of Atlantic Automotive Components, L.L.C. to JVIS Manufacturing LLC, an affiliate of Mayco International LLC. The Company recorded losses of approximately $21 million in connection with the sale of Atlantic assets.

Reorganization Gains, Net

Reorganization gains, net of $938 million for the nine-month Predecessor period ended October 1, 2010 include a gain of $956 million related to the extinguishment of certain pre-petition obligations pursuant to the Fifth Amended Joint Plan of Reorganization and a gain of $111 million related to the adoption of fresh-start accounting as of the Effective Date, which requires, among other things, that all assets and liabilities be recorded at fair value. These gains were partially offset by reorganization related costs of $129 million, principally related to professional fees. Immediately prior to the Effective Date, the Company had $3.1 billion of pre-petition obligations recorded as "Liabilities subject to compromise" that were addressed through the Company's Plan.

The settlement of Liabilities subject to compromise in accordance with the terms of the Plan is provided below.

	Liabilities Subject to Compromise September 30, 2010 (Dollars in Millions)	Plan of Reorganization Adjustments	Reorganization Gain October 1, 2010
Debt	$2,490	$1,717	$773
Employee liabilities	324	218	106
Interest payable	183	160	23
Other claims	124	70	54
	$3,121	$2,165	$956

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For additional information regarding the Chapter 11 Proceedings and related adoption of fresh start accounting see Note 3, "Voluntary Reorganization under Chapter 11 of the United States Bankruptcy Code," to the consolidated financial statements included under Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Income Taxes

The Company's provision for income tax was $127 million for year ended December 31, 2011 and reflects income tax expense related to those countries where the Company is profitable, accrued withholding taxes, ongoing assessments related to the recognition and measurement of uncertain tax benefits, the inability to record a tax benefit for pre-tax losses in the U.S. and certain other jurisdictions, and other non-recurring tax items. Income tax expense was $24 million for the three-month Successor period ended December 31, 2010 and $148 million for the nine-month Predecessor period ended October 1, 2010. Income tax expense decreased by $45 million during the year ended December 31, 2011, primarily reflecting the non-recurrence of $47 million associated with the adoption of fresh-start accounting on October 1, 2010, $5 million related to uncertain tax positions, including interest and penalties, and $3 million related to the year-over-year changes in judgments associated with valuation allowances at foreign subsidiaries. During 2011 the Company recorded a tax benefit of $8 million attributable to the elimination of valuation allowances at its UK subsidiary. During 2010 the Company recorded a tax benefit of $5 million attributable to the elimination of valuation allowances at its India subsidiary. Other changes in the Company's valuation allowances did not materially impact net tax expense during the years ended December 31, 2011 or 2010. Tax law changes of $6 million and overall changes in the mix of earnings and tax rates between jurisdictions resulted in increases in income tax expense when comparing the year ended December 31, 2011 to the same period of 2010.

Discontinued Operations

Pursuant to the Lighting Transaction, the results of operations of the Lighting business have been reclassified to "Income from discontinued operations, net of tax" in the Consolidated Statements of Operations and are detailed as follows:

	Successor		Predecessor
	Year Ended December 31 2011	Three Months Ended December 31 2010	Nine Months Ended October 1 2010
	(Dollars in Millions)		
Sales	$515	$109	$335
Cost of sales	490	109	319
Gross margin	25	—	16
Selling, general and administrative expenses	11	3	8
Asset impairments	66	—	—
Interest expense	2	1	1
Restructuring expenses	—	1	6
Other expense (income), net	2	—	(1)
Reorganization expenses, net	—	—	5
Income before income taxes	(56)	(5)	(3)
(Benefit) provision for income taxes	—	(5)	(17)
Net (loss) income from discontinued operations attributable to Visteon Corporation	$(56)	$—	$14

In connection with the preparation of the December 31, 2011 financial statements, the Company concluded that it had an indicator that the carrying value of the Company's Lighting assets may not be recoverable. Accordingly, the Company performed a recoverability test utilizing a probability weighted analysis of cash flows associated with continuing to run and operate the Lighting business and cash flows associated with other alternatives. As a result of the analysis the Company recorded a $66 million impairment charge in the fourth quarter of 2011, which was primarily related to property and equipment and was measured under a market approach. The amount of tax allocated to the 2011 discontinued operations reflects the inability to record a tax benefit for pre-tax losses, which includes the $66 million impairment charge referenced above, in the affected jurisdictions. The amount of tax allocated to both the Successor and the Predecessor periods during 2010 reflects the mix of earnings and differing tax rates between jurisdictions, the inability to record a tax benefit for pre-tax losses in certain jurisdictions, unrecognized tax benefits, including interest and penalties, and other non-recurring tax items. The 2010 Predecessor period includes $10 million of deferred tax benefit associated with the adoption of fresh-start accounting.

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Net Income

Net income attributable to Visteon was $80 million for the year ended December 31, 2011 compared to $86 million for the three months ended December 31, 2010 and $940 million for the nine months ended October 1, 2010. Adjusted EBITDA (as defined below) was $685 million for the year ended December 31, 2011, representing an increase of $71 million when compared with Adjusted EBITDA of $109 million for the three months ended December 31, 2010 and $505 million for the nine months ended October 1, 2010. The increase in Adjusted EBITDA resulted from higher volumes of $108 million associated with all product groups across all regions and favorable currency of $24 million due to stronger Euro, Korean Won and Brazilian Real currencies. These increases were partially offset by $27 million of higher material costs associated with rising commodity prices, $17 million for divestitures and closures, $6 million attributable to commercial agreements, and customer productivity in excess of material and design efficiencies.

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

Adjusted EBITDA is not a recognized term under accounting principles generally accepted in the United States (“GAAP”) and does not purport to be a substitute for net income as an indicator of operating performance or cash flows from operating activities as a measure of liquidity. Adjusted EBITDA has limitations as an analytical tool and is not intended to be a measure of cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. In addition, the Company uses Adjusted EBITDA (i) as a factor in incentive compensation decisions, (ii) to evaluate the effectiveness of the Company's business strategies and (iii) because the Company's credit agreements use measures similar to Adjusted EBITDA to measure compliance with certain covenants. Adjusted EBITDA, as determined and measured by the Company should not be compared to similarly titled measures reported by other companies. The reconciliation of Adjusted EBITDA to net income attributable to Visteon for the year ended December 31, 2011, three months ended December 31, 2010 and nine months ended October 1, 2010 is as follows:

	Successor		Predecessor	
	Year Ended December 31	Three Months Ended December 31	Nine Months Ended October 1	
	2011	2010	2010	Change
	(Dollars in Millions)			
Adjusted EBITDA	$685	$109	$505	$71
Interest expense, net	27	9	159	(141)
Provision for income taxes	127	24	148	(45)
Depreciation and amortization	295	69	185	41
Restructuring expenses	24	27	14	(17)
Reorganization gains, net	—	—	(938)	938
Other expense, net	11	13	26	(28)
Other non-operating costs, net	30	(121)	(45)	196
Discontinued operations	91	2	16	73
Net income attributable to Visteon	$80	$86	$940	$(946)

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Segment Results of Operations - 2011 compared with 2010

Product Sales

	Climate	Electronics	Interiors	Eliminations	Total
	(Dollars in Millions)				
Twelve months ended December 31, 2011 - Successor	$4,053	$ 1,367	$2,285	$(173)	$7,532
Three months ended December 31, 2010 - Successor	954	326	554	(57)	1,777
Nine months ended October 1, 2010 - Predecessor	2,660	935	1,641	(134)	5,102
Increase	$439	$ 106	$90	$18	$653
Twelve months ended December 31, 2011 - Successor					
Volume and mix	$322	$ 82	$178	$43	$625
Currency	161	58	139	—	358
Divestitures and closures	—	(21)	(145)	—	(166)
Duckyang deconsolidation	—	—	(83)	—	(83)
Other	(44)	(13)	1	(25)	(81)
Total	$439	$ 106	$90	$18	$653

Climate product sales increased during the year ended December 31, 2011 by $322 million associated with higher production volumes in all regions, including $167 million, $104 million, and $43 million in Asia, North America, and Europe, respectively. Favorable currency, primarily related to the Korean Won and Euro, resulted in an increase of $161 million. Other changes, totaling $44 million, reflected price productivity, partially offset by increases in revenue related to commodity pricing and design actions.

Electronics product sales increased during the year ended December 31, 2011 by $82 million associated with higher production volumes in North America, Asia, and South America of $96 million, $20 million, and $12 million, respectively, partially offset by lower production volumes in Europe of $45 million. Favorable currency, primarily related to the Euro and the Japanese Yen, further increased product sales by $58 million. The 2010 closure of the Company's Lansdale, Pennsylvania facility resulted in a $15 million reduction in sales and customer sourcing actions resulting in the closure of the Company's El Puerto de Santa Maria, Cadiz, Spain facility further reduced sales $6 million. Other changes, totaling $13 million, reflected price productivity, partially offset by increases in revenue related to commodity pricing and design actions.

Interiors product sales increased during the year ended December 31, 2011 by $178 million associated with higher production volumes in Asia and Europe of $149 million and $118 million, respectively, partially offset by lower production volumes in South America of $89 million. Favorable currency related to the Euro, Korean Won, and Brazilian Real increased sales $139 million. Divestitures and closures reduced sales by $145 million including the 2010 exit of the Company's North America Interiors operations, which decreased sales $75 million, and the divestiture of the Interiors operation in La Touche-Tizon, Rennes, France in December 2010, which further reduced sales by $70 million. Sales decreased $83 million due to the deconsolidation of Duckyang, which resulted from the Company's sale of a one percent controlling interest on October 31, 2011.

Product Cost of Sales

	Climate	Electronics	Interiors	Eliminations	Total

	(Dollars in Millions)				
Twelve months ended December 31, 2011 - Successor	$3,702	$1,239	$2,146	$(173)	$6,914
Three months ended December 31, 2010 - Successor	836	237	517	(57)	1,533
Nine months ended October 1, 2010 - Predecessor	2,338	799	1,552	(134)	4,555
Increase	$528	$203	$77	$18	$826

Twelve months ended December 31, 2011 - Successor					
Material	$355	$86	$83	$47	$571
Freight and duty	4	(4)	(2)	1	(1)
Labor and overhead	149	112	34	(19)	276
Depreciation and amortization	46	7	(1)	5	57
Other	(26)	2	(37)	(16)	(77)
Total	$528	$203	$77	$18	$826

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Climate material costs increased $355 million, including $317 million related to higher production volumes and currency and $100 million related to higher aluminum, resin and other commodity costs and design changes, partially offset by $61 million of manufacturing efficiencies and purchasing improvements. Labor and overhead increased $149 million, including $76 million related to production volumes and currency, $55 million due to the non-recurrence of expense reductions associated with the termination of certain U. S. OPEB plans and $17 million related to higher manufacturing costs, net of efficiencies. Depreciation and amortization increased $46 million, including $18 million of intangible asset amortization, $5 million of accelerated depreciation associated with restructuring activities and the impact of fresh-start accounting on asset values. Other reductions in Climate product cost of sales includes the non-recurrence of a 2010 fresh-start accounting inventory revaluation expense of $13 million, currency of $9 million, and the non-recurrence of a 2010 German pension litigation expense of $6 million.

Electronics material costs increased $86 million, including $121 million related to production volumes and currency and $3 million related to the impact of commodity costs and design changes, partially offset by $27 million associated with manufacturing efficiencies and purchasing improvement efforts and $11 million related to the closures of the North Penn and Cadiz facilities. Labor and overhead increased $112 million, including $133 million due to the non-recurrence of expense reductions associated with the termination of certain U.S. OPEB plans, partially offset by $17 million of savings attributable to net manufacturing efficiencies and $5 million related to the closures of the North Penn and Cadiz facilities.

Interiors material costs increased $83 million, including $223 million related to production volumes and currency and $6 million related to the impact of resin commodity costs and design changes, partially offset by $133 million related to the deconsolidation of the Duckyang joint venture, the exit of the Company's North America Interiors operations, and the divestiture of the Rennes, France operation and $13 million related to manufacturing efficiencies and purchasing improvement efforts. Labor and overhead increased $34 million, including $43 million related to production volumes and currency, $25 million related to increases in manufacturing costs net of efficiencies, and $10 million due to the non-recurrence of expense reductions associated with the termination of certain U.S. OPEB plans, partially offset by $43 million associated with Duckyang, North America Interiors, and Rennes actions. Other reductions in Interiors product cost of sales of $37 million include lower engineering expenses of $8 million, the non-recurrence of a 2010 fresh-start accounting inventory revaluation expense of $7 million, a gain of $6 million associated with a Brazilian land sale, and the non-recurrence of a 2010 German pension litigation expense of $5 million.

Adjusted EBITDA

Effective April 1, 2012, the Company began utilizing Adjusted EBITDA as its primary segment operating measure. Adjusted EBITDA by segment for the year ended December 31, 2011, three-month Successor period ended December 31, 2010 and nine-month Predecessor period ended October 1, 2010 is presented below:

	Successor		Predecessor	
	Year Ended December 31	Three Months Ended October 1	Nine Months Ended October 1	
	2011	2010	2010	Change
	(Dollars in Millions)			
Climate	$300	$57	$252	$(9)
Electronics	126	5	72	49
Interiors	224	45	149	30
Discontinued operations	35	2	32	1
Total consolidated	$685	$109	$505	$71

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Changes in Adjusted EBITDA by global product line are presented in the table below:

	Climate	Electronics	Interiors	Total
	(Dollars in Millions)			
Twelve months ended December 31, 2011 - Successor	$300	$126	$224	$650
Three months ended December 31, 2010 - Successor	57	5	45	107
Nine months ended October 1, 2010 - Predecessor	252	72	149	473
Increase/(Decrease)	$(9)	$49	$30	$70
Twelve months ended December 31, 2011 - Successor				
Volume and mix	$77	$(12)	$8	$73
Currency	(1)	22	18	39
Other	(85)	39	4	(42)
Twelve months ended December 31, 2011 - Successor	$(9)	$49	$30	70
Discontinued operations				1
Total				$71

Climate Adjusted EBITDA for the year ended December 31, 2011 was $300 million, a decrease of $9 million compared to the three month Successor and nine month Predecessor periods of 2010. Customer price productivity and unfavorable manufacturing performance primarily in Europe more than offset material, design and other cost efficiencies which caused a decrease in Climate Adjusted EBITDA of approximately $70 million. Lower commercial agreements of $9 million, unfavorable currency and other cost inefficiencies also contributed to the decrease. Increased volumes in all regions of $77 million was a partial offset.

Electronics Adjusted EBITDA for the year ended December 31, 2011 was $126 million, an increase of $49 million compared to the three month Successor and nine month Predecessor periods of 2010. The increase includes $19 million of favorable currency associated with a stronger Euro currency and favorable cost performance of $38 million attributable to lower engineering costs, and material and manufacturing cost efficiencies partially offset by customer pricing. Profits from unconsolidated subsidiaries also increased $4 million. These increases were partially offset by $12 million associated with the closure of Electronics facilities in North America and Europe.

Interiors Adjusted EBITDA for the year ended December 31, 2011 increased by $30 million compared to to the three month Successor and nine month Predecessor periods of 2010. Increased production volumes contributed $8 million to the increase resulting from higher volumes of $18 million in Asia and Europe partially offset by lower volumes in South America and a plant divestiture in Europe. Currency contributed $18 million to the increase driven by stronger Euro, Korean Won and Brazilian Real currencies. Higher equity in net income of non-consolidated affiliates and material cost efficiencies more than offset customer price productivity and manufacturing inefficiencies in Europe and South America, which resulted in additional increase of $4 million.

Cash Flows

Operating Activities

The Company generated $239 million of cash from operating activities during the year ended December 31, 2012, compared to $175 million during the same period of 2011 for an increase of $64 million. The increase is primarily attributable to higher cash dividends from non-consolidated affiliates of $58 million, lower bankruptcy claim settlement payments of $43 million, and lower employee benefit related payments of $24 million. Lower customer accommodation agreement receipts of $38 million and higher restructuring payments of $24 million were partial offsets.

Cash provided from operating activities during the three-month Successor period ended December 31, 2010 totaled $154 million. The generation of cash from operating activities primarily resulted from net trade working capital inflows and net income, as adjusted for non-cash items. Cash provided from operating activities during the nine-month Predecessor period ended October 1, 2010 totaled $20 million. The generation of cash from operating activities is primarily due to net income, as adjusted for non-cash items, partially offset by bankruptcy professional fees and other payments and net trade working capital outflows.

Free Cash Flow and Adjusted Free Cash Flow are presented as supplemental measures of the Company's liquidity that management believes is useful to investors in analyzing the Company's ability to service and repay its debt. The Company defines Free Cash Flow as cash flow from operating activities less capital expenditures. The Company defines Adjusted Free Cash Flow as cash flow provided from operating activities less capital expenditures, as further adjusted for restructuring payments net of customer recoveries, transformation and reorganization-related payments. Not all companies use identical calculations, so this presentation of Free Cash Flow and Adjusted Free Cash Flow may not be comparable to other similarly titled measures of other companies. Free Cash Flow and Adjusted Free Cash are not recognized terms under GAAP and do not purport to be a substitute for cash flows from operating activities as a measure of liquidity. Free Cash Flow and Adjusted Free Cash Flow have limitations as analytical tools as they do not reflect cash used to service debt and does not reflect funds available for investment or other discretionary uses. In addition, the Company uses Free Cash Flow and Adjusted Free Cash Flow (i) as factors in incentive compensation decisions and (ii) for planning and forecasting future periods.

A reconciliation of Free Cash Flow and Adjusted Free Cash Flow to cash provided from operating activities is provided in the following table.

	Successor			Predecessor
	Year Ended December 31	Year Ended December 31	Three Months Ended December 31	Nine Months Ended October 1
	2012	2011	2010	2010
	(Dollars in Millions)			
Cash provided by operating activities	$239	$175	$154	$20
Capital expenditures	(229)	(258)	(92)	(117)
Free Cash Flow	$10	$(83)	$62	$(97)
Restructuring payments, net	46	18	5	35
Transformation and reorganization-related payments	46	67	44	291
Adjusted Free Cash Flow	$102	$2	$111	$229

Investing Activities

Cash used by investing activities during the year ended December 31, 2012 totaled $40 million, compared to $331 million for the same period in 2011 for a decrease of $291 million. Cash used by investing activities during the year ended December 31, 2012 included included $229 million of capital expenditures, partially offset by approximately $100 million of proceeds from the Lighting and R-Tek divestitures and $91 million of proceeds from asset sales primarily related to the Company's corporate headquarters. Cash used by investing activities during the year ended December 31, 2011 totaled $331 million, which included $258 million of capital expenditures, $52 million of cash deconsolidated from the Company's financial statements in connection with the Duckyang Share Sale, and $29 million for the acquisition of joint venture interests, partially offset by $14 million of proceeds from asset sales.

Cash used by investing activities during the three-month Successor period ended December 31, 2010 totaled $76 million, which included $92 million of capital expenditures, partially offset by $16 million of proceeds from asset sales. Cash used by investing activities during the nine-month Predecessor period ended October 1, 2010 totaled $75 million including $117 million of capital expenditures, partially offset by $42 million of other investing inflows primarily related to proceeds from the sale of Interiors operations located in Highland Park, Michigan and Saltillo, Mexico, the Company’s ownership interest in Toledo Mold and Die, Inc., the assets of Atlantic Automotive Components, LLC and the Company’s former Lighting facility in Monterrey, Mexico.

Financing Activities

Cash used by financing activities during the year ended December 31, 2012 totaled $115 million, compared to $3 million for the same period in 2011 for an increase of $112 million. Cash used by financing activities of $115 million during the year ended December 31, 2012 included $52 million related to the redemption of outstanding 6.75% Senior Notes due April 2019 at 103% of par, $50 million in share repurchases, and $27 million of dividends paid to non-controlling interests. Cash used by financing activities during the year ended December 31, 2011 totaled $3 million primarily resulting from the termination and payoff of the Term Loan, reorganization related professional fees and dividends paid to non-controlling interests, offset by issuance of the $500 million in senior notes, a reduction in restricted cash primarily related to the disbursement of previously escrowed funds to settle reorganization related rights offering and other financing fees and increases in affiliate debt. The Company's credit agreements contain restrictions regarding the amount of cash payments for dividends the Company may make.

Cash used by financing activities during the three-month Successor period ended December 31, 2010 totaled $40 million including repayment of approximately $60 million of bonds previously issued by Halla Climate Control Corporation partially offset by a

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reduction in restricted cash. Cash used by financing activities during the nine-month Predecessor period ended October 1, 2010 totaled $42 million. Cash used for financing activities included $75 million for the repayment of the balance outstanding under a debtor-in-possession credit agreement and approximately $1.63 billion for the settlement of pre-petition debt obligations pursuant to the terms of the Plan. These amounts were partially offset by net proceeds of $1.67 billion from the rights offering and exit financing.

Liquidity

Overview

The Company’s primary liquidity needs are related to the funding of general business requirements, including working capital requirements, capital expenditures, debt service, employee retirement benefits and restructuring actions. The Company funds its liquidity needs with cash flows from operating activities, a substantial portion of which is generated by the Company’s international subsidiaries. Accordingly, the Company utilizes a combination of cash repatriation strategies, including dividends, royalties, intercompany loan repayments and other distributions and advances to provide the funds necessary to meet obligations globally. The Company’s ability to access funds from its subsidiaries using these repatriation strategies is subject to, among other things, customary regulatory and statutory requirements and contractual arrangements including joint venture agreements and local debt agreements. Additionally, such repatriation strategies may be adjusted or modified as the Company continues to, among other things, rationalize its business portfolio and cost structure. As of December 31, 2012, the Company had total cash balances of $845 million, including restricted cash of $20 million. Cash balances totaling $553 million were located in jurisdictions outside of the United States, of which approximately $160 million is considered permanently reinvested for funding ongoing operations outside of the U.S. If such permanently reinvested funds are needed for operations in the U.S., the Company would be required to accrue additional tax expense, primarily related to foreign withholding taxes.

The Company's ability to fund its liquidity needs is dependent on the level, variability and timing of its customers' worldwide vehicle production, which may be adversely affected by many factors including, but not limited to, general economic conditions, specific industry conditions, financial markets, competitive factors and legislative and regulatory changes. During 2012, economic conditions in Europe remained weak and economic growth in China slowed relative to recent years of significant growth. Accordingly, the Company continues to closely monitor the macroeconomic environment and its impact on vehicle production volumes in relation to the Company's specific cash needs. Further, the Company's intra-year needs are impacted by seasonal effects in the industry, such as mid-year shutdowns, the subsequent ramp-up of new model production and the additional year-end shutdowns by primary customers. The Company's announcement of a comprehensive value creation plan in September 2012 also has created and is likely to continue to create both sources and uses of cash for the Company.

Significant Cash Sources and Availability

To the extent that the Company's liquidity needs exceed cash provided by its operating activities, the Company would look to cash balances on hand; cash available through existing financing vehicles such as the Company's asset-based revolving loan credit facility (the "Revolver"), the sale of businesses or other assets as permitted under credit agreements, affiliate working capital lines of credit, other contractual arrangements, and potential additional capital through debt or equity markets. As of December 31, 2012, there were no outstanding borrowings under the Revolver, which had available borrowings of $149 million. The Revolver requires the Company and its subsidiaries to comply with customary affirmative and negative covenants, and contains customary events of default. Cash available to the Company under the Revolver is subject to a borrowing base which may be impacted by potential sale agreements. On January 28, 2013, the Company entered into an amendment to the Revolver to permit, among other things, the sale of certain Climate operations to Halla Climate Control Corporation. In anticipation of the associated reduction in collateral, the Company also reduced its commitment amount under the Revolver from $175 million to $130 million. On July 3, 2012, Visteon amended its revolving loan credit agreement to, among other things, reduce the aggregate lending commitment to $175 million in anticipation of the Lighting Transaction, permit the Korean Bridge Loan, and modify certain covenants. The Company also amended the revolving loan credit agreement on April 3, 2012 to permit the sale and leaseback of the Company's corporate headquarters and the Lighting Transaction. Availability under affiliate working capital lines of credit totaled $245 million as of December 31, 2012. In addition to affiliate working capital lines of credit the Company has an arrangement, through a subsidiary in France, to sell accounts receivable on an uncommitted basis. The amount of financing available is contingent upon the amount of receivables less certain reserves. On December 31, 2012, there was $15 million of outstanding borrowings under this facility with $49 million of receivables pledged as security, which are recorded as “Other current assets” on the consolidated balance sheet.

Access to additional capital through the debt or equity markets is influenced by the Company's credit ratings. On July 5, 2012, following the announcement of the Korean tender offer, Moody's and S&P reaffirmed the Company's corporate ratings, although Moody's changed the 6.75% Senior Notes due April 2019 unsecured bond B2 rating outlook to negative. On December 11, 2012,

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Moody's reaffirmed the Company's corporate ratings and changed the outlook of the 2019 unsecured bond B2 rating outlook back to stable. Moody's cited the expectation that the Company will not undertake further action to acquire the remaining 30 percent of the public shares of its Korean affiliate that would have resulted in the Company's existing rated debt being structurally subordinate to the new Korean debt used to purchase the shares. At December 31, 2012, the Company's corporate credit ratings were B1 and B+ by Moody's and S&P, respectively, both with a stable outlook.

Business divestiture and asset sale transactions provided $191 million in net cash proceeds during 2012. During the third quarter of 2012, the Company completed the the sale of its Lighting operations for proceeds of $70 million, completed the sale of its 50% ownership interest in R-Tek Ltd., a UK-based Interiors joint venture, for proceeds of approximately $30 million and completed the sale of other corporate assets for proceeds of approximately $8 million. In April 2012, the Company completed the sale of its corporate headquarters facility for approximately $80 million in cash and entered an arrangement to lease the facility back over a 15 year period.

In January 2013, Halla purchased certain subsidiaries and intellectual property relating to Visteon's global climate business for a total purchase price of $410 million. In January 2013, the Company completed the sale of its 50% equity interest in Visteon TYC Corporation for proceeds of approximately $17 million. In February 2013, the Company entered into an agreement to sell its 20% equity interest in Dongfeng Visteon Automotive Trim Systems Co., Ltd. for cash proceeds of approximately $20 million.

Cash proceeds are generally allocated for reinvestment purposes as required by corporate credit agreements. Allocation of proceeds to investment allows additional cash sources to be available to fund operating liquidity and potentially balance sheet enhancement activities.

Significant Cash Uses and Other Considerations

On July 30, 2012, the Company's board of directors authorized the repurchase of up to $100 million of the Company's common stock over the subsequent two year period. On January 11, 2013, the Company's board of directors authorized the purchase of up to an additional $200 million of the Company's common stock until January 1, 2015. The Company anticipates that 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. In the fourth quarter 2012, the Company repurchased 1,005,559 shares of its outstanding common stock at an average price of $49.72 per share, excluding commissions, for the aggregate purchase price of $50 million.

On November 1, 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. At December 31, 2012 the Company had restructuring accruals totaling $39 million, which are expected to be settled in cash during 2013 including $35 million associated with activities under the program announced on November 1, 2012. The Company anticipates that it will record additional restructuring and other charges related to this program of up to $65 million in future periods as related plans are finalized. The Company estimates cash requirements for restructuring programs during the year ending December 31, 2013, to be approximately $100 million.

In June 2012, the Korean tax authorities commenced a review of the Company's 70% owned and consolidated subsidiary, Halla Climate Control Corporation, for the tax years 2007 through 2011. In October 2012, the tax authorities issued a pre-assessment of approximately $19 million for alleged underpayment of withholding tax on dividends paid and other items, including certain management service fees charged by Visteon. This pre-assessment was subsequently finalized and a formal notice of assessment was received in January 2013. The Company intends to file an appeal with the Korean Tax Tribunal. Accordingly, a payment of $18 million was made in February 2013 as required under Korean tax regulation to pursue the appeals process. The Company believes it is more likely than not it will receive a favorable ruling when all of the available appeals have been exhausted.

The Company expects to make cash contributions to its U.S. retirement plans of $3 million in 2013. Contributions to non-U.S. retirement plans are expected to be $30 million during 2013. Estimated cash contributions for 2014 through 2016 under current regulations and market assumptions are approximately $182 million.

Debt and Capital Structure

Information related to the Company's debt and related agreements is set forth in Note 12, "Debt" to the consolidated financial statements which are included in Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K. Information related to the Company's stockholders' equity is set forth in Note 17 "Stockholders' Equity and Non-controlling Interests" to the consolidated financial statements which are included in Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

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

	Maturity	Weighted Average Interest Rate 2012	2011	Carrying Value 2012	2011
				(Dollars in Millions)	
Short-term debt					
Current portion of long-term debt		8.9%	5.3%	$3	$1
Short-term borrowings		3.3%	4.1%	93	86
Total short-term debt				$96	$87
Long-term debt					
6.75% Senior notes	2019	6.75%	6.75%	445	494
Other	2014-2017	8.5%	10.2%	28	18
Total long-term debt				$473	$512

6.75% Senior Notes Due April 15, 2019

On April 6, 2011, the Company completed the sale of $500 million aggregate principal amount of 6.75% senior notes due April 15, 2019 (the “Original Senior Notes”). The Original Senior Notes were sold to the initial purchasers who are party to a certain purchase agreement (the “Initial Purchasers”) for resale to qualified institutional buyers under Rule 144A and to persons outside the United States under Regulation S. In accordance with a registration rights agreement, in January 2012 the Company exchanged substantially identical senior notes (the "Senior Notes") that have been registered under the Securities Act of 1933, as amended, for all of the Original Senior Notes.

The Senior Notes were issued under an Indenture (the “Indenture”), among the Company, the subsidiary guarantors named therein, and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The Indenture and the form of Senior Notes provide, among other things, that the Senior Notes will be senior unsecured obligations of the Company. Interest is payable on the Senior Notes on April 15 and October 15 of each year beginning on October 15, 2011 until maturity. Each of the Company’s existing and future 100% owned domestic restricted subsidiaries that guarantee debt under the Company’s Revolver will guarantee the Senior Notes.

The terms of the Indenture, among other things, limit the ability of the Company and certain of its subsidiaries to make restricted payments; restrict dividends or other payments of subsidiaries; incur additional debt; engage in transactions with affiliates; create liens on assets; engage in sale and leaseback transactions; and consolidate, merge or transfer all or substantially all of its assets and the assets of its subsidiaries. The Indenture provides for customary events of default which include (subject in certain cases to customary grace and cure periods), among others: nonpayment of principal or interest; breach of other agreements in the Indenture; defaults in failure to pay certain other indebtedness; the rendering of judgments to pay certain amounts of money against the Company and its subsidiaries; the failure of certain guarantees to be enforceable; and certain events of bankruptcy or insolvency. Generally, if an event of default occurs and is not cured within the time periods specified, the Trustee or the holders of at least 25% in principal amount of the then outstanding series of Senior Notes may declare all the Senior Notes of such series to be due and payable immediately.

Prior to April 15, 2014, the Company has the option to redeem up to 10% of the Senior Notes during any 12-month period from issue date until April 15, 2014 for a 103% redemption price, plus accrued and unpaid interest to the redemption date. In December 2012, the Company exercised this right and repurchased $50 million (10%) of its Senior Notes. The Company recorded a $2 million loss on extinguishment of debt in 2012 related to the premium paid on the debt redemption. The Company also has the option to redeem a portion or all of the Senior Notes subject to a make-whole provision.

Beginning April 15, 2014, the Indenture allows for part of all of the Senior Notes to be redeemed at the following redemption prices (plus accrued and unpaid interest to the redemption date) during the 12 month period beginning on April 15 of the indicated years: 2014 at 105.063%, 2015 at 103.375%, 2016 at 101.688%, and 2017 and thereafter at 100.000%. The Indenture also contains optional redemption rights related to the proceeds from equity offerings.

Affiliate Debt

As of December 31, 2012, the Company had affiliate debt of $124 million primarily related to the Company’s non-U.S. operations, with $96 million and $28 million classified as short-term and long-term debt, respectively. Included in the affiliate debt is an arrangement, through a subsidiary in France, to sell accounts receivable on an uncommitted basis. The amount of financing available is contingent upon the amount of receivables less certain reserves. On December 31, 2012, there was $15 million of outstanding borrowings under this facility with $49 million of receivables pledged as security, which are recorded as “Other current assets” on the consolidated balance sheet.

In January 2013, Halla entered into two unsecured bilateral term loan credit agreements with aggregate available borrowings of approximately $195 million, all of which was drawn in January 2013. Both credit agreements mature in May 2016 and are subject to financial covenant tests of total debt to EBITDA of 3.2x and a net interest coverage test of not less than 3x.

Other Debt

In December 2012, the Company entered into a sale-leaseback arrangement for land and buildings located in Chihuahua, Mexico. In connection with the transaction, the Company received proceeds of $19 million and entered into an agreement to lease the land and buildings back over a 5 year period. This sale-leaseback is being accounted for as a financing arrangement, and the cash proceeds have been recorded as debt.

On July 4, 2012 the Company commenced a tender offer to purchase the remaining 30 percent of Halla. In connection with the tender offer, Visteon, through its wholly-owned Korean subsidiary Visteon Korea Holdings Corp., entered into a fully committed Korean debt facility of 1 trillion Korean Won ("KRW") or $881 million (the "Bridge Loan"), under which Visteon Korea Holdings Corp. borrowed 925 billion KRW or $815 million. The Bridge Loan was secured by a pledge of all of the shares of capital stock of Halla owned directly or indirectly by Visteon. On July 3, 2012, the Company entered into an amendment to the revolving loan credit agreement, to among other things, permit the the Bridge Loan and to reduce the aggregate lending commitment to $175 million reflecting the anticipation of the Lighting Transaction and sale of the Company's corporate headquarters.

On July 30, 2012, Visteon Korea Holdings Corp. repaid approximately 910 billion KRW or $800 million of previously borrowed amounts under the Bridge Loan. On August 24, 2012, Visteon Korea Holdings Corp. permanently reduced the available commitments under the Bridge Loan as amended and completed repayment of all outstanding loan amounts on August 28, 2012 as was allowed without penalty after following certain advance notice and other procedures. The Company incurred debt extinguishment costs of approximately $4 million and interest of $5 million during 2012 in connection with this financing arrangement.

Shareholder's Equity

On July 30, 2012, the Company's board of directors authorized the repurchase of up to $100 million of the Company's common stock over the subsequent two year period. On January 11, 2013, the Company's board of directors authorized the purchase of up to an additional $200 million of the Company's common stock until January 1, 2015. The Company anticipates that 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. In 2012, the Company repurchased 1,005,559 shares of its outstanding common stock at an average price of $49.72 per share, excluding commissions, for the aggregate purchase price of $50 million.

Off-Balance Sheet Arrangements

The Company has guaranteed approximately $54 million of subsidiary lease payments under various arrangements generally spanning from one to ten years in duration, and approximately $6 million of affiliate credit lines and other credit support agreements. During January 2009, the Company reached an agreement with the PBGC pursuant to U.S. federal pension law provisions that permit the agency to seek protection when a plant closing results in termination of employment for more than 20 percent of employees covered by a pension plan. In connection with this agreement, the Company agreed to provide a guarantee by certain affiliates of certain contingent pension obligations of up to $30 million, the term of this guarantee is dependent upon certain contingent events as set forth in the PBGC Agreement. These guarantees have not had, nor does the Company expect they are reasonably likely to have, a material current or future effect on the Company’s financial position, results of operations or cash flows.

The Company has a $15 million Letters of Credit ("LOC") Facility with US Bank National Association, which expires September 30, 2013. Under the terms of the LOC facility the Company must maintain a collateral account with U.S. Bank equal to 103% of the

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aggregated stated amount of the LOCs with reimbursement for any draws. As of December 31, 2012, the Company had $9 million of outstanding letters of credit issued under this facility and secured by restricted cash. In addition, the Company had $14 million of locally issued letters of credit to support various customs arrangements and other obligations at its local affiliates of which $6 million are secured by cash collateral.

Contractual Obligations

The following table summarizes the Company's contractual obligations existing as of December 31, 2012:

	Total	2013	2014-2015	2016-2017	2018 & After
Debt, including capital leases	$569	$96	$10	$18	$445
Purchase obligations	246	188	42	15	1
Interest payments on long-term debt	194	36	65	63	30
Operating leases	189	30	47	31	81
Total contractual obligations	$1,198	$350	$164	$127	$557

This table excludes amounts related to the Company's income tax liabilities associated with uncertain tax positions impacting the effective rate of $71 million as of December 31, 2012 as the Company is unable to make reasonable estimates for the periods in which these liabilities may become due. The Company does not expect a significant payment related to these obligations to be made within the next twelve months.

Critical Accounting Estimates

The Company’s consolidated financial statements and accompanying notes as included in Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K have been prepared in conformity with accounting principles generally accepted in the United States (“GAAP”). Accordingly, the Company’s significant accounting policies have been disclosed in the consolidated financial statements and accompanying notes under Note 2 “Significant Accounting Policies.” The Company provides enhanced information that supplements such disclosures for accounting estimates when the estimate involves matters that are highly uncertain at the time the accounting estimate is made and different estimates or changes to an estimate could have a material impact on the reported financial position, changes in financial condition or results of operations.

When more than one accounting principle, or the method of its application, is generally accepted, management selects the principle or method that it considers to be the most appropriate given the specific circumstances. Application of these accounting principles requires the Company’s management to make estimates about the future resolution of existing uncertainties. Estimates are typically based upon historical experience, current trends, contractual documentation and other information, as appropriate. Due to the inherent uncertainty involving estimates, actual results reported in the future may differ from those estimates. In preparing these financial statements, management has made its best estimates and judgments of the amounts and disclosures in the financial statements.

Fair Value Measurements

The Company uses fair value measurements in the preparation of its financial statements, utilizing various inputs including those that can be readily observable, corroborated or are generally unobservable. The Company utilizes market-based data and valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the Company applies assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Fair value measurements were used in connection with the adoption of fresh-start accounting, which results in a new basis of accounting and reflects the allocation of the estimated reorganization value of the Company to the fair value of its underlying assets, effective October 1, 2010.

The Company’s reorganization value was first allocated to the estimated fair values of tangible assets and identifiable intangible assets and the excess of reorganization value over the fair value of such assets was recorded as goodwill. The estimated fair values of tangible assets and identifiable intangible assets were based on a combination of income, market and cost approaches. Liabilities existing as of the Effective Date, other than deferred taxes, were recorded at the present value of amounts expected to be paid using appropriate risk adjusted interest rates. Deferred taxes were determined in conformity with applicable income tax accounting standards. Accumulated depreciation, accumulated amortization, retained deficit, common stock and accumulated other comprehensive loss attributable to the predecessor entity were eliminated.

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The Company's reorganization value includes an estimated enterprise value of approximately $2.4 billion, which represents management's best estimate of fair value within the range of enterprise values contemplated by the Bankruptcy Court of $2.3 billion to $2.5 billion. The range of enterprise values considered by the Court was determined using certain financial analysis methodologies including the comparable companies analysis, the precedent transactions analysis and the discounted cash flow analysis. The application of these methodologies requires certain key judgments and assumptions, including the Company's financial projections, the amount of cash available to fund operations and current market conditions.

The value of a business is subject to uncertainties and contingencies that are difficult to predict and will fluctuate with changes in factors affecting the prospects of such a business. The Company's financial projections, which are a significant input to the determination of reorganization value, are based on projected market conditions and other estimates and assumptions including, but not limited to, general business, economic, competitive, regulatory, market and financial conditions, all of which are difficult to predict and generally beyond the Company's control. Estimates of reorganization value, enterprise value and fair values of assets and liabilities are inherently subject to significant uncertainties and contingencies and there can be no assurance that these estimates and related assumptions, valuations, appraisals and financial projections will be realized, and actual results could vary materially. For additional information regarding the Chapter 11 Proceedings and related adoption of fresh start accounting see Note 3, "Voluntary Reorganization under Chapter 11 of the United States Bankruptcy Code," to the consolidated financial statements included under Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Pension Plans

Many of the Company's employees participate in defined benefit pension plans or retirement/termination indemnity plans. The Company has approximately $528 million in unfunded pension liabilities as of December 31, 2012, of which approximately $279 million and $249 million are attributable to U.S. and non-U.S. pension plans, respectively. The determination of the Company's obligations and expense for its pension plans is dependent on the Company's selection of certain assumptions used by actuaries in calculating such amounts. Selected assumptions are described in Note 13 "Employee Retirement Benefits" to the Company's consolidated financial statements included in Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K, which are incorporated herein by reference, including the discount rate, expected long-term rate of return on plan assets and rate of increase in compensation.

Actual results that differ from assumptions used are accumulated and amortized over future periods and, accordingly, generally affect recognized expense in future periods. Therefore, assumptions used to calculate benefit obligations as of the annual measurement date directly impact the expense to be recognized in future periods. The primary assumptions affecting the Company's accounting for employee benefits as of December 31, 2012 are as follows:

- Long-term rate of return on plan assets: The expected long-term rate of return is used to calculate net periodic pension cost. The required use of the expected long-term rate of return on plan assets may result in recognized returns that are greater or less than the actual returns on those plan assets in any given year. Over time the expected long-term rate of return on plan assets is designed to approximate actual returns. The expected long-term rate of return for pension assets has been estimated based on various inputs, including historical returns for the different asset classes held by the Company's trusts and its asset allocation, as well as inputs from internal and external sources regarding expected capital market returns, inflation and other variables.

In determining its pension expense for 2012, the Company used long-term rates of return on plan assets ranging from 2.3% to 10.25% outside the U.S. and 7% in the U.S. The Company has set the assumptions for its 2013 pension expense which range from 2.2% to 8.25% outside the U.S. and 7% in the U.S. Actual returns on U.S. pension assets for 2012, 2011 and 2010 were 9.6%, 18.2% and 18.4%, respectively, compared to the expected rate of return assumption of 7%, 7.5%, and 7.7% respectively, for each of those years. The Company's market-related value of pension assets reflects changes in the fair value of assets over a five-year period, with a one-third weighting to the most recent year. Market-related value was reset to fair value at October 1, 2010.

- Discount rate: The discount rate is used to calculate pension obligations. The discount rate assumption is based on market rates for a hypothetical portfolio of high-quality corporate bonds rated Aa or better with maturities closely matched to the timing of projected benefit payments for each plan at its annual measurement date. The Company used discount rates ranging from 1.5% to 8.25% to determine its pension and other benefit obligations as of December 31, 2012, including weighted average discount rates of 3.95% for U.S. pension plans, and 4.1% for non-U.S. pension plans.

While the Company believes that these assumptions are appropriate, significant differences in actual experience or significant changes in these assumptions may materially affect the Company's pension benefit obligations and its future expense.

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The following table illustrates the sensitivity to a change in certain assumptions for Company sponsored U.S. and non-U.S. pension plans on its 2012 funded status and 2013 pre-tax pension expense:

	Impact on U.S. 2013 Pre-tax Pension Expense	Impact on U.S. Plan 2012 Funded Status	Impact on Non-U.S. 2013 Pre-tax Pension Expense	Impact on Non-U.S. Plan 2012 Funded Status
25 basis point decrease in discount rate (a) (b)	- $2 million	-$40 million	+$2 million	-$28 million
25 basis point increase in discount rate (a) (b)	+ $1 million	+$38 million	-$1 million	+$26 million
25 basis point decrease in expected return on assets (a)	+$2 million		+$1 million	
25 basis point increase in expected return on assets (a)	-$2 million		-$1 million	

(a) Assumes all other assumptions are held constant.
(b) Excludes impact of assets used to hedge discount rate volatility.

Impairment of Goodwill, Long-Lived Assets and Certain Identifiable Intangibles

The Company performs either a qualitative or quantitative assessment of goodwill for impairment at the reporting unit level on an annual basis. Impairment testing is also required if an event or circumstance indicates that an impairment is more likely than not to have occurred. The qualitative assessment considers several factors at the reporting unit level including the excess of fair value over carrying value as of the last quantitative impairment test, the length of time since the last fair value measurement, the current carrying value, market and industry metrics, actual performance compared to forecast performance, and the current outlook on the business. If the qualitative assessment indicates it is more likely than not that goodwill is impaired, the reporting unit is quantitatively tested for impairment. To quantitatively test goodwill for impairment, the fair value of each reporting unit is determined and compared to its carrying value. If the carrying value exceeds fair value, then impairment may exist and further evaluation is required. Estimated fair values are based on the projected future discounted cash flows. The company assesses the reasonableness of these estimated fair values using market based multiples of comparable companies. If the carrying value exceeds the fair value, an impairment loss is measured and recognized. Goodwill fair value measurements are classified within Level 3 of the fair value hierarchy, which are generally determined using unobservable inputs.

Long-lived assets and intangible assets subject to amortization are required to be reviewed for impairment when certain indicators of impairment are present. Impairment exists if estimated future undiscounted cash flows associated with long-lived assets are not sufficient to recover the carrying value of such assets. Generally, when impairment exists the long-lived assets are adjusted to their respective fair values. In assessing long-lived assets for an impairment loss, assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Asset grouping requires a significant amount of judgment. Accordingly, facts and circumstances will influence how asset groups are determined for impairment testing. In assessing long-lived assets for impairment, management considered the Company’s product line portfolio, customers and related commercial agreements, labor agreements and other factors in grouping assets and liabilities at the lowest level for which identifiable cash flows are largely independent. Additionally, in determining fair value of long-lived assets, management uses appraisals, management estimates or discounted cash flow calculations.

Product Warranty and Recall

The Company accrues for warranty obligations for products sold based on management estimates, with support from the Company’s sales, engineering, quality and legal functions, of the amount that eventually will be required to settle such obligations. This accrual is based on several factors, including contractual arrangements, past experience, current claims, production changes, industry developments and various other considerations. The Company accrues for product recall claims related to potential financial participation in customer actions to provide remedies as a result of actual or threatened regulatory or court actions or the Company’s determination of the potential for such actions. The Company's accrual for recall claims is based on specific facts and circumstances underlying individual claims with support from the Company’s engineering, quality and legal functions. Amounts accrued are based upon management’s best estimate of the amount that will ultimately be required to settle such claims.

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Income Taxes

The Company is subject to income taxes in the U.S. and numerous non-U.S. jurisdictions. Significant judgment is required in determining the Company's worldwide provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against the Company's net deferred tax assets. Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company records a valuation allowance to reduce deferred tax assets when, based on all available evidence, both positive and negative, it is more likely than not that such assets will not be realized. This assessment, which is completed on a jurisdiction-by-jurisdiction basis, requires significant judgment, and in making this evaluation, the evidence considered by the Company includes, historical and projected financial performance, as well as the nature, frequency and severity of recent losses along with any other pertinent information.

In the ordinary course of the Company's business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities. Accruals for tax contingencies are provided for as it relates to income tax risks and non-income tax risks, where appropriate.

Recent Accounting Pronouncements

See Note 1 "Description of Business" to the accompanying consolidated financial statements under Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for a discussion of recent accounting pronouncements.

Forward-Looking Statements

Certain statements contained or incorporated in this Annual Report on Form 10-K which are not statements of historical fact constitute "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Forward-looking statements give current expectations or forecasts of future events. Words such as "anticipate", "expect", "intend", "plan", "believe", "seek", "estimate" and other words and terms of similar mea connection with discussions of future operating or financial performance signify forward-looking statements. These statements reflect the Company's current views with respect to future events and are based on assumptions and estimates, which are subject to risks and uncertainties including those discussed in Item 1A under the heading "Risk Factors" and elsewhere in this report. Accordingly, undue reliance should not be placed on these forward-looking statements. Also, these forward-looking statements represent the Company's estimates and assumptions only as of the date of this report. The Company does not intend to update any of these forward-looking statements to reflect circumstances or events that occur after the statement is made and qualifies all of its forward-looking statements by these cautionary statements.

You should understand that various factors, in addition to those discussed elsewhere in this document, could affect the Company's future results and could cause results to differ materially from those expressed in such forward-looking statements, including:

- Visteon's ability to satisfy its future capital and liquidity requirements; Visteon's ability to access the credit and capital markets at the times and in the amounts needed and on terms acceptable to Visteon; Visteon's ability to comply with covenants applicable to it; and the continuation of acceptable supplier payment terms.

- Visteon's ability to satisfy its pension and other postretirement employee benefit obligations, and to retire outstanding debt and satisfy other contractual commitments, all at the levels and times planned by management.
- Visteon's ability to access funds generated by its foreign subsidiaries and joint ventures on a timely and cost effective basis.
- Changes in the operations (including products, product planning and part sourcing), financial condition, results of operations or market share of Visteon's customers.
- Changes in vehicle production volume of Visteon's customers in the markets where it operates, and in particular changes in Ford's and Hyundai Kia's vehicle production volumes and platform mix.
- Increases in commodity costs or disruptions in the supply of commodities, including steel, resins, aluminum, copper, fuel and natural gas.

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- Visteon's ability to generate cost savings to offset or exceed agreed upon price reductions or price reductions to win additional business and, in general, improve its operating performance; to achieve the benefits of its restructuring actions; and to recover engineering and tooling costs and capital investments.
- Visteon's ability to compete favorably with automotive parts suppliers with lower cost structures and greater ability to rationalize operations; and to exit non-performing businesses on satisfactory terms, particularly due to limited flexibility under existing labor agreements.
- Restrictions in labor contracts with unions that restrict Visteon's ability to close plants, divest unprofitable, noncompetitive businesses, change local work rules and practices at a number of facilities and implement cost-saving measures.
- The costs and timing of facility closures or dispositions, business or product realignments, or similar restructuring actions, including potential asset impairment or other charges related to the implementation of these actions or other adverse industry conditions and contingent liabilities.
- Significant changes in the competitive environment in the major markets where Visteon procures materials, components or supplies or where its products are manufactured, distributed or sold.
- Legal and administrative proceedings, investigations and claims, including shareholder class actions, inquiries by regulatory agencies, product liability, warranty, employee-related, environmental and safety claims and any recalls of products manufactured or sold by Visteon.
- Changes in economic conditions, currency exchange rates, changes in foreign laws, regulations or trade policies or political stability in foreign countries where Visteon procures materials, components or supplies or where its products are manufactured, distributed or sold.
- Shortages of materials or interruptions in transportation systems, labor strikes, work stoppages or other interruptions to or difficulties in the employment of labor in the major markets where Visteon purchases materials, components or supplies to manufacture its products or where its products are manufactured, distributed or sold.
- Changes in laws, regulations, policies or other activities of governments, agencies and similar organizations, domestic and foreign, that may tax or otherwise increase the cost of, or otherwise affect, the manufacture, licensing, distribution, sale, ownership or use of Visteon's products or assets.
- Possible terrorist attacks or acts of war, which could exacerbate other risks such as slowed vehicle production, interruptions in the transportation system or fuel prices and supply.
- The cyclical and seasonal nature of the automotive industry.
- Visteon's ability to comply with environmental, safety and other regulations applicable to it and any increase in the requirements, responsibilities and associated expenses and expenditures of these regulations.
- Visteon's ability to protect its intellectual property rights, and to respond to changes in technology and technological risks and to claims by others that Visteon infringes their intellectual property rights.
- Visteon's ability to quickly and adequately remediate control deficiencies in its internal control over financial reporting.
- Other factors, risks and uncertainties detailed from time to time in Visteon's Securities and Exchange Commission filings.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The primary market risks to which the Company is exposed include changes in foreign currency exchange rates, interest rates and certain commodity prices. The Company manages these risks through derivative instruments and various operating actions including fixed price contracts with suppliers and cost sourcing arrangements with customers. The Company's use of derivative instruments is limited to hedging activities and such instruments are not used for speculative or trading purposes, as per clearly defined risk management policies. Additionally, the Company's use of derivative instruments creates exposure to credit loss in the event of nonperformance by the counterparty to the derivative financial instruments. The Company limits this exposure by entering into agreements directly with a variety of major financial institutions with high credit standards and that are expected to fully satisfy their obligations under the contracts. Additionally, the Company's ability to utilize derivatives to manage market risk is dependent on credit conditions and market conditions given the current economic environment.

Foreign Currency Risk

The Company's net cash inflows and outflows exposed to the risk of changes in 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 to manage foreign currency exchange rate risks. Forward and option contracts may be utilized to protect the Company's cash flow from adverse movements 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 primary hedged operating 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 December 31, 2012, the net fair value of foreign currency forward contracts was an asset of $21 million while at December 31, 2011, the net fair value of forward contracts was a liability of $16 million.

The hypothetical pre-tax gain or loss in fair value from a 10% favorable or adverse change in quoted currency exchange rates would be approximately $55 million and $74 million as of December 31, 2012 and 2011, respectively. These estimated changes assume a parallel shift in all currency exchange rates and include the gain or loss on financial instruments used to hedge loans to subsidiaries. Because exchange rates typically do not all move in the same direction, the estimate may overstate the impact of changing exchange rates on the net fair value of the Company's financial derivatives. It is also important to note that gains and losses indicated in the sensitivity analysis would generally be offset by gains and losses on the underlying exposures being hedged.

In addition to the transactional exposure described above, the Company's operating results are impacted by the translation of its foreign operating income into U.S. dollars. The Company does not enter into foreign exchange contracts to mitigate this exposure.

Interest Rate Risk

The Company is subject to interest rate risk, principally in relation to fixed rate debt. The Company may use derivative financial instruments to manage exposure to fluctuations in interest rates. However, as of December 31, 2012, the Company had no outstanding interest rate derivative instruments.

Prior to the April 6, 2011 Term Loan refinancing, the Company was subject to interest rate risk, principally in relation to variable rate debt. During the fourth quarter of 2010, the Company entered into an interest rate swap with a notional amount of $250 million related to the Term Loan. These swaps effectively converted designated cash flows associated with underlying interest payments on the Term Loan from a variable interest rate to a fixed interest rate and were designated as cash flow hedges. In conjunction with the term loan refinance, the Company terminated its outstanding interest rate swaps, which were settled for a loss of less than $1 million.

Approximately 85% and 87% of the Company's borrowings were effectively on a fixed rate basis as of December 31, 2012 and December 31, 2011, respectively. The Company continues to evaluate its interest rate exposure and may use swaps or other derivative instruments again in the future.

Commodity Risk

The Company's exposures to market risk from changes in the price of production material are managed primarily through negotiations with suppliers and customers, although there can be no assurance that the Company will recover all such costs. The Company continues to evaluate derivatives available in the marketplace and may decide to utilize derivatives in the future to manage select commodity risks if an acceptable hedging instrument is identified for the Company's exposure level at that time, as well as the effectiveness of the financial hedge among other factors.

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Item 8. Financial Statements and Supplementary Data

Visteon Corporation and Subsidiaries

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined under Rule 13a-15(f) of the Securities Exchange Act of 1934. Under the supervision and with the participation of the principal executive and financial officers of the Company, an evaluation of the effectiveness of internal control over financial reporting was conducted based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations ("the COSO Framework") of the Treadway Commission. Based on the evaluation performed under the COSO Framework as of December 31, 2012, management has concluded that the Company's internal control over financial reporting is effective.

Ernst & Young LLP, an independent registered public accounting firm, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, as stated in their report which is included herein.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Visteon Corporation

We have audited Visteon Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Visteon Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Visteon Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Visteon Corporation as of December 31, 2012, and the related consolidated statements of operations, comprehensive income, changes in equity (deficit), and cash flows for the year then ended and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Detroit, Michigan
February 28, 2013

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Visteon Corporation

We have audited the accompanying consolidated balance sheet of Visteon Corporation as of December 31, 2012, and the related consolidated statements of operations, comprehensive income, changes in equity (deficit), and cash flows for the year then ended. Our audit also included the 2012 amounts in the financial statement schedule included in Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Visteon Corporation at December 31, 2012, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements as a whole, presents fairly in all material respects the information set forth therein for the year ended December 31, 2012.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Visteon Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Detroit, Michigan
February 28, 2013

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Visteon Corporation

In our opinion, the accompanying consolidated balance sheet as of December 31, 2011 and the related consolidated statement of operations, comprehensive income, shareholders' equity (deficit) and cash flows for the year ended December 31, 2011 and the three months ended December 31, 2010 present fairly, in all material respects, the financial position of Visteon Corporation and its subsidiaries (Successor Company) at December 31, 2011, and the results of their operations and their cash flows for the year ended December 31, 2011 and the three months ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15 (a) (2) for the year ended December 31, 2011 and the three months ended December 31, 2010 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. The Company's management is responsible for these financial statements and financial statement schedule. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, Visteon Corporation and certain of its U.S. subsidiaries (the "Debtors") voluntarily filed a petition on May 28, 2009 with the United States Bankruptcy Court for the District of Delaware for reorganization under Chapter 11 of the Bankruptcy Code. The Company's Fifth Amended Joint Plan of Reorganization (the "Plan") was confirmed on August 31, 2010. Confirmation of the Plan resulted in the discharge of certain claims against the Debtors that arose before May 28, 2009 and substantially alters rights and interests of equity security holders as provided for in the Plan. The Plan was substantially consummated on October 1, 2010 and the Company emerged from bankruptcy. In connection with its emergence from bankruptcy, the Company adopted fresh start accounting on October 1, 2010.

As discussed in Note 4 to the consolidated financial statements, in March 2012, the Company entered into an agreement to sell certain assets and liabilities of the Lighting operation. As the Lighting operation represents a component of the Company's business, the results of operations for the Lighting business have been reclassified to Income (Loss) from Discontinued Operations for the year ended December 31, 2011 and the three-months ended December 31, 2010.

/s/ PricewaterhouseCoopers LLP
Detroit, Michigan
February 27, 2012, except with respect to our opinion on the consolidated financial statements insofar as it relates to the effects of the presentation of discontinued operations discussed in Note 4 and the adoption of the new comprehensive income disclosures discussed in Note 1, as to which the date is May 2, 2012 and the change in the

presentation of the segment disclosures as discussed in Note 22, as to which the date is February 28, 2013.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Visteon Corporation

In our opinion, the accompanying statement of operations, comprehensive income, shareholders' equity (deficit) and cash flows for the nine-months ended October 1, 2010 present fairly, in all material respects, the results of operations and cash flows of Visteon Corporation and its subsidiaries (Predecessor Company) for the nine-months ended October 1, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15 (a) (2) for the nine-months ended October 1, 2010 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. The Company's management is responsible for these financial statements and financial statement schedule. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, Visteon Corporation and certain of its U.S. subsidiaries voluntarily filed a petition on May 28, 2009 with the United States Bankruptcy Court for the District of Delaware for reorganization under Chapter 11 of the Bankruptcy Code. The Company's Fifth Amended Joint Plan of Reorganization (the "Plan") was confirmed on August 31, 2010. The Plan was substantially consummated on October 1, 2010 and the Company emerged from bankruptcy. In connection with its emergence from bankruptcy, the Company adopted fresh start accounting.

As discussed in Note 4 to the consolidated financial statements, in March 2012, the Company entered into an agreement to sell certain assets and liabilities of the Lighting operation. As the Lighting operation represents a component of the Company's business, the results of operations for the Lighting business have been reclassified to Income (Loss) from Discontinued Operations for the nine-months ended October 1, 2010.

/s/ PricewaterhouseCoopers LLP
Detroit, Michigan
March 9, 2011, except with respect to our opinion on the consolidated financial statements insofar as it relates to the effects of the change in reportable segments discussed in Note 22, as to which the date is August 4, 2011, the presentation of the condensed consolidating financial information of the guarantor subsidiaries discussed in Note 23, as to which the date is November 10, 2011, the presentation of discontinued operations discussed in Note 4 and the adoption of the new comprehensive income disclosures discussed in Note 1, as to which the date is May 2, 2012 and the change in the presentation of the segment disclosures as discussed in Note 22, as to which the date is February 28, 2013.

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VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Successor			Predecessor
	Year Ended December 31	Year Ended December 31	Three Months Ended December 31	Nine Months Ended October 1
	2012	2011	2010	2010
	(Dollars in Millions, Except Per Share Amounts)			
Net sales				
Products	$6,857	$7,532	$1,777	$5,102
Services	—	—	1	142
	6,857	7,532	1,778	5,244
Cost of sales				
Products	6,268	6,914	1,533	4,555
Services	—	—	1	140
	6,268	6,914	1,534	4,695
Gross margin	589	618	244	549
Selling, general and administrative expenses	369	387	107	263
Equity in net income of non-consolidated affiliates	226	168	41	105
Restructuring expenses	79	24	27	14
Interest expense	49	48	15	169
Interest income	(14)	(21)	(6)	(10)
Reorganization gains, net	—	—	—	(938)
Other expense, net	41	11	13	26
Income before income taxes	291	337	129	1,130
Provision for income taxes	121	127	24	148
Net income from continuing operations	170	210	105	982
(Loss) income from discontinued operations, net of tax	(3)	(56)	—	14
Net income	167	154	105	996
Net income attributable to non-controlling interests	67	74	19	56
Net income attributable to Visteon Corporation	$100	$80	$86	$940
Basic earnings (loss) per share				
Continuing operations	$1.95	$2.65	$1.71	$7.10
Discontinued operations	(0.06)	(1.09)	—	0.11
Basic earnings per share attributable to Visteon Corporation	$1.89	$1.56	$1.71	$7.21
Diluted earnings (loss) per share				
Continuing operations	$1.93	$2.62	$1.66	$7.10
Discontinued operations	(0.05)	(1.08)	—	0.11
Diluted earnings per share attributable to Visteon Corporation	$1.88	$1.54	$1.66	$7.21

See accompanying notes to the consolidated financial statements.

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VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Successor			Predecessor
	Year Ended December 31	Year Ended December 31	Three Months Ended December 31	Nine Months Ended October 1
	2012	2011	2010	2010
	(Dollars in Millions)			
Net income	$167	$154	$105	$996
Other comprehensive (loss) income				
Foreign currency translation adjustments	73	(53)	3	20
Benefit plans, net of tax (a)	(134)	(26)	51	(232)
Unrealized hedging gain (loss) and other, net of tax (b)	22	(9)	(1)	5
Other comprehensive (loss) income, net of tax	(39)	(88)	53	(207)
Comprehensive income	128	66	158	789
Comprehensive income attributable to non-controlling interests	93	61	22	65
Comprehensive income attributable to Visteon Corporation	$35	$5	$136	$724

(a) Other comprehensive (loss) income is net of a $11 million tax effect and a $29 million tax effect related to benefit plans for the year ended December 31, 2012 and the nine-month Predecessor period ended October 1, 2010, respectively.
(b) Other comprehensive (loss) income is net of a $6 million tax effect and a $2 million tax effect related to unrecognized hedging gains (loss) and other for the years ended December 31, 2012 and 2011, respectively.

See accompanying notes to the consolidated financial statements.

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VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2012	2011
	(Dollars in Millions)	
ASSETS		
Cash and equivalents	$825	$723
Restricted cash	20	23
Accounts receivable, net	1,162	1,071
Inventories, net	385	381
Other current assets	271	291
Total current assets	2,663	2,489
Property and equipment, net	1,326	1,412
Equity in net assets of non-consolidated affiliates	756	644
Intangible assets, net	332	353
Other non-current assets	79	71
Total assets	$5,156	$4,969
LIABILITIES AND EQUITY		
Short-term debt, including current portion of long-term debt	$96	$87
Accounts payable	1,027	1,010
Accrued employee liabilities	175	189
Other current liabilities	254	267
Total current liabilities	1,552	1,553
Long-term debt	473	512
Employee benefits	571	495
Deferred tax liabilities	181	187
Other non-current liabilities	238	225
Stockholders’ equity:		
Preferred stock (par value $0.01, 50 million shares authorized, none outstanding at December 31, 2012 and 2011)	—	—
Common stock (par value $0.01, 250 million shares authorized, 54 million and 52 million shares issued, 52 million and 52 million shares outstanding at December 31, 2012 and 2011, respectively)	1	1
Stock warrants	10	13
Additional paid-in capital	1,269	1,165
Retained earnings	266	166
Accumulated other comprehensive loss	(90)	(25)
Treasury stock	(71)	(13)
Total Visteon Corporation stockholders’ equity	1,385	1,307
Non-controlling interests	756	690
Total equity	2,141	1,997
Total liabilities and equity	$5,156	$4,969

See accompanying notes to the consolidated financial statements.

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VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Successor			Predecessor
	Year Ended December 31 2012	Year Ended December 31 2011	Three Months Ended December 31 2010	Nine Months Ended October 1 2010
	(Dollars in Millions)			
Operating Activities				
Net income	$167	$154	$105	$996
Adjustments to reconcile net income to net cash provided from operating activities:				
Depreciation and amortization	259	316	73	207
Asset impairments	24	66	—	4
Equity in net income of non-consolidated affiliates, net of dividends remitted	(122)	(122)	(41)	(92)
Pension and OPEB, net	—	—	(146)	(41)
Reorganization items	—	—	—	(933)
Stock-based compensation	25	39	20	1
Other non-cash items	7	20	29	60
Changes in assets and liabilities:				
Accounts receivable	(38)	(110)	(53)	(79)
Inventories	(26)	(33)	5	(75)
Accounts payable	(26)	(25)	174	55
Other assets and other liabilities	(31)	(130)	(12)	(83)
Net cash provided from operating activities	239	175	154	20
Investing Activities				
Capital expenditures	(229)	(258)	(92)	(117)
Joint venture deconsolidation	—	(52)	—	—
Proceeds from asset sales and business divestitures	191	14	16	45
Other	(2)	(35)	—	(3)
Net cash used by investing activities	(40)	(331)	(76)	(75)
Financing Activities				
Short-term debt, net	5	17	6	(9)
Cash restriction, net	—	51	16	43
Payments on DIP facility, net of issuance costs	—	—	—	(75)
Proceeds from rights offering, net of issuance costs	—	(33)	—	1,190
Proceeds from issuance of debt, net of issuance costs	831	503	—	481
Principal payments on debt	(824)	(513)	(61)	(1,651)
Repurchase of long-term notes	(52)	—	—	—
Repurchase of common stock	(50)	—	—	—
Dividends paid to non-controlling interests	(27)	(31)	—	(19)
Other	2	3	(1)	(2)
Net cash used by financing activities	(115)	(3)	(40)	(42)
Effect of exchange rate changes on cash and equivalents	18	(23)	1	1

Net increase (decrease) in cash and equivalents	102	(182)	39	(96)
Cash and equivalents at beginning of period	723	905	866	962
Cash and equivalents at end of period	$825	$723	$905	$866
Supplemental Disclosures:				
Cash paid for interest	$48	$51	$5	$179
Cash paid for income taxes, net of refunds	$133	$127	$20	$83

See accompanying notes to the consolidated financial statements.

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VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

	Total Visteon Corporation Stockholders' Equity								
	Common Stock	Stock Warrants	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Visteon Corporation Stockholders' Equity	Non-Controlling Interests	Total Equity
	(Dollars in Millions)								
Balance at January 1, 2010 - Predecessor	$131	$127	$ 3,407	$ (4,576)	$ 142	$ (3)	$ (772)	$ 317	$ (455)
Net income	—	—	—	940	—	—	940	56	996
Other comprehensive (loss) income	—	—	—	—	(216)	—	(216)	9	(207)
Stock-based compensation, net	—	—	1	—	—	—	1	—	1
Cash dividends	—	—	—	—	—	—	—	(23)	(23)
Reorganization and fresh-start adjustments	(130)	(86)	(2,345)	3,636	74	3	1,152	308	1,460
Balance at October 1, 2010 - Successor	$1	$41	$ 1,063	$ —	$ —	$—	$ 1,105	$ 667	$1,772
Net income	—	—	—	86	—	—	86	19	105
Other comprehensive income	—	—	—	—	50	—	50	3	53
Stock-based compensation, net	—	—	21	—	—	(5)	16	—	16
Warrant exercises	—	(12)	15	—	—	—	3	—	3
Other	—	—	—	—	—	—	—	1	1
Balance at December 31, 2010 - Successor	$1	$29	$ 1,099	$ 86	$ 50	$ (5)	$ 1,260	$ 690	$1,950
Net income	—	—	—	80	—	—	80	74	154
Other comprehensive loss	—	—	—	—	(75)	—	(75)	(13)	(88)
Stock-based compensation, net	—	—	41	—	—	(8)	33	—	33
	—	(16)	25	—	—	—	9	—	9

Warrant exercises									
Cash dividends	—	—	—	—	—	—	—	(32)	(32)
Deconsolidation	—	—	—	—	—	—	—	(29)	(29)
Balance at December 31, 2011 - Successor	$1	$13	$1,165	$166	$(25)	$(13)	$1,307	$690	$1,997
Net income	—	—	—	100	—	—	100	67	167
Other comprehensive income	—	—	—	—	(65)	—	(65)	26	(39)
Stock-based compensation, net	—	—	26	—	—	(8)	18	—	18
Common stock contribution to U.S pension plans	—	—	73	—	—	—	73	—	73
Repurchase of shares of common stock	—	—	—	—	—	(50)	(50)	—	(50)
Warrant exercises	—	(3)	5	—	—	—	2	—	2
Cash dividends	—	—	—	—	—	—	—	(27)	(27)
Balance at December 31, 2012 - Successor	$1	$10	$1,269	$266	$(90)	$(71)	$1,385	$756	$2,141

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 supplier of automotive systems, modules and components to global automotive original equipment manufacturers (“OEMs”). The Company’s operations are organized by global product lines including Climate, Electronics and Interiors and are conducted through a network of manufacturing operations, technical centers and joint ventures in every major geographic region of the world.

On May 28, 2009, Visteon and certain of its U.S. subsidiaries (the “Debtors”) filed voluntary petitions for reorganization relief under chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the District of Delaware (the “Court”) in response to sudden and severe declines in global automotive production during the latter part of 2008 and early 2009 and the resulting adverse impact on the Company’s cash flows and liquidity. On August 31, 2010 (the “Confirmation Date”), the Court entered an order (the “Confirmation Order”) confirming the Debtors’ joint plan of reorganization (as amended and supplemented, the “Plan”). On October 1, 2010 (the “Effective Date”), all conditions precedent to the effectiveness of the Plan and related documents were satisfied or waived and the Company emerged from bankruptcy. Additional details regarding the status of the Company’s Chapter 11 Proceedings are included herein under Note 3, “Voluntary Reorganization under Chapter 11 of the United States Bankruptcy Code.”

The Company adopted fresh-start accounting upon emergence from the Chapter 11 Proceedings and became a new entity for financial reporting purposes as of the Effective Date. Therefore, the consolidated financial statements for the reporting entity subsequent to the Effective Date (the “Successor”) are not comparable to the consolidated financial statements for the reporting entity prior to the Effective Date (the “Predecessor”). Additional details regarding the adoption of fresh-start accounting are included herein under Note 3, “Voluntary Reorganization under Chapter 11 of the United States Bankruptcy Code.”

NOTE 2. Summary of Significant Accounting Policies

Basis of Presentation: The Company's financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP") on a going concern basis, which contemplates the continuity of operations, realization of assets and satisfaction of liabilities in the normal course of business.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its 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 does not exercise control, but does have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported herein. Considerable judgment is involved in making these determinations and the use of different estimates or assumptions could result in significantly different results. Management believes its assumptions and estimates are reasonable and appropriate. However, actual results could differ from those reported herein.

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

Revenue Recognition: The Company records revenue when persuasive evidence of an arrangement exists, delivery occurs or services are rendered, the sales price or fee is fixed or determinable and collectibility is reasonably assured.

The Company delivers products and records revenue pursuant to commercial agreements with its customers generally in the form of an approved purchase order, including the effects of contractual customer price productivity. The Company does negotiate discrete price changes with its customers, which are generally the result of unique commercial issues between the Company and its customers. The Company records amounts associated with discrete price changes as a reduction to revenue when specific facts and circumstances indicate that a price reduction is probable and the amounts are reasonably estimable. The Company records amounts associated with discrete price changes as an increase to revenue upon execution of a legally enforceable contractual agreement and when collectibility is reasonably assured.

Foreign Currency: Assets and liabilities of the Company’s non-U.S. businesses are translated into U.S. Dollars at end-of-period exchange rates and the related translation adjustments are recorded in Accumulated other comprehensive loss in the consolidated balance sheets. The effects of remeasuring assets and liabilities of the Company’s non-U.S. businesses that use the U.S. Dollar as their functional currency are recorded as transaction gains and losses in the consolidated statements of operations. Income and expense accounts of the Company’s non-U.S. businesses are translated into U.S. Dollars at average-period exchange rates and are reflected in the consolidated statements of operations. Additionally, gains and losses resulting from transactions denominated in a currency other than the functional currency are recorded as transaction gains and losses in the consolidated statements of operations. Net transaction gains and losses decreased net income by $5 million and $4 million in the year ended December 31, 2012 and 2011, respectively. Net transaction gains and losses increased net income by less than $1 million in the three months ended December 31, 2010 and $12 million in the nine months ended October 1, 2010.

Restructuring Expenses: The Company defines restructuring expense to include costs directly associated with exit or disposal activities. Such costs include employee severance and termination benefits, special termination benefits, contract termination fees and penalties, and other exit or disposal costs. In general, the Company records involuntary employee-related exit and disposal costs when there is a substantive plan for employee severance and related costs are probable and estimable, with the exception of one-time termination benefits and employee retention costs, which are recorded when the employees are entitled to receive such benefits and the amount can be reasonably estimated. Contract termination fees and penalties and other exit and disposal costs are generally recorded when incurred.

Debt Issuance Costs: The costs related to the issuance or modification of long-term debt are deferred and amortized into interest expense over the life of each respective debt issue. Deferred amounts associated with debt extinguished prior to maturity are expensed upon extinguishment.

Other Costs: Repair and maintenance costs, research and development costs, and pre-production operating costs are expensed as incurred. Research and development expenses include salary and related employee benefits, contractor fees, information technology, occupancy, telecommunications and depreciation. Research and development costs were $299 million in 2012, $326 million in 2011, $89 million in the three months ended December 31, 2010, and $264 million in the nine months ended October 1, 2010. Shipping and handling costs are recorded in the Company's consolidated statements of operations as "Cost of sales."

Net Income (Loss) Per Share Attributable to Visteon: 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 average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income by the 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 if their conditions have been satisfied if the reporting date was the end of the contingency period.

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.

Restricted Cash: Restricted cash represents amounts designated for uses other than current operations and includes $9 million related to the Letter of Credit Reimbursement and Security Agreement, and $11 million related to cash collateral for other corporate purposes at December 31, 2012.

Accounts Receivable: Accounts receivable are stated at amounts estimated by management to be the net realizable value. An allowance for doubtful accounts is recorded when it is probable amounts will not be collected based on specific identification of customer circumstances or age of the receivable. The allowance for doubtful accounts balance was $7 million and $8 million at December 31, 2012 and 2011, respectively. Included in Selling, general and administrative expenses are provisions for estimated uncollectible accounts receivable of $3 million, $8 million, and $3 million for the years ended December 31, 2012 and 2011, and the nine month Predecessor period ended October 1, 2010, respectively, and recoveries in excess of provisions for estimated uncollectible accounts receivable of $4 million for the three month Successor period ended December 31, 2010.

Inventories: Inventories are stated at the lower of cost, determined on a first-in, first-out (“FIFO”) basis, or market. Cost includes the cost of materials, direct labor, in-bound freight and the applicable share of manufacturing overhead. Inventories are reduced by an allowance for excess and obsolete inventories based on management’s review of on-hand inventories compared to historical and estimated future sales and usage.

Product Tooling: Product tooling includes molds, dies and other tools used in production of a specific part or parts of the same basic design. It is generally required that non-reimbursable design and development costs for products to be sold under long-term supply arrangements be expensed as incurred and costs incurred for molds, dies and other tools that will be owned by the Company or its customers and used in producing the products under long-term supply arrangements be capitalized and amortized over the shorter of the expected useful life of the assets or the term of the supply arrangement. Contractually reimbursable design and development costs that would otherwise be expensed are recorded as an asset as incurred. Product tooling owned by the Company is capitalized as property and equipment and is amortized to cost of sales over its estimated economic life, generally not exceeding

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six years.The Company had receivables of $36 million and $30 million as of December 31, 2012 and 2011, respectively, related to production tools in progress, which will not be owned by the Company and for which there is a contractual agreement for reimbursement from the customer.

Property and Equipment: Property and equipment is stated at cost or fair value for impaired assets. As a result of the adoption of fresh-start accounting, property and equipment was re-measured and adjusted to estimated fair value as of October 1, 2010. Depreciation expense is computed principally by the straight-line method over estimated useful lives for financial reporting purposes and by accelerated methods for income tax purposes in certain jurisdictions.

Certain costs incurred in the acquisition or development of software for internal use are capitalized. Capitalized software costs are amortized using the straight-line method over estimated useful lives generally ranging from 3 to 8 years. The net book value of capitalized software costs was approximately $13 million and $20 million at December 31, 2012 and 2011, respectively. Related amortization expense was approximately $6 million, $6 million, $2 million and $18 million for the years ended December 31, 2012 and 2011, the three-month Successor period ended December 31, 2010 and the nine-month Predecessor period ended October 1, 2010, respectively. Amortization expense of approximately $6 million, $2 million, $2 million and $1 million is expected for the annual periods ended December 31, 2013, 2014, 2015 and 2016, respectively.

Asset impairment charges are recorded when events and circumstances indicate that such assets may not be recoverable and the undiscounted net cash flows estimated to be generated by those assets are less than their carrying amounts. If estimated future undiscounted cash flows are not sufficient to recover the carrying value of the assets, an impairment charge is recorded for the amount by which the carrying value of the assets exceeds fair value. The Company classifies assets and liabilities as held for sale when management approves and commits to a formal plan of sale, generally following board of director approval, and it is probable that the sale will be completed within one year. The carrying value of assets and liabilities held for sale is recorded at the lower of carrying value or fair value less cost to sell, and the recording of depreciation is ceased. For impairment purposes, fair value is determined using appraisals, management estimates or discounted cash flow calculations.

Goodwill and Intangible Assets: In connection with the adoption of fresh-start accounting identifiable intangible assets were recorded at their estimated fair value as of October 1, 2010. The Company performs either a qualitative or quantitative assessment of goodwill for impairment on an annual basis. Goodwill impairment testing is performed at the reporting unit level. The qualitative assessment considers several factors at the reporting unit level including the excess of fair value over carrying value as of the last quantitative impairment test, the length of time since the last fair value measurement, the current carrying value, market and industry metrics, actual performance compared to forecasted performance, and our current outlook on the business. If the qualitative assessment indicates it is more likely than not that goodwill is impaired, the reporting unit is quantitatively tested for impairment. To quantitatively test goodwill for impairment, the fair value of each reporting unit is determined and compared to the carrying value. If the carrying value exceeds the fair value, then impairment may exist and further evaluation is required.

Other indefinite-lived intangible assets are subject to impairment analysis annually or more frequently if an event occurs or circumstances indicate the carrying amount may be impaired. Indefinite-lived intangible assets are tested for impairment by comparing the fair value to the carrying value. If the carrying value exceeds the fair value, the asset is adjusted to fair value. Other definite-lived intangible assets are amortized over their estimated useful lives, and tested for impairment in accordance with the methodology discussed above under "Property and Equipment."

Product Warranty: The Company accrues for warranty obligations at the time of the sale of product based on management estimates, with support from its sales, engineering, quality and legal functions, of the amount that eventually will be required to settle such obligations. This accrual is based on several factors, including contractual arrangements, past experience, current claims, production changes, industry developments and various other considerations. Product warranty liabilities are reviewed on a regular basis and adjusted to reflect actual experience.

Product Recall: The Company accrues for product recall claims related to probable financial participation in customer actions to provide remedies to consumers as a result of actual or threatened regulatory or court actions or the Company’s determination of the potential for such actions. This accrual is based on management's best estimate after consideration of the individual fact patterns associated with specific claims, including support from the Company’s engineering, quality and legal functions.

Income Taxes: Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company records a valuation allowance to reduce deferred tax assets when it is more likely than not that such assets will not be realized. This assessment requires significant judgment, and must be done on a jurisdiction-by-jurisdiction basis. In determining the need for a valuation allowance, all available positive and negative evidence, including historical and projected financial performance, is considered along with any other pertinent information.

Fair Value Measurements: The Company uses fair value measurements in the preparation of its financial statements, which utilize various inputs including those that can be readily observable, corroborated or are generally unobservable. The Company utilizes market-based data and valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the Company applies assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

Financial Instruments: The Company uses derivative financial instruments, including forward contracts, swaps, and options to manage exposures to changes in currency exchange rates and interest rates. All derivative financial instruments are classified as held for purposes other than trading. The Company's policy specifically prohibits the use of derivatives for speculative purposes.

Recently Issued Accounting Pronouncements: In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment," which amends Accounting Standard Codification ("ASC") 350-"Intangibles-Goodwill and Other." This ASU provides companies the option to first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If a company concludes that this is the case, it must perform a quantitative assessment. Otherwise, a company is not required to perform a quantitative assessment. This ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. As permitted, the Company early adopted the ASU in 2012. The adoption of this ASU did not impact the Company's consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which amends ASC 220 “Comprehensive Income". This ASU requires companies to present, either in a note or parenthetically on the face of the financial statements, the effect of amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. This ASU is effective for interim and annual reporting periods beginning after December 15, 2012. The Company will present such additional disclosures in its consolidated financial statements, beginning on January 1, 2013.

NOTE 3. Voluntary Reorganization under Chapter 11 of the United States Bankruptcy Code

The Chapter 11 Proceedings were initiated in response to sudden and severe declines in global automotive production during the latter part of 2008 and early 2009 and the adverse impact on the Company’s cash flows and liquidity. The reorganization cases are being jointly administered as Case No. 09-11786 under the caption “In re Visteon Corporation, et al.” On August 31, 2010, the Court entered the Confirmation Order confirming the Debtors’ Plan and on the Effective Date all conditions precedent to the effectiveness of the Plan and related documents were satisfied or waived and the Company emerged from bankruptcy.

Plan of Reorganization

A plan of reorganization determines the rights and satisfaction of claims of various creditors and security holders, but the ultimate settlement of certain claims will be subject to the uncertain outcome of litigation, negotiations and Court decisions up to and for a period of time after a plan of reorganization is confirmed. The following is a summary of the substantive provisions of the Plan and related transactions and is not intended to be a complete description of, or a substitute for a full and complete reading of, the Plan.

- Cancellation of any shares of Visteon common stock and any options, warrants or rights to purchase shares of Visteon common stock or other equity securities outstanding prior to the Effective Date.
- Issuance of approximately 45,000,000 shares of Successor common stock to certain investors in a private offering (the “Rights Offering”) exempt from registration under the Securities Act for proceeds of approximately $1.25 billion.
- Execution of an exit financing facility including $500 million in funded, secured debt and a $200 million asset-based, secured revolver that was undrawn at the Effective Date.
- Application of proceeds from such borrowings and sales of equity along with cash on hand to make settlement distributions contemplated under the Plan, including cash settlement of the pre-petition seven-year secured term loan claims of approximately $1.5 billion, along with interest of approximately $160 million; cash settlement of the U.S. asset-backed lending facility (“ABL”) and related letters of credit of approximately $128 million; establishment of a professional fee escrow account of $68 million; and, cash settlement of other claims and fees of approximately $119 million.

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- Issuance of approximately 2,500,000 shares of Successor common stock to holders of pre-petition notes, including 7% Senior Notes due 2014, 8.25% Senior Notes due 2010, and 12.25% Senior Notes due 2016; holders of the 12.25% senior notes also received warrants to purchase up to 2,355,000 shares of reorganized Visteon common stock at an exercise price of $9.66 per share.
- Issuance of approximately 1,000,000 shares of Successor common stock and warrants to purchase up to 1,552,774 shares of Successor common stock at an exercise price of $58.80 per share for Predecessor common stock interests.
- Issuance of approximately 1,700,000 shares of restricted stock to management under a post-emergence share-based incentive compensation program.
- Reinstatement of certain pre-petition obligations including certain OPEB liabilities and administrative, general and other unsecured claims.

Transactions with Ford Motor Company

On September 29, 2010, the Company entered into a Global Settlement and Release Agreement (the "Release Agreement") with Ford and Automotive Components Holdings, LLC ("ACH") conditioned on the effectiveness of the Company's Plan. The Release Agreement provides, among other things, for: (i) the termination of the Company's future obligations to reimburse Ford for certain pension and retiree benefit costs; (ii) the resolution of and release of claims and causes of actions against the Company and certain claims, liabilities, or actions against the Company's non-debtor affiliates; (iii) withdrawal of all proofs of claim, with a face value of approximately $163 million, including a claim for pension and retiree benefit liabilities described above, filed against the Company by Ford and/or ACH and an agreement to not assert any further claims against the estates, other than with respect to preserved claims; (iv) the rejection of all purchase orders under which the Company is not producing component parts and other agreements which would not provide a benefit to the reorganized Company and waiver of any claims against the Company arising out of such rejected agreements; (v) the reimbursement by Ford of up to $29 million to the Company for costs associated with restructuring initiatives in various parts of the world; and (vi) a commitment by Ford and its affiliates to source the Company new and replacement business totaling approximately $600 million in annual sales for vehicle programs launching through 2013.

In exchange for these benefits, the Company assumed all outstanding purchase orders and related agreements under which the Company was producing parts for Ford and/or ACH and agreed to continue to produce and deliver component parts to Ford and ACH in accordance with the terms of such purchase orders to ensure Ford continuity of supply. The Company also agreed to release Ford and ACH from any claims, liabilities, or actions that the Company may potentially assert against Ford and/or ACH.

On July 26, 2010, the Company, Visteon Global Technologies, Inc., ACH and Ford entered into an agreement (the "ACH Termination Agreement") to terminate each of (i) the Master Services Agreement, dated September 30, 2005 (as amended); (ii) the Visteon Salaried Employee Lease Agreement, dated October 1, 2005 (as amended); and, (iii) the Visteon Hourly Employee Lease Agreement, dated October 1, 2005 (as amended). On August 17, 2010, the Court approved the ACH Termination Agreement, pursuant to which Ford released Visteon from certain OPEB obligations related to employees previously leased to ACH resulting in a $9 million gain during the third quarter of 2010.

Financial Reporting Under the Chapter 11 Proceedings

Financial reporting applicable to a company in chapter 11 of the Bankruptcy Code generally does not change the manner in which financial statements are prepared. However, financial statements for periods including and subsequent to a chapter 11 bankruptcy filing must distinguish between transactions and events that are directly associated with the reorganization proceedings and the ongoing operations of the business. Reorganization gains, net included in the consolidated financial statements, including the amounts associated with the Company's discontinued operations, are comprised of the following:

	Nine Months Ended October 1, 2010 (Dollars in Millions)
Gain on settlement of liabilities subject to compromise	$(956)
Professional fees and other direct costs, net	129
Gain on adoption of fresh-start accounting	(106)
	$(933)
Cash payments for reorganization expenses	$111

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In connection with the Plan, on the Effective Date, the Company recorded a pre-tax gain of approximately $1.1 billion for reorganization related items. This gain included $956 million related to the cancellation of certain pre-petition obligations previously recorded as liabilities subject to compromise in accordance with terms of the Plan. Additionally, on the Effective Date, the Company became a new entity for financial reporting purposes and adopted fresh-start accounting, which requires, among other things, that all assets and liabilities be recorded at fair value resulting in a gain of $106 million.

Fresh Start Accounting

The application of fresh-start accounting results in the allocation of reorganization value to the fair value of assets and is permitted only when the reorganization value of assets immediately prior to confirmation of a plan of reorganization is less than the total of all post-petition liabilities and allowed claims and the holders of voting shares immediately prior to the confirmation of the plan of reorganization receive less than 50% of the voting shares of the emerging entity. The Company adopted fresh-start accounting as of the Effective Date, which represents the date that all material conditions precedent to the Plan were resolved, because holders of existing voting shares immediately before filing and confirmation of the plan received less than 50% of the voting shares of the emerging entity and because its reorganization value is less than post-petition liabilities and allowed claims, as shown below:

	October 1, 2010 (Dollars in Millions)
Post-petition liabilities	$2,763
Liabilities subject to compromise	3,121
Total post-petition liabilities and allowed claims	5,884
Reorganization value of assets	(5,141)
Excess post-petition liabilities and allowed claims	$743

Reorganization Value

The Company's reorganization value includes an estimated enterprise value of approximately $2.4 billion, which represents management's best estimate of fair value within the range of enterprise values contemplated by the Court of $2.3 billion to $2.5 billion. The range of enterprise values considered by the Court was determined using certain financial analysis methodologies including the comparable companies analysis, the precedent transactions analysis and the discounted cash flow analysis. The application of these methodologies requires certain key judgments and assumptions, including financial projections, the amount of cash available to fund operations and current market conditions.

The comparable companies analysis estimates the value of a company based on a comparison of such company's financial statistics with the financial statistics of publicly-traded companies with similar characteristics. Criteria for selecting comparable companies for this analysis included, among other relevant characteristics, similar lines of business, geographic presence, business risks, growth prospects, maturity of businesses, market presence, size and scale of operations. The comparable companies analysis established benchmarks for valuation by deriving financial multiples and ratios for the comparable companies, standardized using common metrics of (i) EBITDAP (Earnings Before Interest, Taxes, Depreciation, Amortization and Pension expense) and (ii) EBITDAP minus capital expenditures. EBITDAP based metrics were utilized to ensure that the analysis allowed for valuation comparability between companies which sponsor pensions and those that do not. The calculated range of multiples for the comparable companies was used to estimate a range which was applied to the Company's projected EBITDAP and projected EBITDAP minus capital expenditures to determine a range of enterprise values. The multiples ranged from 4.6 to 7.8 depending on the comparable company for EBITDAP and from 6.1 to 14.6 for EBITDAP minus capital expenditures. Because the multiples derived excluded pension expense, the analysis further deducted an estimated amount of pension underfunding totaling $455 million from the resulting enterprise value.

The precedent transactions analysis is based on the enterprise values of companies involved in public or private merger and acquisition transactions that have operating and financial characteristics similar to Visteon. Under this methodology, the enterprise value of such companies is determined by an analysis of the consideration paid and the debt assumed in the merger, acquisition or restructuring transaction. As in a comparable companies valuation analysis, the precedent transactions analysis establishes benchmarks for valuation by deriving financial multiples and ratios, standardized using common variables such as revenue or EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). In performing the precedent transactions analysis an EBITDAP metric was not able to be used due to the unavailability of pension expense information for the transactions analyzed. Therefore, the precedent transactions analysis relied on derived EBITDA multiples, which were then applied to the Company’s operating statistics to determine enterprise value. Different than the comparable companies analysis in that the EBITDA metric

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is already burdened by pension costs, the precedent transactions analysis did not need to separately deduct pension underfunding in order to calculate enterprise value. The calculated multiples used to estimate a range of enterprise values for the Company, ranged from 4.0 to 7.1 depending on the transaction.

The discounted cash flow analysis estimates the value of a business by calculating the present value of expected future cash flows to be generated by such business. This analysis discounts the expected cash flows by an estimated discount rate. This approach has three components: (i) calculating the present value of the projected unlevered after-tax free cash flows for a determined period of time, (ii) adding the present value of the terminal value of the cash flows and (iii) subtracting the present value of projected pension payments in excess of the terminal year pension expense through 2017, due to the underfunded status of such pension plans. These calculations were performed on unlevered after-tax free cash flows, using an estimated tax rate of 35%, for the period beginning July 1, 2010 through December 31, 2013 (the “Projection Period”), discounted to the assumed effective date of June 30, 2010.

The discounted cash flow analysis was based on financial projections as included in the Fourth Amended Disclosure Statement (the “Financial Projections”) and included assumptions for the weighted average cost of capital (the “Discount Rate”), which was used to calculate the present value of future cash flows and a perpetuity growth rate for the future cash flows, which was used to determine the enterprise value represented by the time period beyond the Projection Period. The Discount Rate was calculated using the capital asset pricing model resulting in Discount Rates ranging from 14% to 16%, which reflects a number of Company and market-specific factors. The perpetuity growth rate was calculated using the perpetuity growth rate method resulting in a perpetuity growth rate for free cash flow of 0% to 2%. Projected pension payments were discounted on a similar basis as the overall discounted cash flow Discount Rate range.

The estimated enterprise value was based upon an equally weighted average of the values resulting from the comparable companies, precedent transactions and discounted cash flow analyses, as discussed above, and was further adjusted for the estimated value of non-consolidated joint ventures and the estimated amounts of available cash (i.e. cash in excess of estimated minimum operating requirements). The value of non-consolidated joint ventures was calculated using a discounted cash flow analysis of the dividends projected to be received from these operations and also includes a terminal value based on the perpetuity growth method, where the dividend is assumed to continue into perpetuity at an assumed growth rate. This discounted cash flow analysis utilized a discount rate based on the cost of equity range of 13% to 21% and a perpetuity growth rate after 2013 of 2% to 4%. Application of this valuation methodology resulted in an estimated value of non-consolidated joint ventures of $195 million, which was incremental to the estimated enterprise value. Projected global cash balances were utilized to determine the estimated amount of available cash of $242 million, which was incremental to the estimated enterprise value. Amounts of cash expected to be used for settlements under the terms of the Plan and the estimated minimum level of cash required for ongoing operations were deducted from total projected cash to arrive at an amount of remaining or available cash. The estimated enterprise value, after adjusting for the estimated fair values of non-debt liabilities, is intended to approximate the reorganization value, or the amount a willing buyer would pay for the assets of the company immediately after restructuring.

A reconciliation of the reorganization value is provided in the table below.
Components of Reorganization Value

	October 1, 2010 (Dollars in Millions)
Enterprise value	$2,390
Non-debt liabilities	2,751
Reorganization value	$5,141

The value of a business is subject to uncertainties and contingencies that are difficult to predict and will fluctuate with changes in factors affecting the prospects of such a business. As a result, the estimates set forth herein are not necessarily indicative of actual outcomes, which may be significantly more or less favorable than those set forth herein. These estimates assume that the Company will continue as the owner and operator of these businesses and related assets and that such businesses and assets will be operated in accordance with the business plan, which is the basis for Financial Projections. The Financial Projections are based on projected market conditions and other estimates and assumptions including, but not limited to, general business, economic, competitive, regulatory, market and financial conditions, all of which are difficult to predict and generally beyond the Company’s control. Depending on the actual results of such factors, operations or changes in financial markets, these valuation estimates may differ significantly from that disclosed herein.

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The Company's reorganization value was first allocated to its tangible assets and identifiable intangible assets and the excess of reorganization value over the fair value of tangible and identifiable intangible assets was recorded as goodwill. Liabilities existing as of the Effective Date, other than deferred taxes, were recorded at the present value of amounts expected to be paid using appropriate risk adjusted interest rates. Deferred taxes were determined in conformity with applicable income tax accounting standards. Accumulated depreciation, accumulated amortization, retained deficit, common stock and accumulated other comprehensive loss attributable to the predecessor entity were eliminated.

NOTE 4. 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 $19 million and $66 million during the years ended December 31, 2012 and 2011, respectively. The results of operations of the Lighting business have been reclassified to (Loss) income from discontinued operations, net of tax in the Consolidated Statement of Operations for all periods presented. Discontinued operations are summarized as follows:

	Successor			Predecessor
	Year Ended December 31 2012	Year Ended December 31 2011	Three Months Ended December 31 2010	Nine Months Ended October 1 2010
	(Dollars in Millions)			
Sales	$297	$515	$109	$335
Cost of sales	264	490	109	319
Gross margin	33	25	—	16
Selling, general and administrative expenses	7	11	3	8
Asset impairments	19	66	—	—
Restructuring expenses	—	—	1	6
Other expense (income), net	4	2	—	(1)
Reorganization expenses, net	—	—	—	5
Interest expense	2	2	1	1
Income (loss) before income taxes	1	(56)	(5)	(3)
Provision (benefit) for income taxes	4	—	(5)	(17)
Net (loss) income from discontinued operations attributable to Visteon Corporation	$(3)	$(56)	$—	$14

NOTE 5. Restructuring Activities

The Company has undertaken various restructuring activities to achieve its strategic and financial objectives. Restructuring activities include, but are not limited to, plant closures, production relocation, administrative cost structure realignment and consolidation of available capacity and resources. The Company expects to finance restructuring programs through cash on hand, cash generated from operations, reimbursements pursuant to customer accommodation and support agreements or through cash available under its existing debt agreements, subject to the terms of applicable covenants. Restructuring costs are recorded as elements of a plan are finalized and the timing of activities and the amount of related costs are not likely to change. However, such costs are estimated based on information available at the time such charges are recorded. In general, management anticipates that restructuring activities will be completed within a time frame such that significant changes to the plan are not likely. Due to the inherent uncertainty involved in estimating restructuring expenses, actual amounts paid for such activities may differ from amounts initially estimated.

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. In connection with that program, the Company announced a plan to restructure three European Interiors facilities and a plan to realign its corporate and administrative functions directly to their corresponding operational beneficiary to right-size such functions and reduce related costs. The Company expects to record additional costs related to this program in future periods as underlying plans are finalized.

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.

The Company recorded restructuring expenses of $79 million, $34 million, $28 million, and $20 million during the years ended December 31, 2012 and 2011, the three month Successor period ended December 31, 2010 and the nine month Predecessor period ended October 1, 2010, respectively. Restructuring expenses were incurred in relation to the following activities.

Interiors

During the three months ended December 31, 2012, the Company announced a plan to restructure three European Interiors facilities. The Company recorded approximately $30 million for employee severance and termination benefits associated with approximately 230 employees. These cash benefits are expected to be paid to employees during 2013 and remain accrued on the Company's consolidated balance sheet as of December 31, 2012.

During the three-month Successor period ended December 31, 2010 the Company recorded $24 million for employee severance and termination benefits associated with the exit of a European Interiors facility pursuant to customer sourcing actions and a related business transfer agreement. The Company recorded $4 million of additional severance and termination benefits associated with this program during the year ended December 31, 2011. All of the employee severance and termination benefits were settled in cash during the year ended December 31, 2011. The Company recovered approximately $18 million of such costs during 2011 in accordance with a customer support agreement. Amounts recovered have been recorded as deferred revenue on the Company's consolidated balance sheet and are being amortized into sales on a straight-line basis over the remaining life of supply contracts with the customer, or approximately 6 years.

During the nine-month Predecessor period ended October 1, 2010, the Company recorded $5 million for employee severance and termination benefits attributable to the closure of a European Interiors facility. The Company recorded $3 million of additional severance and termination benefits associated with this program during the year ended December 31, 2011.

Climate

During the fourth quarter of 2011 the Company commenced a program designed to commonize global business systems and processes across its Climate operations for the purpose of reducing costs. The Company recorded and paid cash to settle employee severance and termination benefits of $5 million and $3 million, respectively, for the years ended December 31, 2012 and 2011.

Electronics
During 2011 the Company announced its intention to permanently cease production and to close the Cadiz Electronics facility located in Spain. In connection with the announcement, the Company recorded $24 million of restructuring expenses, which remained accrued on the consolidated balance sheet at December 31, 2011, related to employee severance and termination benefits representing the minimum amount of employee separation costs pursuant to statutory regulations.

During January 2012 the Company reached agreements with the local unions and Spanish government for the closure of the Cadiz Electronics facility. During the three months ended March 31, 2012 and in connection with the agreements, the Company recorded one-time termination benefits, in excess of the statutory minimum requirement, of approximately $31 million and other exit costs of $5 million. The Company also transferred land, building and machinery to the local municipality in Spain for the benefit of employees resulting in a loss of $14 million, which was recorded in Other (income) expense, net in the consolidated statements of operations. Utilization during the year ended December 31, 2012 associated with the Cadiz closure included $49 million of cash payments for employee severance and termination benefits and $5 million for other exit costs, primarily governmental registration of contributed assets. The Company recovered approximately $23 million of these costs pursuant to the Release Agreement with Ford, including $19 million during 2012 and $4 million during 2011. Amounts recovered have been recorded as deferred revenue on the Company's consolidated balance sheet and are being amortized on a straight-line basis over the remaining life of supply contracts with the customer, or approximately 5 years.

During the nine-month Predecessor period ended October 1, 2010, the Company recorded $2 million for employee severance and termination benefits attributable to the closure of a North America Electronics facility pursuant to a customer accommodation agreement. This amount was in addition to approximately $13 million previously recorded employee severance and termination benefits under this program. During the nine-month Predecessor period ended October 1, 2010, the Company paid cash of $13 million to settle amounts previously recorded.

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Corporate

During 2012, the Company announced a program designed to realign its corporate and administrative functions directly to their corresponding operational beneficiary and to reduce corporate administrative costs. During the three months ended December 31, 2012, the Company recorded severance and termination benefit costs of $4 million associated with approximately 30 employees. These cash benefits are expected to be paid to employees during 2013 and remain accrued on the Company's consolidated balance sheet as of December 31, 2012. The Company expects to record additional costs related to this program in future periods.

During the nine-month Predecessor period ended October 1, 2010, the Company recorded $11 million of restructuring expenses, including $6 million for employee severance and termination benefits attributable to the realignment of corporate administrative and support functions and $5 million for equipment relocation costs associated with the Company's discontinued Lighting operations. The Company paid cash to settle the majority of these expenses during the nine-month Predecessor period ended October 1, 2010.

Restructuring Reserves

Restructuring reserve balances of $39 million and $26 million at December 31, 2012 and 2011, respectively, are classified as Other current liabilities on the consolidated balance sheets. The Company anticipates that the activities associated with the restructuring reserve balance as of December 31, 2012 will be substantially completed by the end of 2013. Substantially all of the Company’s restructuring expenses are related to employee severance and termination benefit costs. The following is a summary of the Company’s consolidated restructuring reserves and related activity. Information in the table below includes amounts associated with the Company's discontinued operations.

	Interiors	Climate	Electronics	Corporate	Total
	(Dollars in Millions)				
Predecessor – December 31, 2009	$21	$—	$13	$5	$39
Expenses	6	1	2	11	20
Exchange	(1)	—	—	—	(1)
Utilization	(9)	(1)	(13)	(14)	(37)
Predecessor – October 1, 2010	$17	$—	$2	$2	$21
Expenses	24	2	1	1	28
Exchange	(1)	—	—	—	(1)
Utilization	(3)	—	—	(2)	(5)
Successor – December 31, 2010	$37	$2	$3	$1	$43
Expenses	7	3	24	—	34
Reversals	(7)	(1)	(2)	—	(10)
Exchange	2	—	(2)	—	—
Utilization	(33)	(3)	(4)	(1)	(41)
Successor – December 31, 2011	$6	$1	$19	$—	$26
Expenses	34	5	36	4	79
Utilization	(6)	(5)	(54)	(1)	(66)
Successor – December 31, 2012	$34	$1	$1	$3	$39

The Company reversed approximately $7 million of previously established accruals for employee severance and termination benefits at a European Interiors facility pursuant to a March 2011 contractual agreement to cancel the related social plan. The Company also reversed approximately $2 million in 2011 of previously recorded restructuring accruals due to lower than estimated severance and termination benefit costs associated with the consolidation of the Company’s Electronics operations in South America.

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NOTE 6. Inventories

Inventories consist of the following components:

	December 31	
	2012	2011
	(Dollars in Millions)	
Raw materials	$153	$167
Work-in-process	174	174
Finished products	78	64
	405	405
Valuation reserves	(20)	(24)
	$385	$381

NOTE 7. Other Assets

Other current assets are summarized as follows:

	December 31	
	2012	2011
	(Dollars in Millions)	
Recoverable taxes	$96	$99
Pledged accounts receivable	49	82
Deposits	28	27
Non-consolidated affiliate receivables	28	32
Deferred tax assets	26	30
Foreign currency hedges	22	—
Prepaid assets	19	17
Other	3	4
	$271	$291

Other non-current assets are summarized as follows:

	December 31	
	2012	2011
	(Dollars in Millions)	
Deferred tax assets	$28	$18
Income tax receivable	8	11
Deposits	6	7
Debt issuance costs	6	8
Other	31	27
	$79	$71

NOTE 8. Property and Equipment

Property and equipment, net consists of the following:

	December 31	
	2012	2011
	(Dollars in Millions)	
Land	$161	$184
Buildings and improvements	269	311
Machinery, equipment and other	1,137	985
Construction in progress	100	106
Total property and equipment	1,667	1,586
Accumulated depreciation	(421)	(254)
	1,246	1,332
Product tooling, net of amortization	80	80
Property and equipment, net	$1,326	$1,412

In April 2012, the Company sold its corporate headquarters, consisting of land and building, which had a net book value of approximately $60 million, for cash proceeds of approximately $80 million and entered into an agreement to lease back the corporate offices over a period of 15 years. The gain on the sale of $20 million is being amortized into income on a straight-line basis over the term of the lease.

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, including assets recorded under capital leases, are summarized as follows:

	Successor			Predecessor
	Year Ended December 31 2012	Year Ended December 31 2011	Three Months Ended December 31 2010	Nine Months Ended October 1 2010
	(Dollars in Millions)			
Depreciation	$209	$254	$55	$191
Amortization	10	17	7	16
	$219	$271	$62	$207

NOTE 9. Non-Consolidated Affiliates

The Company recorded equity in the net income of non-consolidated affiliates of $226 million for the year ended December 31, 2012, $168 million for the year ended December 31, 2011, $41 million in the three-month Successor period ended December 31, 2010, and $105 million in the nine-month Predecessor period ended October 1, 2010. Equity in net income of non-consolidated affiliates for the year ended December 31, 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 amounts recorded by Yanfeng are based on preliminary estimates of enterprise value, which remain subject to finalization. The preliminary estimate of fair value was 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. Final determination of the values may result in adjustments to the amount of the gain reported herein.

Investments in the net assets of non-consolidated affiliates were $756 million and $644 million at December 31, 2012 and 2011, respectively. The Company's investments in the net assets of non-consolidated affiliates were adjusted to fair value as a result of the adoption of fresh-start accounting on October 1, 2010. Fair value estimates were primarily based on an income approach utilizing the discounted dividend model. The carrying value of the investments at December 31, 2012 was approximately $50 million more than the Company's share of the affiliates' book value. The difference between the investment carrying value and the amount of underlying equity in net assets is amortized on a straight line basis over the underlying assets' estimated useful lives of 10 to 15 years. Included in the Company's retained earnings is undistributed income of non-consolidated affiliates accounted for under the equity method of approximately $231 million and $165 million at December 31, 2012 and 2011, respectively.

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 an "other-than-temporary" decline in value has occurred, an impairment loss will be recorded, which is measured as the difference between the recorded book value and the fair value of the investment with fair value generally determined under applicable income approaches previously described. In January 2013, the Company completed the sale of its 50% equity interest in Visteon TYC Corporation ("VTYC") for proceeds of approximately $17 million. During the three months ended December 31, 2012, the Company determined that an other-than-temporary decline in the value of its investment in VTYC had occurred based on anticipated sale transaction proceeds and recorded an impairment of $5 million.

The following tables present summarized financial data for the Company's non-consolidated affiliates. The amounts included in the tables below represent 100% of the results of operations and certain balance sheet amounts for such non-consolidated affiliates accounted for under the equity method. Yanfeng is considered a significant non-consolidated affiliate and is shown separately in the tables below, including the impact of the consolidation of a former equity investee.

	Yanfeng December 31		All Others December 31	
	2012	2011	2012	2011
	(Dollars in Millions)			
Current assets	$2,710	$1,282	$577	$652
Other assets	1,114	637	305	290
Total assets	$3,824	$1,919	$882	$942
Current liabilities	$2,320	$995	$534	$574
Other liabilities	28	15	38	24
Stockholders' equity	1,476	909	310	344
Total liabilities and equity	$3,824	$1,919	$882	$942

	Net Sales December 31			Gross Margin December 31			Net Income December 31		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
	(Dollars in Millions)								
Yanfeng	$5,171	$3,014	$2,573	$782	$473	$398	$369	$246	$218
All other	1,757	1,681	893	194	176	142	92	90	71
	$6,928	$4,695	$3,466	$976	$649	$540	$461	$336	$289

Yanfeng sales and gross margin for the year ended December 31, 2012 include approximately $1,733 million and $278 million, respectively, related to activity of a former equity investee that was consolidated effective June 1, 2012. Yanfeng net income for the year ended December 31, 2012 includes approximately $130 million associated with a non-cash gain on the consolidation of a former equity investee.

Net sales for all other non-consolidated affiliates for the year ended December 31, 2012 included $802 million related to Duckyang Industry Co., Ltd. ("Duckyang"). In October 2011, Visteon sold a 1% interest in Duckyang and conveyed a board seat to the other partner (the "Duckyang Share Sale"). Prior to the Duckyang Share Sale, Visteon held approximately 51% of Duckyang's total shares outstanding and maintained board control. Following the transaction, Visteon held approximately 50% of Duckyang's total shares outstanding, but no longer controlled the board. Accordingly, total assets of $217 million, total liabilities of $159 million, non-controlling interest of $29 million and related amounts deferred as accumulated other comprehensive income of $1 million,

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were deconsolidated from the Company's balance sheet. The Company's remaining 50% interest was recorded as equity in net assets of non-consolidated affiliates at a fair value of $33 million as of the transaction closing date, which resulted in a $4 million remeasurement gain. The fair value was determined using certain financial analysis methodologies including the comparable companies analysis and the discounted cash flow analysis. The fair value measurement is classified within level 3 of the fair value hierarchy. The net impact of the deconsolidation and the establishment of the fair value of the outstanding ownership interest resulted in an $8 million deconsolidation gain in 2011 which was recorded in Other expense, net in the consolidated statement of operations. Additionally, the Company's consolidated statement of operations includes net sales before eliminations of $588 million and cost of sales before eliminations of $580 million associated with Duckyang for the first ten months of 2011.

On August 31, 2012, Visteon completed the sale of its 50% ownership interest in R-Tek, Ltd., a UK-based Interiors joint venture, for proceeds of approximately $30 million, resulting in a net gain on the sale of approximately $19 million. In February 2013, the Company entered into an agreement to sell its 20% equity interest in Dongfeng Visteon Automotive Trim Systems Co., Ltd. ("Dongfeng") for cash proceeds of approximately $20 million.

NOTE 10. Intangible Assets

Intangible assets at December 31, 2012 and 2011 were as follows:

	December 31					
	2012			2011		
	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	$60	$149	$204	$32	$172
Customer related	124	30	94	119	16	103
Other	22	5	17	20	3	17
	$355	$95	$260	$343	$51	$292
Goodwill and indefinite-lived intangible assets						
Goodwill			$46			$36
Trade names			26			25
			72			61
Total			$332			$353

The Company recorded approximately $40 million, $45 million and $11 million of amortization expense related to definite-lived intangible assets for the years ended December 31, 2012 and 2011, and the three-month Successor period ended December 31, 2010, respectively. The Company currently estimates annual amortization expense to be $41 million annually from 2013 through 2015, $40 million for 2016 and $38 million for 2017. Goodwill and trade names, substantially all of which relate to the Company's Climate reporting unit, are not amortized but are tested for impairment at least annually. 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. During the fourth quarter of 2012 the Company recorded a $10 million adjustment, net of tax, increasing goodwill for certain international pension and employee benefit obligations existing as of the Effective Date.

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NOTE 11. Other Liabilities

Other current liabilities are summarized as follows:

	December 31	
	2012	2011
	(Dollars in Millions)	
Restructuring accruals	$39	$26
Non-income taxes payable	37	41
Product warranty and recall accruals	32	42
Payables to non-consolidated affiliates	27	24
Deferred income	32	21
Income taxes payable	16	29
Other accrued liabilities	71	84
	$254	$267

Other non-current liabilities are summarized as follows:

	December 31	
	2012	2011
	(Dollars in Millions)	
Accrued income taxes	$107	$97
Deferred income	56	42
Non-income taxes payable	37	44
Product warranty and recall accruals	25	24
Other accrued liabilities	13	18
	$238	$225

NOTE 12. Debt

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

		Weighted Average Interest Rate		Carrying Value	
	Maturity	2012	2011	2012	2011
				(Dollars in Millions)	
Short-term debt					
Current portion of long-term debt		8.9%	5.3%	$3	$1
Short-term borrowings		3.3%	4.1%	93	86
Total short-term debt				$96	$87
Long-term debt					
6.75% Senior notes	2019	6.75%	6.75%	445	494
Other	2014-2017	8.5%	10.2%	28	18
Total long-term debt				$473	$512

6.75% Senior Notes Due April 15, 2019

In April 2011, the Company completed the sale of $500 million aggregate principal amount of 6.75% senior notes due April 15, 2019 (the "Original Senior Notes"). The Original Senior Notes were sold to the initial purchasers who were party to a certain purchase agreement (the "Initial Purchasers") for resale to qualified institutional buyers under Rule 144A and to persons outside the United States under Regulation S. The Original Senior Notes were used to repay the obligations under the Term Loan Credit Agreement (“Term Loan”) in the amount of $498 million, which the Company entered into on October 1, 2010. In 2011, the Company recorded a loss of $24 million on the early extinguishment of the Term Loan including $21 million of unamortized

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original issuance discount and debt fees that were recorded net of the Term Loan principal on the face of the Company’s consolidated balance sheets immediately prior to extinguishment.

During January 2012, the Company exchanged substantially identical senior notes (the "Senior Notes") registered under the Securities Act of 1933, as amended, for all of the Original Senior Notes. The Senior Notes were issued under an Indenture (the “Indenture”) among the Company, the subsidiary guarantors named therein, and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The Indenture and the form of Senior Notes provide, among other things, that the Senior Notes are senior unsecured obligations. Interest is payable on the Senior Notes on April 15 and October 15 of each year until maturity on April 15, 2019. Each of the Company’s existing and future 100% owned domestic restricted subsidiaries that guarantee debt under the Company’s Revolver guarantee the Senior Notes.

The terms of the Indenture, among other things, limit the ability of the Company and certain of its subsidiaries to make restricted payments; restrict dividends or other payments of subsidiaries; incur additional debt; engage in transactions with affiliates; create liens on assets; engage in sale and leaseback transactions; and consolidate, merge or transfer all or substantially all of its assets and the assets of its subsidiaries. The Indenture provides for customary events of default which include (subject in certain cases to customary grace and cure periods), among others: nonpayment of principal or interest; breach of other agreements in the Indenture; defaults in failure to pay certain other indebtedness; the rendering of judgments to pay certain amounts of money against the Company and its subsidiaries; the failure of certain guarantees to be enforceable; and certain events of bankruptcy or insolvency. Generally, if an event of default occurs and is not cured within the time periods specified, the Trustee or the holders of at least 25% in principal amount of the then outstanding series of Senior Notes may declare all the Senior Notes of such series to be due and payable immediately.

Prior to April 15, 2014, the Company has the option to redeem up to 10% of the Senior Notes during any 12-month period from issue date until April 15, 2014 for a 103% redemption price, plus accrued and unpaid interest to the redemption date. In December 2012, the Company exercised this right and repurchased $50 million (10%) of its Senior Notes. The Company recorded a $2 million loss on extinguishment of debt in 2012 related to the premium paid on the debt redemption. The Company also has the option to redeem a portion or all of the Senior Notes subject to a make-whole provision.

Beginning April 15, 2014, the Indenture allows for part of all of the Senior Notes to be redeemed at the following redemption prices (plus accrued and unpaid interest to the redemption date) during the 12 month period beginning on April 15 of the indicated years: 2014 at 105.063%, 2015 at 103.375%, 2016 at 101.688%, and 2017 and thereafter at 100.000%. The Indenture also contains optional redemption rights related to the proceeds from equity offerings.

Revolving Loan Credit Facility

The Company entered into a revolving loan credit agreement (the “Revolver”), by and among the Company and certain of the Company's subsidiaries, as borrowers, with a syndicate of lenders consisting of Morgan Stanley Senior Funding, Inc., as administrative agent, co-collateral agent, co-syndication agent and Bank of America, N.A., as co-collateral agent, and Barclays Capital, as co-syndication agent, dated October 1, 2010, which provided for a $200 million committed asset-based revolving credit facility. The Revolver requires the Company and its subsidiaries to comply with customary affirmative and negative covenants, and contains customary events of default. In April 2011, the Company and certain of its domestic subsidiaries entered into an amendment to the Revolver whereby the commitment amount was increased $20 million, to a total borrowing capacity of $220 million, subject to certain borrowing base requirements.

During April 2012, the Company entered into an amendment to the Revolver to allow for the sale of its Lighting business and for the sale and leaseback of the Company's U.S. corporate headquarters. In July 2012, the Revolver was amended to, among other things, allow entry into a bridge loan financing agreement and reduce the commitment under the Revolver to $175 million reflecting the anticipated reduction in borrowing base assets following the sale of the Lighting business. Additionally, the amendment modified restrictive covenants to permit asset dispositions, hedging and the incurrence of limited categories of indebtedness. Advances under the Revolver are available until maturity in October 2015. The Revolver has a fee of 0.5% per annum on the undrawn commitment. At December 31, 2012 and 2011, there were no outstanding borrowings under the Revolver. At December 31, 2012, the Company had available borrowings under the Revolver of $149 million.

On January 28, 2013, the Company entered into an amendment to the Revolver to permit, among other things, the sale of certain Climate operations to Halla Climate Control Corporation ("Halla"), a 70% owned subsidiary of the Company. In anticipation of the associated reduction in borrowing base assets, the Company also reduced its commitment amount to $130 million.

Korean Bridge Loan

On July 4, 2012 the Company commenced a tender offer to purchase the remaining 30 percent of Halla. In connection with the tender offer, Visteon, through its wholly-owned Korean subsidiary Visteon Korea Holdings Corp., entered into a fully committed Korean debt facility of 1 trillion Korean Won ("KRW") or $881 million (the "Bridge Loan"), under which, Visteon Korea Holdings Corp. borrowed 925 billion KRW or $815 million. The Bridge Loan was secured by a pledge of all of the shares of capital stock of Halla owned directly or indirectly by Visteon. On July 3, 2012, the Company entered into an amendment to the revolving loan credit agreement, to among other things, permit the the Bridge Loan and to reduce the aggregate lending commitment to $175 million reflecting the anticipation of the Lighting Transaction and sale of the Company's corporate headquarters.

On July 30, 2012, Visteon Korea Holdings Corp. repaid approximately 910 billion KRW or $800 million of previously borrowed amounts under the Bridge Loan. On August 24, 2012, Visteon Korea Holdings Corp. permanently reduced the available commitments under the Bridge Loan as amended and completed repayment of all outstanding loan amounts on August 28, 2012 as was allowed without penalty after following certain advance notice and other procedures. The Company incurred debt extinguishment costs of approximately $4 million and interest of $5 million during 2012 in connection with this financing arrangement.

Letters of Credit

The Company has a $15 million letter of credit facility with US Bank National Association. In connection with the facility, the Company must maintain a collateral account equal to 103% of the aggregate stated amount of issued letters of credit and must reimburse any amounts drawn under issued letters of credit. As of December 31, 2012 and 2011, the Company had $9 million and $11 million, respectively, of outstanding letters of credit issued under this facility secured by restricted cash. Additionally, the Company had $14 million and $20 million of locally issued letters of credit to support various customs arrangements and other obligations at its local affiliates of which $6 million and $16 million are secured by cash collateral at December 31, 2012 and 2011, respectively.

Affiliate Debt

As of December 31, 2012, the Company had affiliate debt outstanding of $124 million, with $96 million and $28 million classified in short-term and long-term debt, respectively. As of December 31, 2011, the Company had affiliate debt outstanding of $105 million, with $87 million and $18 million classified in short-term and long-term debt, respectively. These balances are primarily related to the Company’s non-U.S. operations and are payable in non-U.S. currencies including, but not limited to the Euro, Chinese Yuan, and Korean Won. Available borrowings on outstanding affiliate credit facilities as of December 31, 2012 is approximately $245 million and certain of these facilities have pledged receivables, inventory or equipment as security. Included in the Company's affiliate debt is an arrangement, through a subsidiary in France, to sell accounts receivable on an uncommitted basis. The amount of financing available is contingent upon the amount of receivables less certain reserves. The Company pays a 30 basis points servicing fee on all receivables sold, as well as a financing fee of 3-month Euribor plus 75 basis points on the advanced portion. At December 31, 2012 there were $15 million outstanding borrowings under the facility with $49 million of receivables pledged as security, which are recorded as "Other current assets" on the consolidated balance sheet. At December 31, 2011, there were $8 million outstanding borrowings under the facility with $82 million of receivables pledged as security.

In January 2013, Halla entered into two unsecured bilateral term loan credit agreements with aggregate available borrowings of approximately $195 million, all of which was drawn in January 2013. Both credit agreements mature in May 2016 and are subject to financial covenant tests of total debt to EBITDA of 3.2x and a net interest coverage test of not less than 3x.

Other Debt

In December 2012, the Company entered into a sale-leaseback arrangement for land and buildings located in Chihuahua, Mexico. In connection with the transaction, the Company received proceeds of $19 million and entered into an agreement to lease the land and buildings back over a 5 year period. This sale-leaseback is being accounted for as a direct financing arrangement, and the cash proceeds have been recorded as debt. The lease requires annual rental payments that are allocated between the reduction of indebtedness and interest expense using an incremental borrowing rate of 9.5%. The Company will recognize the sale of the land and buildings at the end of the lease term and expects to record a gain of approximately $3 million.

During August 2010, the DIP Credit Agreement, a $150 million Senior Secured Super Priority Priming Debtor in Possession Credit and Guaranty Agreement between certain subsidiaries of the Company, a syndicate of lenders and Wilmington Trust FSB, as administrative agent, matured and the Company repaid the outstanding balance of $75 million.

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Maturities

Debt obligations, at December 31, 2012, included maturities as follows: 2013 — $96 million; 2014 — $3 million; 2015 — $7 million; 2016 — $3 million; 2017 — $15 million; thereafter — $445 million.

Fair Value

The fair value of debt was approximately $600 million and $587 million at December 31, 2012 and December 31, 2011, respectively. 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.

NOTE 13. Employee Benefit 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 were increased to 100% on the first 6% of pay contributed. The expense related to matching contributions was approximately $14 million in 2012, $5 million in 2011, $1 million for the three-month Successor period ended December 31, 2010, and $3 million for the nine-month Predecessor period ended October 1, 2010.

The Company sponsors pay related benefit plans for employees in the U.S., UK, Germany, Brazil, France, Mexico, Japan, Korea, India, Thailand, and Canada. Employees in the U.S. are no longer accruing benefits under the Company's defined benefit plans as these plans were frozen. The Company’s defined benefit plans are partially funded with the exception of certain supplemental benefit plans for executives and certain non-U.S. plans, primarily in Germany, which are unfunded. During 2012 the Company offered an accelerated pension payment program to most of its U.S. defined benefit plan participants who are former employees with vested benefits not yet in pay status, whereby such participants could elect to receive a single lump sum payout. Approximately 70% of eligible participants elected to receive a single lump sum payout resulting in a reduction of the Company's U.S. retirement plan obligations of $408 million and a reduction in plan assets of $301 million, respectively. Additionally, the Company recorded settlement losses of $9 million during the three months ended December 31, 2012 in connection with the lump sum payments. The Company's expense for retirement benefits is provided in the table below, as follows.

	Retirement Plans							
	U.S. Plans				Non-U.S. Plans			
	Successor			Predecessor	Successor			Predecessor
	Year Ended	Year Ended	Three Months Ended	Nine Months Ended	Year Ended	Year Ended	Three Months Ended	Nine Months Ended
	December 31			October 1	December 31			October 1
	2012	2011	2010	2010	2012	2011	2010	2010
	(Dollars in Millions)							
Costs Recognized in Income								
Service cost	$—	$5	$2	$7	$18	$6	$2	$4
Interest cost	70	73	18	56	28	28	6	19
Expected return on plan assets	(79)	(75)	(19)	(55)	(18)	(18)	(5)	(14)
Amortization of:								
Plan amendments	—	—	—	(2)	—	—	—	1
Losses and other	—	—	—	2	—	—	—	—

Special termination benefits	—	3	—	2	—	—	—	—
Curtailments	—	(1)	—	(14)	—	—	—	—
Settlements	9	—	—	—	4	—	—	—
Net pension expense/(income) excluding restructuring	$—	$5	$1	$(4)	$32	$16	$3	$10
Retirement benefit related restructuring expenses								
Special termination benefits	$1	$—	$—	$2	$—	$—	$—	$—
Fresh-start accounting adjustments	$—	$—	$—	$(138)	$—	$—	$—	$(107)
Weighted Average Assumptions								
Discount rate	4.85%	5.50%	5.30%	5.90%	5.70%	5.95%	5.40%	6.10%
Compensation increase	N/A	3.50%	3.50%	3.50%	3.70%	3.55%	3.40%	3.50%
Long-term return on assets	7.00%	7.50%	7.70%	7.70%	5.05%	5.40%	5.60%	6.00%

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During the nine-month Predecessor period ended October 1, 2010 the Company recorded curtailment gains of $14 million related to the termination of salaried employees formerly leased to ACH in connection with ACH Termination Agreement and other on-going U.S. headcount reductions.

Postretirement Health Care and Life Insurance Benefit Plans

In the U.S. and Canada, the Company has a financial obligation for the cost of providing other postretirement health care and life insurance benefits (“OPEB”) to its employees under Company-sponsored plans. These plans generally pay for the cost of health care and life insurance for retirees and dependents, less retiree contributions and co-pays.

During 2009 and 2010, the Company eliminated benefits under certain U.S. OPEB plans pursuant to various Court orders. In July 2010, the United States Court of Appeals for the Third Circuit (the "Circuit Court") reversed previous orders of the Court and the District Court for the District of Delaware (the "District Court") authorizing the Company to eliminate such OPEB benefits without complying with the requirements of Bankruptcy Code Section 1114. In August 2010, the Court issued an order requiring the Company to retroactively restore certain terminated or modified benefits. In September 2010, the Court issued an order approving the Memorandum of Agreement between the IUE-CWA and the Company pursuant to which the parties agreed that $12 million would be paid in full settlement of the OPEB obligations for the former Connersville and Bedford hourly employees under Section 1114 of the Bankruptcy Code. In October 2010, following emergence from the Chapter 11 Proceedings, the Company notified the participants of the remaining OPEB plans that benefits would be eliminated on November 1, 2010. The net impact of the OPEB terminations and reinstatements on postretirement benefit expense in the consolidated statements of operations was a reduction of $146 million and $26 million for the three months ended December 31, 2010 and nine months ended October 1, 2010, respectively.

The Company’s expense for health care and life insurance benefits is provided in the table below, as follows:

	Health Care and Life Insurance Benefits			
	Successor			Predecessor
	Year Ended December 31 2012	Year Ended December 31 2011	Three Months Ended December 31 2010	Nine Months Ended October 1 2010
	(Dollars in Millions)			
Costs Recognized in Income				
Interest cost	$—	$—	$—	$3
Plan termination income	(4)	(2)	(146)	—
Reinstatement of benefits	—	—	—	306
Amortization of:				
Plan amendments	—	—	—	(374)
Losses and other	—	—	—	43
Settlements	—	—	—	(1)
Visteon sponsored plan net postretirement (income)	(4)	(2)	(146)	(23)
(Income) for certain salaried employees whose benefits are covered by Ford	—	—	—	(15)
Employee postretirement (income)	$(4)	$(2)	$(146)	$(38)
Fresh-start accounting adjustments	$—	$—	$—	$128

Weighted Average Assumptions Used for Expense

Discount rate for expense	4.10	%	5.00	%	4.65	%	5.65	%
Initial health care cost trend rate	8.00	%	8.50	%	8.00	%	9.00	%
Ultimate health care cost trend rate	5.00	%	5.00	%	5.10	%	5.00	%
Year ultimate health care cost trend rate reached	2018		2017		2015		2017	

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Employee Benefit Plan Obligations

The Company’s obligation for retirement, health care and life insurance benefits is as follows:

	Retirement Plans U.S. Plans Year Ended December 31		Non-U.S. Plans Year Ended December 31		Health Care and Life Insurance Benefit Plans Year Ended December 31	
	2012	2011	2012	2011	2012	2011
	(Dollars in Millions)					
Change in Benefit Obligation						
Benefit obligation — beginning	$1,480	$1,360	$466	$445	$10	$17
Service cost	—	5	18	6	—	—
Interest cost	70	73	28	28	—	—
Participant contributions	—	—	1	1	—	—
Amendments/other	—	—	—	—	(4)	(2)
Actuarial loss	67	141	128	3	—	—
Special termination benefits	1	3	—	—	—	—
Curtailments, net	—	(26)	(6)	—	—	—
Settlements	(301)	—	(38)	(1)	—	—
Divestiture	—	—	(2)	—	—	—
Foreign exchange translation	—	—	15	(15)	—	—
Transfers In	—	—	60	17	—	—
Benefits paid	(72)	(76)	(17)	(18)	—	(5)
Benefit obligation — ending	$1,245	$1,480	$653	$466	$6	$10
Change in Plan Assets						
Plan assets — beginning	$1,151	$996	$348	$337	$—	$—
Actual return on plan assets	115	172	24	20	—	—
Sponsor contributions	77	63	42	19	—	5
Participant contributions	—	—	1	1	—	—
Foreign exchange translation	—	—	10	(14)	—	—
Settlements	(301)	—	(38)	(1)	—	—
Divestitures	—	—	(2)	—	—	—
Transfers In	—	—	36	4	—	—
Benefits paid/other	(76)	(80)	(17)	(18)	—	(5)
Plan assets — ending	$966	$1,151	$404	$348	$—	$—
Funded status at end of period	$(279)	$(329)	$(249)	$(118)	$(6)	$(10)
Balance Sheet Classification						
Other non-current assets	$—	$—	$2	$4	$—	$—
Accrued employee liabilities	(2)	(3)	(3)	(3)	(3)	(2)
Employee benefits	(277)	(326)	(248)	(119)	(3)	(8)
Accumulated other comprehensive loss:						
Actuarial loss/(gain)	39	15	81	(40)	—	—
Tax effects/other	—	—	(12)	—	—	—
	$39	$15	$69	$(40)	$—	$—

The accumulated benefit obligation for all defined benefit pension plans was $1.81 billion and $1.90 billion at December 31, 2012 and December 31, 2011. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for employee retirement plans with accumulated benefit obligations in excess of plan assets were

$1.70 billion, $1.66 billion, and $1.21 billion, respectively, at December 31, 2012 and $1.62 billion, $1.61 billion and $1.19 billion, respectively, at December 31, 2011.

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Assumptions used by the Company in determining its benefit obligations as of December 31, 2012 and December 31, 2011 are summarized in the following table.

	Retirement Plans				Health Care and Life Insurance Benefits	
	U.S. Plans		Non-U.S. Plans			
	2012	2011	2012	2011	2012	2011
Weighted Average Assumptions						
Discount rate	3.95 %	4.85 %	4.10 %	5.85 %	4.10 %	4.10 %
Expected rate of return on assets	7.00 %	7.00 %	4.75 %	5.05 %	N/A	N/A
Rate of increase in compensation	N/A	N/A	3.15 %	3.45 %	N/A	N/A
Initial health care cost trend rate	N/A	N/A	N/A	N/A	8.00 %	8.00 %
Ultimate health care cost trend rate	N/A	N/A	N/A	N/A	5.00 %	5.00 %
Year ultimate health care cost trend rate reached	N/A	N/A	N/A	N/A	2018	2018

Accumulated Other Comprehensive Income (Loss)

Components of the net change in Accumulated other comprehensive loss related to the Company's retirement plans on the Company's consolidated statements of changes in stockholders' equity for the year ended December 31, 2012 and 2011 are as follows:

	Retirement Plans			
	U.S. Plans		Non-U.S. Plans	
	2012	2011	2012	2011
	(Dollars in Millions)			
Actuarial losses	$33	$23	$117	$2
Deferred taxes	—	—	(10)	—
Currency/Other	—	—	7	—
Reclassification to net income	(9)	1	(5)	—
	$24	$24	$109	$2

Actuarial losses of $2 million for the non-U.S. retirement plans are expected to be realized in 2013.

Contributions

During January 2009, the Company reached an agreement with the Pension Benefit Guaranty Corporation ("PBGC") pursuant to U.S. federal pension law provisions that permit the PBGC to seek protection when a plant closing results in termination of employment for more than 20 percent of employees covered by a pension plan (the "PBGC Agreement"). Under the PBGC Agreement, the Company agreed to accelerate payment of a $10.5 million cash contribution, provide a $15 million letter of credit and provide for a guarantee by certain affiliates of certain contingent pension obligations of up to $30 million. During September 2009, a letter of credit draw event was triggered under the PBGC Agreement and resulted in the draw down of the full $15 million. In December 2011, the Company reached an agreement with the PBGC whereby the $15 million was returned to the Company and immediately contributed to the respective retirement plan. The $15 million cash contribution is designated as a pre-funding amount that will be used to offset the plan's funding needs after June 2013.

In January 2012 the Company contributed approximately 1.5 million shares of common stock valued at approximately $73 million to its two largest U.S. defined benefit plans. This contribution was in excess of 2011 and 2012 plan year minimum required contributions for those plans by approximately $40 million. As of December 31, 2012, all shares previously contributed to the plans had been sold, with an average share price of approximately $44.

Additionally, the Company expects to make cash contributions to its U.S. retirement plans of $3 million in 2013. Contributions to non-U.S. retirement plans are expected to be $30 million during 2013. The Company's expected 2013 contributions may be revised.

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Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the Company plans:

	Pension Benefits		Retirement Health and Life Payments
	U.S.	Non-U.S.	
	(Dollars in Millions)		
2013	$70	$15	$3
2014	67	16	—
2015	66	17	—
2016	64	18	—
2017	64	20	—
Years 2018 — 2022	318	139	1

Plan Assets and Investment Strategy

Substantially all of the Company’s pension assets are managed by external investment managers and held in trust by third-party custodians. The selection and oversight of these external service providers is the responsibility of the investment committees and their advisors. The selection of specific securities is at the discretion of the investment manager and is subject to the provisions set forth by written investment management agreements and related policy guidelines regarding permissible investments, risk management practices and the use of derivative securities. Derivative securities may be used by investment managers as efficient substitutes for traditional securities, to reduce portfolio risks or to hedge identifiable economic exposures. The use of derivative securities to create economic leverage to engage in unrelated speculation is expressly prohibited. External investment managers are prohibited from investing in any debt or equity securities related to the Company or its affiliates. The Company's equity is permitted when it is the result of a corporate contribution to the plan.

The primary objective of the pension funds is to pay the plans’ benefit and expense obligations when due. Given the relatively long time horizon of these obligations and their sensitivity to interest rates, the investment strategy is intended to improve the funded status of its U.S. and non-U.S. plans over time while maintaining a prudent level of risk. Risk is managed primarily by diversifying each plan’s target asset allocation across equity, fixed income securities and alternative investment strategies, and then maintaining the allocation within a specified range of its target. In addition, diversification across various investment subcategories within each plan is also maintained within specified ranges.

The Company’s retirement plan asset allocation at December 31, 2012 and 2011 and target allocation for 2013 are as follows:

	Target Allocation				Percentage of Plan Assets							
	U.S.		Non-U.S.		U.S.				Non-U.S.			
	2013		2013		2012		2011		2012		2011	
Equity securities	40	%	15	%	44	%	38	%	15	%	9	%
Fixed income	30	%	74	%	15	%	22	%	74	%	83	%
Alternative strategies	30	%	5	%	39	%	34	%	7	%	5	%
Cash	—	%	6	%	2	%	6	%	4	%	3	%
	100	%	100	%	100	%	100	%	100	%	100	%

The expected long-term rate of return for pension assets has been chosen based on various inputs, including returns projected by various external sources for the different asset classes held by and to be held by the Company's trusts and its targeted asset allocation. These projections incorporate both historical returns and forward looking views regarding capital market returns, inflation and other variables.

Retirement plan assets are valued at fair value using various inputs and valuation techniques. A description of the inputs and valuation techniques used to measure the fair value for each class of plan assets is included in Note 19 "Fair Value Measurements."

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NOTE 14. Stock-Based Compensation

The Company adopted the Visteon Corporation 2010 Incentive Plan (the “2010 Incentive Plan”) on the Effective Date. The 2010 Incentive Plan provides for the grant of up to 5.6 million shares of common stock for restricted stock awards (“RSAs”), restricted stock units (“RSUs”), nonqualified stock options ("Stock Options"), stock appreciation rights (“SARs”), performance based share units ("PSUs"), and other stock based awards. The Company's stock-based compensation instruments are accounted for as equity awards or liability awards based on settlement intention as follows.

- For equity settled stock-based compensation instruments, compensation cost is measured based on grant date fair value of the award and is recognized over the applicable service period. For equity settled stock-based compensation instruments, the delivery of Company shares may be on a gross settlement basis or on a net settlement basis, as determined by the recipient. The Company's policy is to deliver such shares using treasury shares or issuing new shares.

- Cash settled stock-based compensation instruments are subject to liability accounting. At period end, the vested portion of the obligation for cash settled stock-based compensation instruments is adjusted to fair value based on the period-ending market prices of the Company's common stock. Related compensation expense is recognized based on changes to the fair value over the applicable service period.

Generally, the Company's stock-based compensation instruments are subject to graded vesting and recognized on an accelerated basis. The settlement intention of the awards is at the discretion of the Organization and Compensation Committee. The total Successor stock-based compensation expense recognized and unrecognized was as follows:

	Year Ended	Year Ended	Three Months Ended	Unrecognized Stock-Based Compensation Expense
	December 31 2012	December 31 2011	December 31 2010	December 31 2012
Restricted stock awards	$17	$31	$20	$4
Restricted stock units	5	7	9	11
Stock options	3	8	—	2
Stock appreciation rights	1	1	—	—
Performance based units	5	—	—	38
Total stock-based compensation expense	$31	$47	$29	$55

The Company recorded stock-based compensation expense of $1 million during the nine-month Predecessor period ended October 1, 2010.

Restricted Stock Awards and Restricted Stock Units

RSAs and RSUs that are expected to be settled in shares of the Company's common stock are recorded as equity awards. The grant date fair value of these awards is measured as the average of the high and low market price of the Company's common stock as traded on the New York Stock Exchange on the date of grant. The grant date fair value for the 2010 RSAs was estimated based on the weighted average trading prices of the Company’s common stock for the five business days immediately following the Effective Date. The Company granted 117,000 and 1,246,000 shares of RSAs during the year ended December 31, 2012 and the fourth quarter 2010, respectively, at weighted average grant date fair value of $53.48 per share and $57.93 per share, respectively. Unrecognized compensation expense at December 31, 2012 was $4 million for non-vested RSAs and will be recognized on a weighted average basis over the remaining vesting period of less than one year. The Company granted 225,000 RSUs, expected to be settled in shares, during the year ended December 31, 2012 at a weighted average grant date fair value $43.47 per share. These awards generally vest in one-third increments on the grant date anniversary over a three year vesting period. Unrecognized compensation expense at December 31, 2012 was $8 million for non-vested RSUs and will be recognized on a weighted average basis over the remaining vesting period of 1.83 years.

RSUs that are expected to be settled in cash are accounted for as liability awards. The Company granted 71,000 and 1,000 RSUs, expected to be settled in cash, during the year ended December 31, 2012 and 2011, respectively, at weighted average grant date fair values $46.29 per share and $49.83 per share, respectively. The Company made cash settlement payments of $5 million and $4 million during the years ended December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, $4 million was recorded under Accrued employee liabilities in both years relating to RSUs while $6 million and $5 million, respectively, were

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recorded under Employee benefits relating to RSUs. These awards generally vest in one-third increments on the grant date anniversary over a three year vesting period. Unrecognized compensation expense at December 31, 2012 was $3 million for non-vested RSUs and will be recognized on a weighted average basis over the remaining vesting period of approximately 1.5 years. RSUs awarded under the Non-Employee Director Stock Unit Plan vest immediately but are not cash settled until after the participant terminates service as a non-employee director of the Company.

A summary of activity for RSAs and RSUs, including grants, vesting and forfeitures is provided below.

	RSAs	RSUs	Weighted Average Grant Date Fair Value
	(In Thousands)		
Non-vested at October 1, 2010	—	—	$—
Granted	1,246	421	57.93
Vested	(211)	(64)	57.93
Forfeited	—	—	—
Non-vested at December 31, 2010	1,035	357	57.93
Granted	—	1	49.83
Vested	(345)	(93)	57.93
Forfeited	(34)	(8)	57.93
Non-vested at December 31, 2011	656	257	57.92
Granted	117	296	47.16
Vested	(482)	(123)	58.02
Forfeited	(63)	(27)	55.60
Non-vested at December 31, 2012	228	403	$51.20

Stock Options and Stock Appreciation Rights

Stock Options that are expected to be settled in shares of the Company's common stock are recorded as equity awards with an exercise price equal to the average of the high and low market price at which the Company's common stock was traded on the New York Stock Exchange on the date of grant. The grant date fair value of these awards is measured using the The Black-Scholes option pricing model. The Company granted 155,000 and 482,000 Stock Options during the year ended December 31, 2012 and 2011, respectively. The weighted average grant date fair value of Stock Options granted during the years ended December 31, 2012 and 2011 was $25.16 per share and $34.45 per share, respectively. Stock Options generally vest in one-third increments on the grant date anniversary over a three year vesting period and have an expiration date 10 years from the date of grant. Unrecognized compensation expense for non-vested Stock Options at December 31, 2012 was $2 million and is expected to be recognized over a weighted average period of 1.09 years.

SARs are expected to be settled in cash and are accounted for as liability awards with an exercise price equal to the average of the high and low market price at which the Company's common stock was traded on the New York Stock Exchange on the date of grant. The Company granted 32,000 and 94,000 SARs with a weighted average fair value of $20.78 and $17.58 as of December 31, 2012 and 2011, respectively. The fair value of SARs is determined at each period-end using the Black-Scholes option pricing model. At December 31, 2012 and 2011 the Company recorded approximately $2 million and $1 million, respectively, under the caption Accrued Employee benefits and recorded compensation expense of $1 million and $1 million, respectively. SARs generally vest in one-third increments on the grant date anniversary over a three year vesting period and have an expiration date 10 years from the date of grant. Unrecognized compensation expense at December 31, 2012 was less than $1 million for non-vested SARs and will be recognized on a weighted average basis over the remaining vesting period of approximately 1.18 years.

The Black-Scholes option pricing model requires management to make various assumptions assumptions including the expected term, expected volatility, risk free interest rate, and dividend yield. The expected term represents the period of time that granted awards are expected to be outstanding and is estimated based on considerations including the vesting period, contractual term and anticipated employee exercise patterns. Expected volatility is calculated based on a rolling average of the daily stock closing prices of a peer group of companies with a period equal to the expected life of the award. The peer group of companies was used due to the relatively short history of the Company's common stock since the Effective Date. The peer group was established using the criteria of similar industry (utilizing product mix), size (measured by market capitalization), leverage (measured using debt to equity ratio) and length of history. The risk-free rate is based on the U.S. Treasury yield curve in relation to the contractual life of the stock-based compensation instrument. The dividend yield is based on historical patterns and future expectations for Company dividends.

Weighted average assumptions used to estimate fair value of awards granted during the year ended and as of December 31, 2012 and 2011 are as follows:

	Stock Options		SARs	
	2012	2011	2012	2011
Expected term (in years)	6	6	5.07	6
Expected volatility	48.96 %	46.37 %	51.69 %	50.30 %
Risk-free interest rate	1.12 %	2.59 %	0.74 %	0.98 %
Expected dividend yield	— %	— %	— %	— %

A summary of activity for Stock Options and SARs, including award grants, vesting and forfeitures is provided below.

	Stock Options (In Thousands)	Weighted Average Exercise Price	SARs (In Thousands)	Weighted Average Exercise Price
Outstanding at December 31, 2010	—	$—	—	$—
Granted	482	$72.60	94	$74.08
Exercised	—	$—	—	$—
Forfeited or expired	(92)	$74.08	(10)	$74.08
Outstanding at December 31, 2011	390	$72.26	84	$74.08
Granted	155	$53.57	32	$53.57
Exercised	—	$—	—	$—
Forfeited or expired	(183)	$66.64	(18)	$68.06
Outstanding at December 31, 2012	362	$67.13	98	$68.36
Exercisable at December 31, 2012	130	$70.89	25	$74.08

	Stock Options and SARs Outstanding		
Exercise Price	Number Outstanding (In Thousands)	Weighted Average Remaining Life (In Years)	Weighted Average Exercise Price
$45.01 - $55.00	132	9.24	$53.15
$55.01 - $65.00	24	8.45	$60.97
$65.01 - $75.08	304	8.25	$74.08
	460		

Performance Based Share Units

PSUs that are expected to be settled in shares of the Company's common stock are recorded as equity awards. PSUs that are expected to be settled in cash are accounted for as liability awards. During the first quarter of 2012, the Company granted 188,000 PSUs. The number of such PSUs that will vest is based on the Company's achievement of targeted performance levels related to a pre-established relative total shareholder return ("RTSR") goal compared to its peer group of automotive companies over a three-year period, which may range from 0% to 150% of the target award amount. During the fourth quarter of 2012, the Company also granted an additional 1,123,000 PSUs. The number of such PSU's that will vest is based on the Company's achievement of a pre-established total shareholder return ("TSR") metric over a three year period, which may range from 0% to 100% of the target

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award. PSUs will vest on December 31, 2015 and the final award will be determined by the Compensation Committee. A portion of each grant is expected to be settled in stock and cash.

For PSUs expected to be settled in shares of the Company's common stock, the grant date fair value was determined using the Monte Carlo valuation model. Unrecognized compensation expense at December 31, 2012 was $30 million for the non-vested portion of these awards and will be recognized over the remaining vesting period of approximately 2.89 years. For PSUs expected to be settled in cash, the period ending fair value of the obligation for these awards was determined using the Monte Carlo valuation model. Unrecognized compensation expense at December 31, 2012 was $8 million for the non-vested portion of these awards and will be recognized over the remaining vesting period of approximately 2.89 years.

The Monte Carlo valuation model requires management to make various assumptions including the expected volatility, risk free interest rate and dividend yield. Expected volatility of 44.22% was calculated based on a rolling average of the daily stock closing prices of a peer group of companies with a period equal to the expected life of the award. The peer group of companies was used due to the relatively short history of the Company's common stock since the Effective Date. The peer group was established using the criteria of similar industry (utilizing product mix), size (measured by market capitalization), leverage (measured using debt to equity ratio) and length of history. The risk-free rate of 0.39% was based on the U.S. Treasury yield curve in relation to the contractual life of the stock-based compensation instrument. The dividend yield of 0.00% is based on historical patterns and future expectations for Company dividends.

A summary of activity for PSUs, including award grants, vesting and forfeitures is provided below.

	PSUs		Weighted Average Grant Date Fair Value
	(In Thousands)		
Granted	1,311		33.85
Forfeited	(57	)	45.57
Non-vested at December 31, 2012	1,254		33.32

Predecessor Stock-Based Compensation

Pursuant to the Plan, any shares of Predecessor common stock and any options, warrants or rights to purchase shares of Predecessor common stock or other equity securities outstanding prior to the Effective Date were canceled. Prior to cancellation, the Company recorded stock-based compensation expense for Predecessor stock-based compensation plans of $1 million during the nine-month Predecessor period ended October 1, 2010. Various stock-based compensation awards were granted under Predecessor plans, including stock options, SARs, RSAs and RSUs. A summary of activity, including award grants, exercises and forfeitures is provided below for stock options and SARs.

	Stock Options		Weighted Average Exercise Price	SARs		Weighted Average Exercise Price
	(In Thousands)			(In Thousands)		
Outstanding at December 31, 2009	10,506		$10.70	10,542		$5.60
Forfeited, expired or cancelled	(10,506	)	$10.70	(10,542	)	$5.60
Outstanding at October 1, 2010	—		$—	—		$—

A summary of activity, including award grants, vesting and forfeitures is provided below for RSAs and RSUs.

	RSAs	RSUs	Weighted Average Grant Date Fair Value
	(In Thousands)		
Non-vested at December 31, 2009	934	2,111	$3.80

Vested	(15)	(5)	$7.05
Forfeited or cancelled	(919)	(2,106)	$3.39
Non-vested at October 1, 2010	—	—	$—

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Note 15. Other Expense, Net

Other expense, net consists of the following:

	Successor			Predecessor
	Year Ended December 31	Year Ended December 31	Three Months Ended December 31	Nine Months Ended October 1
	2012	2011	2010	2010
	(Dollars in Millions)			
Transformation costs	$33	$7	$—	$—
Gain on sale of joint venture interest	(19)	—	—	—
Loss on asset contribution	14	—	—	—
Loss on debt extinguishment	6	24	—	—
Asset impairments	5	—	—	4
Reorganization-related costs, net	2	8	14	—
Deconsolidation gains	—	(8)	—	—
UK Administration recovery	—	(18)	—	—
(Gain) loss on sale of assets	—	(2)	(1)	22
	$41	$11	$13	$26

Year Ended December 31, 2012

Transformation costs include amounts incurred in connection with the strategic transformation of the Company's business portfolio and rationalization of its cost structure including, among other things, the investigation of potential transactions for the sale, merger or other combination of certain businesses.

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, which resulted in a gain of $19 million.

The Company recorded a loss of $14 million associated with assets, including land, building and machinery, contributed to the local municipality in Spain for the benefit of employees in connection with the closure of the Cadiz Electronics operation.

Year Ended December 31, 2011

In 2011, the Company recorded a loss of $24 million on the early extinguishment of the Term Loan including $21 million of unamortized original issuance discount and debt fees that were recorded net of the Term Loan principal on the face of the Company’s consolidated balance sheets immediately prior to extinguishment.

In December 2011, the Company received an initial distribution of $18 million, in connection with the liquidation and recovery process under the UK Administration, these amounts primarily represented recoveries on amounts owed to Visteon for various trade and loan receivables due from the UK Debtor.

Three Month Successor Period Ended December 31, 2010

The Company recorded reorganization-related costs of $14 million for the year ended December 31, 2011, which are comprised of amounts directly associated with the reorganization under Chapter 11, primarily related to professional service fees.

Nine Month Predecessor Period Ended October 1, 2010

On March 8, 2010, the Company completed the sale of substantially all of the assets of Atlantic Automotive Components, L.L.C., and recorded losses of approximately $21 million.

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NOTE 16. Income Taxes

Details of the Company's income tax provision from continuing operations are provided in the table below:

	Successor			Predecessor
	Year Ended December 31 2012	Year Ended December 31 2011	Three Months Ended December 31 2010	Nine Months Ended October 1 2010
	(Dollars in Millions)			
Income (loss) before income taxes (a)				
U.S	$(165)	$(141)	$29	$486
Non-U.S	230	310	59	539
Total income before income taxes	$65	$169	$88	$1,025
Current tax provision				
U.S. federal	$4	$1	$1	$5
Non-U.S	125	126	28	87
U.S. state and local	1	1	(1)	3
Total current tax provision	130	128	28	95
Deferred tax provision (benefit)				
U.S. federal	(3)	1	(1)	2
Non-U.S	(6)	(2)	(3)	52
U.S. state and local	—	—	—	(1)
Total deferred tax provision (benefit)	(9)	(1)	(4)	53
Provision for income taxes	$121	$127	$24	$148

(a) Income (loss) before income taxes excludes equity in net income of non-consolidated affiliates.
A summary of the differences between the provision for income taxes calculated at the U.S. statutory tax rate of 35% and the consolidated provision for income taxes is shown below:

	Successor			Predecessor
	Year Ended December 31 2012	Year Ended December 31 2011	Three Months Ended December 31 2010	Nine Months Ended October 1 2010
	(Dollars in Millions)			
Income before income taxes, excluding equity in net income of non-consolidated affiliates, multiplied by the U.S. statutory rate of 35%	$23	$59	$31	$359
Impact of foreign operations	75	45	(1)	15
State and local income taxes	(2)	4	(1)	1
Tax reserve adjustments	12	22	4	7
Change in valuation allowance	(1)	190	(9)	(774)
Fresh-start accounting adjustments and reorganization items, net	—	(215)	—	563
Impact of tax law change	1	18	—	—
Other	13	4	—	(23)
Provision for income taxes	$121	$127	$24	$148

The impact of foreign operations of $75 million includes $29 million of non-U.S. withholding taxes, $80 million of U.S. and non-U.S. income taxes related to the planned repatriation of earnings, and $16 million of U.S. income tax associated with the taxation of non-U.S. earnings due to transfers of offshore cash between countries ("look-through" rules). The American Taxpayer Relief Act of 2012 retroactively extended the "look-through" provisions to December 31, 2013. Because tax law changes are recognized in the period in which new legislation is enacted, the $16 million will be reflected as a discrete item in first quarter of 2013, but

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due to the Company's valuation allowance in the U.S. there is no net impact to the Company's provision for income taxes in 2012 or 2013 related to this item. These amounts were partially offset by a $50 million favorable variance due to income taxes on foreign earnings taxed at rates lower than the U.S. statutory rate. The U.S. income tax consequences of these items approximate $93 million and were entirely offset by the U.S. valuation allowance. Tax reserve adjustments of $12 million primarily relate to interest accrued on tax positions related to prior periods. Other items impacting the effective rate of $13 million primarily represent U.S. tax adjustments offset by an equal and opposite amount against the U.S. valuation allowance.

The Company’s provision for income tax for continuing operations was $127 million for year ended December 31, 2011. Significant components of the variance from the U.S. statutory rate include $34 million of non-U.S. withholding taxes, $55 million of U.S. and non-U.S. income taxes related to the planned repatriation of earnings from its unconsolidated and certain consolidated foreign affiliates, partially offset by a $44 million favorable variance for foreign rate differentials. The U.S. income tax consequences in connection with the Company's earnings from these affiliates of approximately $56 million were offset with the U.S. valuation allowance. The tax reserve adjustments of $22 million includes $15 million related to unrecognized tax benefits that are embedded in other deferred tax attributes offset by the U.S. valuation allowance. The fresh-start accounting adjustments and reorganization items include true-up adjustments to the net deferred tax assets related to the derecognition of U.S. tax loss and credit carryforwards as a result of the annual limitation imposed under IRC Sections 382 and 383, the legal entity restructuring approved as part of the Plan of Reorganization which utilized U.S. tax loss and credit carryforwards pre-emergence and other matters, all of which impact both the underlying deferred taxes and the related valuation allowances. The $18 million impact of tax law changes reflects an increase in the tax rate in Korea which increased the Company's net deferred tax liabilities by $6 million, as well as tax law changes in Michigan resulting in the elimination of $12 million in net operating loss carryforwards which were fully offset by the related valuation allowance.

The Company’s provision for income tax for continuing operations was $24 million for the three-month Successor period ended December 31, 2010 and was $148 million for the nine-month Predecessor period ended October 1, 2010. Income tax provisions for both the Successor and the Predecessor periods during 2010 reflect income tax expense related to those countries where the Company is profitable, accrued withholding taxes, ongoing assessments related to the recognition and measurement of uncertain tax benefits, the inability to record a tax benefit for pre-tax losses in the U.S. and certain other jurisdictions, and other non-recurring tax items. The 2010 Predecessor period includes $47 million of deferred tax expense associated with the adoption of fresh-start accounting. Included in the fresh-start accounting adjustments and reorganization items are net deferred tax adjustments primarily related to the derecognition of U.S. tax loss and credit carryforwards as a result of the annual limitation imposed under IRC Sections 382 and 383, a legal entity restructuring approved as part of the Plan of Reorganization which utilized U.S. tax loss and credit carryforwards pre-emergence and other matters, all of which impact both the underlying deferred taxes and the related valuation allowances.

Deferred income taxes and related valuation allowances

Deferred income taxes are provided for temporary differences between amounts of assets and liabilities for financial reporting purposes and the basis of such assets and liabilities as measured by tax laws and regulations, as well as net operating loss, tax credit and other carryforwards. The Company has recorded a deferred tax liability, net of valuation allowances, for U.S. and non-U.S. income taxes and non-U.S. withholding taxes of approximately $83 million and $77 million as of December 31, 2012 and 2011, respectively, on the undistributed earnings of certain consolidated and unconsolidated foreign affiliates as such earnings are intended to be repatriated in the foreseeable future. The Company has not provided for deferred income taxes or foreign withholding taxes on the remainder of undistributed earnings from certain consolidated foreign affiliates because such earnings are considered to be permanently reinvested. It is not practicable to determine the amount of deferred tax liability on such earnings as the actual tax liability, if any, is dependent on circumstances existing when remittance occurs.

Deferred tax assets are required to be reduced by a valuation allowance if, based on all available evidence, both positive and negative, it is considered more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. Significant management judgment is required in determining the Company’s valuation allowance. In making this assessment, management considers evidence including, historical and projected financial performance, as well as the nature, frequency and severity of recent losses along with any other pertinent information.

In determining the need for a valuation allowance, the Company also evaluates existing valuation allowances. Based upon this assessment, it is reasonably possible that the existing valuation allowance on approximately $20 million of deferred tax assets could be eliminated during 2013. Any decrease in the valuation allowance would result in a reduction in income tax expense in the quarter in which it is recorded. During 2012, the Company recorded a tax benefit of $8 million attributable to the elimination of valuation allowances at several foreign subsidiaries in China, India and the Czech Republic. During the third quarter of 2011, the Company recorded a tax benefit of $8 million related to the reversal of a full valuation allowance with respect to the deferred

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tax assets of its UK subsidiary. During the fourth quarter of 2011, the Company recorded a $66 million impairment charge attributable to the Company's Lighting assets. Approximately $16 million of the impairment charge related to jurisdictions where deferred tax assets are fully offset by a valuation allowance. The remaining $50 million related to other foreign jurisdictions where the Company concluded, based on the available evidence, it was more likely than not that the deferred tax assets associated with these jurisdictions would not be realized.

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 effective tax rate. The Company will maintain full valuation allowances against deferred tax assets in the U.S. and applicable foreign countries, including Germany, France, and Spain until sufficient positive evidence exists to reduce or eliminate the valuation allowances. At December 31, 2012 and 2011, the Company had net deferred tax assets, net of valuation allowances, of approximately $36 million and $31 million, respectively, in certain foreign jurisdictions, the realization of which is dependent on generating sufficient taxable income in future periods. While the Company believes it is more likely than not that these deferred tax assets will be realized, failure to achieve taxable income targets which considers, among other sources, future reversals of existing taxable temporary differences, would likely result in an increase in the valuation allowance in the applicable period.

The components of deferred income tax assets and liabilities are as follows:

	December 31	
	2012	2011
	(Dollars in Millions)	
Deferred tax assets		
Employee benefit plans	$135	$134
Capitalized expenditures for tax reporting	82	111
Net operating losses and carryforwards	1,350	1,174
All other	224	253
Valuation allowance	(1,695)	(1,657)
Total deferred tax assets	$96	$15
Deferred tax liabilities		
Depreciation and amortization	$36	$1
All other	192	153
Total deferred tax liabilities	228	154
Net deferred tax liabilities	$132	$139

At December 31, 2012, the Company had available non-U.S. net operating loss carryforwards and tax credit carryforwards of $1.5 billion and $12 million, respectively, which have carryforward periods ranging from 5 years to indefinite. The Company had available U.S. federal net operating loss carryforwards of $1.3 billion at December 31, 2012, which will expire at various dates between 2028 and 2032. U.S. foreign tax credit carryforwards are $384 million at December 31, 2012. These credits will begin to expire in 2015. The Company had available tax-effected U.S. state operating loss carryforwards of $24 million at December 31, 2012, which will expire at various dates between 2015 and 2032.

In connection with the Company's emergence from bankruptcy and resulting change in ownership on the Effective Date, an annual limitation was imposed on the utilization of U.S. net operating losses, U.S. credit carryforwards and certain U.S. built-in losses (collectively referred to as “tax attributes”) under Internal Revenue Code (“IRC”) Sections 382 and 383. The collective limitation is approximately $120 million per year on tax attributes in existence at the date of change in ownership. Additionally, the Company has approximately $337 million of U.S. net operating loss carryforwards and $74 million of U.S. foreign tax credits that are not subject to any current limitation since they were realized after the Effective Date.

If the Company were to have another change in ownership within the meaning of IRC Sections 382 and 383, its tax attributes could be further limited to an amount equal to its market capitalization at the time of the subsequent ownership change multiplied by by the federal long-term tax exempt rate. The Company cannot provide any assurance that such an ownership change will not occur, in which case the availability of the Company's tax attributes could be significantly limited or possibly eliminated. In order to continue to protect the Company's pre and post-emergence period tax attributes and reduce the likelihood that the Company will experience an additional ownership change our second amended and restated certificate of incorporation provides, among other things, that any attempted transfer of the Company's securities during a Restricted Period shall be prohibited and void ab initio insofar as it purports to transfer ownership or rights in respect of such stock to the purported transferee to the extent that, as a result of such transfer, either any person or group of persons shall become a “5-percent shareholder” of Visteon pursuant to Treasury Regulation § 1.382-2T(g), other than a “direct public group” as defined in such regulation (a “Five-Percent Shareholder”), or the percentage stock ownership interest in Visteon of any Five-Percent Shareholder shall be increased.

The foregoing restriction does not apply to transfers if either the transferor or transferee gives written notice to the Board of Directors and obtains their approval. A Restricted Period means any period beginning when the Company's market capitalization falls below $1.5 billion (or such other level determined by the Board of Directors not more frequently than annually) and ending when such market capitalization has been above such threshold for 30 consecutive calendar days. These restrictions could prohibit or delay the accomplishment of an ownership change with respect to Visteon by (i) discouraging any person or group from being a Five-Percent Shareholder and (ii) discouraging any existing Five-Percent Shareholder from acquiring more than a minimal number of additional shares of Visteon's stock.

As of the end of 2012, valuation allowances totaling $1.7 billion have been recorded against the Company’s deferred tax assets where recovery of the deferred tax assets is unlikely. Of this amount, $1.2 billion relates to the Company’s deferred tax assets in the U.S. and $528 million relates to deferred tax assets in certain foreign jurisdictions, including Germany, a pass-through entity for U.S. tax purposes.

Unrecognized Tax Benefits

As of December 31, 2012 and 2011, the Company’s gross unrecognized tax benefits were $117 million and $123 million, respectively, of which the amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate were approximately $71 million and $69 million, respectively. 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. During 2012, the Company decreased its gross unrecognized tax benefits to reflect the remeasurement of prior year uncertain tax positions as a result of completed reviews of certain transfer pricing studies by tax authorities in Asia and the closing of statutes. These decreases were partially offset by new tax positions expected to be taken in future tax filings, primarily related to the allocation of costs among the Company's global operations.

The Company recognizes interest and penalties with respect to unrecognized tax benefits as a component of income tax expense. Accrued interest and penalties were $36 million and $28 million as of December 31, 2012 and 2011, respectively. The Company's liability for uncertain tax positions, including interest and penalties, was $107 million and $97 million, as of December 31, 2012 and 2011, respectively. A reconciliation of the beginning and ending amount of unrecognized tax benefits (including amounts related to the discontinued operations) is as follows:

	Year Ended December 31	
	2012	2011
	(Dollars in Millions)	
Beginning balance	$123	$131
Tax positions related to current period		
Additions	15	17
Tax positions related to prior periods		
Additions	—	3
Reductions	(20)	(21)
Settlements with tax authorities	—	(1)
Lapses in statute of limitations	(2)	(1)

Effect of exchange rate changes	1	(5)
Ending balance	$117	$123

The Company and its subsidiaries have operations in every major geographic region of the world and are subject to income taxes in the U.S. and numerous foreign jurisdictions. Accordingly, the Company files tax returns and is subject to examination by taxing authorities throughout the world, including such significant jurisdictions as Korea, India, Portugal, Spain, Czech Republic, Hungary, Mexico, China, Brazil, Germany, France and the United States. The Company regularly assesses the status of these examinations and the potential for adverse and/or favorable outcomes to determine the adequacy of its provision for income taxes. The Company believes that it has adequately provided for tax adjustments that it believes are more likely than not to be realized as a result of any ongoing or further examination.

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In June 2012, the Korean tax authorities commenced a review of the Company's 70% owned and consolidated subsidiary, Halla Climate Control Corporation, for the tax years 2007 through 2011. In October 2012, the tax authorities issued a pre-assessment of approximately $19 million for alleged underpayment of withholding tax on dividends paid and other items, including certain management service fees charged by Visteon. This pre-assessment was subsequently finalized and a formal notice of assessment was received in January 2013. The Company intends to file an appeal with the Korean Tax Tribunal. Accordingly, a payment of $18 million was made in February 2013 as required under Korean tax regulation to pursue the appeals process. The Company believes it is more likely than not it will receive a favorable ruling when all of the available appeals have been exhausted.

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 outside the U.S. could conclude within the next twelve months and result in a significant change in the balance of gross unrecognized tax benefits. Although it is difficult to predict a specific amount given the number of years, jurisdictions and positions subject to examination, the Company would estimate that the balance of unrecognized tax benefits could decrease in the range of $30 million to $60 million, excluding interest and penalties, within the next twelve months. The Company expects a significant portion to be settled in the first quarter of 2013.

NOTE 17. Stockholders’ Equity and Non-controlling Interests

On October 1, 2010 and in connection with the Plan, the Company cancelled all outstanding shares of Predecessor common stock and any options, warrants or rights to purchase shares of such common stock or other equity securities outstanding prior to the Effective Date. Additionally, the Company issued shares of Successor common stock on the Effective Date and in accordance with the Plan, as follows:

- Approximately 45,000,000 shares of Successor common stock to certain investors in a private offering exempt from registration under the Securities Act for proceeds of approximately $1.25 billion;
- Approximately 2,500,000 shares of Successor common stock to holders of pre-petition notes, including 7% Senior Notes due 2014, 8.25% Senior Notes due 2010, and 12.25% Senior Notes due 2016; holders of the 12.25% senior notes also received warrants, which expire ten years from issuance, to purchase up to 2,355,000 shares of Successor common stock at an exercise price of $9.66 per share (“Ten Year Warrants”);
- Approximately 1,000,000 shares of Successor common stock and warrants, which expire five years from issuance, to purchase up to 1,552,774 shares of Successor common stock at an exercise price of $58.80 per share (“Five Year Warrants”) for Predecessor common stock interests;
- Approximately 1,200,000 shares of Successor restricted stock issued to management under a post-emergence share-based incentive compensation program.

Treasury Stock

In July 2012, the board of directors authorized the repurchase of up to $100 million of the Company's common stock. In January 2013, the board of directors reauthorized the current $100 million and increased the repurchase amount to an additional $200 million over the next two years. The Company anticipates that repurchases of common stock 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. During 2012, the Company repurchased 1,005,559 shares of its outstanding common stock at an weighted average price of $49.72 per share, excluding commissions, for the aggregate purchase price of $50 million. At December 31, 2012 and 2011, the Company held approximately 1,760,000 and 640,000 common stock in treasury for use in satisfying obligations under employee incentive compensation arrangements. The Company values shares of common stock held in treasury at cost.

Warrants

The Ten Year Warrants may be net share settled and are recorded as permanent equity in the Company's consolidated balance sheets with 299,171 and 476,034 warrants outstanding at December 31, 2012 and 2011, respectively. The Ten Year Warrants were valued at $15.00 per share on October 1, 2010 using the Black-Scholes option pricing model. Significant assumptions used in determining the fair value of such warrants at issuance included share price volatility and risk-free rate of return. The volatility assumption was based on the implied volatility and historical realized volatility for comparable companies. The risk-free rate assumption was based on U.S. Treasury bond yields.

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The Five Year Warrants may be net share settled and are recorded as permanent equity in the Company's consolidated balance sheets with 1,549,337 and 1,549,345 warrants outstanding at December 31, 2012 and 2011, respectively. The Five Year Warrants were valued at $3.62 per share on October 1, 2010 using the Black-Scholes option pricing model. Significant assumptions used in determining the fair value of such warrants at issuance included share price volatility and risk-free rate of return. The volatility assumption was based on the implied volatility and historical realized volatility for comparable companies. The risk-free rate assumption was based on U.S. Treasury bond yields.

If the Company pays or declares a dividend or makes a distribution on common stock payable in shares of its common stock, the number of shares of common stock or other shares of common stock for which a Warrant (the Five Year Warrants and Ten Year Warrants, collectively) is exercisable shall be adjusted so that the holder of each Warrant shall be entitled upon exercise to receive the number of shares of common stock that such warrant holder would have owned or have been entitled to receive after the happening of any of the events described above, had such Warrant been exercised immediately prior to the happening of such event. In addition, if the Company pays to holders of the Successor common stock an extraordinary dividend (as defined in each Warrant Agreement), then the Exercise Price shall be decreased, effective immediately after the effective date of such Extraordinary Dividend, dollar-for-dollar by the fair market value of any securities or other assets paid or distributed on each share of Successor common stock in respect of such extraordinary dividend.

Accumulated Other Comprehensive Loss

The components of Accumulated other comprehensive loss of Visteon Corporation's stockholders' equity, net of tax, includes:

	December 31	
	2012	2011
	(Dollars in Millions)	
Foreign currency translation adjustments, net	$11	$(41)
Pension and other postretirement benefit adjustments, net	(108)	25
Unrealized hedging losses and other, net	7	(9)
Total accumulated other comprehensive loss	$(90)	$(25)

Non-Controlling Interests

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

	December 31	
	2012	2011
	(Dollars in Millions)	
Halla Climate Control Corporation	$723	$660
Visteon Interiors Korea Ltd	20	20
Other	13	10
Total non-controlling interests	$756	$690

The Company holds a 70% interest in Halla Climate Control Corporation ("Halla"), a consolidated subsidiary. Halla is headquartered in South Korea with operations in North America, Europe and Asia. Halla designs, develops and manufactures automotive climate control products, including air-conditioning systems, modules, compressors, and heat exchangers for sale to global OEMs. In January 2013, Halla purchased certain subsidiaries and intellectual property relating to Visteon's global automotive climate business for a total purchase price of $410 million. Visteon will provide transition services and lease certain U.S.-based employees to Halla.

Restricted Net Assets

Restricted net assets related to the Company’s non-consolidated affiliates were approximately $756 million and $644 million, respectively, as of December 31, 2012 and 2011. Restricted net assets related to the Company’s consolidated subsidiaries were approximately $165 million and $135 million, respectively as of December 31, 2012 and 2011. Restricted net assets of consolidated subsidiaries are attributable to the Company’s operations in China, where certain regulatory requirements and governmental restraints result in significant restrictions on the Company’s consolidated subsidiaries ability to transfer funds to the Company.

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NOTE 18. Earnings Per Share

A summary of information used to compute basic and diluted earnings per share attributable to Visteon is as follows:

	Successor			Predecessor
	Year Ended December 31 2012	Year Ended December 31 2011	Three Months Ended December 31 2010	Nine Months Ended October 1 2010
	(In Millions, Except Per Share Amounts)			
Numerator:				
Net income from continuing operations attributable to Visteon	$103	$136	$86	$926
Loss (income) from discontinued operations, net of tax	(3)	(56)	—	14
Net income attributable to Visteon	$100	$80	$86	$940
Denominator:				
Average common stock outstanding - basic	52.9	51.2	50.2	130.3
Dilutive effect of warrants	0.4	0.8	1.5	—
Diluted shares	53.3	52.0	51.7	130.3
Basic and Diluted Per Share Data:				
Basic earnings per share attributable to Visteon:				
Continuing operations	$1.95	$2.65	$1.71	$7.10
Discontinued operations	(0.06)	(1.09)	—	0.11
	$1.89	$1.56	$1.71	$7.21
Diluted earnings per share attributable to Visteon:				
Continuing operations	$1.93	$2.62	$1.66	$7.10
Discontinued operations	(0.05)	(1.08)	—	0.11
	$1.88	$1.54	$1.66	$7.21

The effect of certain common stock equivalents including warrants, performance-based share units, and stock options were excluded from the computation of weighted average diluted shares outstanding as inclusion of such items would be anti-dilutive, summarized
as follows.

	Year Ended December 31 2012	Year Ended December 31 2011
	(In Millions, Except Per Share Amounts)	
Number of warrants	1.5	—
Exercise price	$58.80	$—
Number of performance stock units	1.3	—
Number of stock options	0.4	0.4
Exercise price	$44.55 - $74.08	$44.55 - $74.08

Predecessor

Stock options to purchase 10 million shares of common stock at exercise prices ranging from $3.63 per share to $17.46 per share and warrants to purchase 25 million shares were outstanding for 2009 but were not included in the computation of diluted earnings per share as inclusion of such items would be anti-dilutive. These stock options were cancelled effective October 1, 2010.

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NOTE 19. Fair Value Measurements

Fair Value Hierarchy

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.

The fair value hierarchy for assets and liabilities measured at fair value on a recurring basis are as follows.

	December 31, 2012 (Dollars in Millions)			
Asset Category	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Retirement plan assets	$309	$559	$502	$1,370
Foreign currency instruments	—	22	—	22
Liability Category				
Foreign currency instruments	$—	$1	$—	$1

	December 31, 2011 (Dollars in Millions)			
Asset Category	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Retirement plan assets	$474	$560	$466	$1,500
Liability Category				
Foreign currency instruments	$—	$16	$—	$16

Foreign currency instruments 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, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. The carrying amounts of all other financial instruments approximate their fair values because of the relatively short-term maturity of these instruments.

Items Measured at Fair Value on a Non-recurring Basis

In addition to items that are measured at fair value on a recurring basis, the Company measures certain assets and liabilities at fair value on a non-recurring basis, which are not included in the table above. As these non-recurring fair value measurements are generally determined using unobservable inputs, these fair value measurements are classified within Level 3 of the fair value hierarchy. Assets measured at fair value on a non-recurring basis during the year ended December 31, 2012 include the retained interest in Duckyang, the equity in the net assets of Yanfeng, and the Lighting assets subject to the impairment analysis. For further information on the assets and liabilities measured at fair value on a non-recurring basis during the Predecessor period ended October 1, 2010, refer to Note 3, "Voluntary Reorganization under Chapter 11 of the United States Bankruptcy Code."

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Retirement Plan Assets

Retirement plan assets categorized as Level 1 include the following:

- Cash and cash equivalents, which consist of U.S. and foreign currencies held by designated trustees. Foreign currencies held are reported in terms of U.S. dollars based on currency exchange rates readily available in active markets.
- Registered investment companies are mutual funds that are registered with the Securities and Exchange Commission. Mutual fund shares are traded actively on public exchanges. The share prices for mutual funds are published at the close of each business day. Mutual funds contain both equity and fixed income securities.
- Common and preferred stock include equity securities issued by U.S. and non-U.S. corporations. Common and preferred securities are traded actively on exchanges and price quotes for these shares are readily available.
- Other investments include several miscellaneous assets and liabilities and are primarily comprised of liabilities related to pending trades and collateral settlements.

Retirement plan assets categorized as Level 2 include the following:

- Treasury and government securities consist of bills, notes, bonds, and other fixed income securities issued directly by a non-U.S. treasury or by government-sponsored enterprises. These assets are valued using observable inputs.
- Common trust funds are comprised of shares or units in commingled funds that are not publicly traded. The underlying assets in these funds (equity securities, fixed income securities and commodity-related securities) are publicly traded on exchanges and price quotes for the assets held by these funds are readily available.
- Liability Driven Investing (“LDI”) is an investment strategy that utilizes swaps to hedge discount rate volatility. The swaps are collateralized on a daily basis resulting in counterparty exposure that is limited to one day’s activity. Swaps are a derivative product, utilizing a pricing model to calculate market value.
- Corporate debt securities consist of fixed income securities issued by non-U.S. corporations. These assets are valued using a bid evaluation process with bid data provided by independent pricing sources.

Retirement plan assets categorized as Level 3 include the following:

- Global tactical asset allocation funds (“GTAA”) are common trust funds comprised of shares or units in commingled funds that are not publicly traded. GTAA managers primarily invest in equity, fixed income and cash instruments, with the ability to change the allocation mix based on market conditions while remaining within their specific strategy guidelines. The underlying assets in these funds may be publicly traded (equities and fixed income) and price quotes may be readily available. Assets may also be invested in various derivative products whose prices cannot be readily determined.
- Limited partnership hedge fund of funds (“HFF”) directly invest in a variety of hedge funds. The investment strategies of the underlying hedge funds are primarily focused on fixed income and equity based investments. There is currently minimal exposure to less liquid assets such as real estate or private equity in the portfolio. However, due to the private nature of the partnership investments, pricing inputs are not readily observable. Asset valuations are developed by the general partners that manage the partnerships.
- Insurance contracts are reported at cash surrender value and have no observable inputs.

The fair values of the Company's U.S. retirement plan assets are as follows:

Asset Category	December 31, 2012 Quoted Prices in Active Markets for Identical Assets (Level 1) (Dollars in Millions)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Registered investment companies	$163	$—	—	$163
Common trust funds	—	354	—	354
LDI	—	148	—	148
GTAA	—	—	140	140
HFF	—	—	139	139
Cash and cash equivalents	14	—	—	14
Insurance contracts	—	—	8	8
Total	$177	$502	287	$966

Asset Category	December 31, 2011 Quoted Prices in Active Markets for Identical Assets (Level 1) (Dollars in Millions)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Registered investment companies	$176	$—	$—	$176
Common trust funds	—	216	—	216
LDI	—	256	—	256
GTAA	—	—	142	142
Common and preferred stock	150	—	—	150
HFF	—	—	128	128
Cash and cash equivalents	74	—	—	74
Insurance contracts	—	—	10	10
Total	$400	$472	$280	$1,152

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The fair value measurements which used significant unobservable inputs are as follows:

	GTAA	HFF	Insurance Contracts
	(Dollars in Millions)		
Predecessor – Ending balance at December 31, 2009	$130	$113	$10
Actual return on plan assets:			
Relating to assets still held at the reporting date	11	3	1
Purchases, sales and settlements	—	—	(1)
Predecessor – Ending balance at October 1, 2010	$141	$116	$10
Actual return on plan assets:			
Relating to assets still held at the reporting date	9	3	(1)
Successor – Ending balance at December 31, 2010	$150	$119	$9
Actual return on plan assets:			
Relating to assets still held at the reporting date	(8)	(1)	1
Purchases, sales and settlements	—	10	—
Successor – Ending balance at December 31, 2011	$142	$128	$10
Actual return on plan assets:			
Relating to assets still held at the reporting date	11	8	—
Purchases, sales and settlements	(13)	3	—
Transfer out	—	—	(2)
Successor – Ending balance at December 31, 2012	$140	$139	$8

The fair values of the Company's Non-U.S. retirement plan assets are as follows:

Asset Category	December 31, 2012 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(Dollars in Millions)			
Insurance contracts	$—	$—	$199	$199
Treasury and government securities	22	33	—	55
Registered investment companies	52	—	—	52
Cash and cash equivalents	18	—	—	18
Corporate debt securities	8	9	—	17
Common trust funds	5	8	—	13
Limited partnerships (HFF)	—	—	16	16
Common and preferred stock	16	—	—	16
Other	11	7	—	18
Total	$132	$57	$215	$404

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Asset Category	December 31, 2011 Quoted Prices in Active Markets for Identical Assets (Level 1) (Dollars in Millions)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Insurance contracts	$—	$—	$180	$180
Treasury and government securities	—	58	—	58
Registered investment companies	53	—	—	53
Cash and cash equivalents	12	—	—	12
Corporate debt securities	—	14	—	14
Common trust funds	—	6	—	6
Limited partnerships (HFF)	—	—	6	6
Common and preferred stock	2	—	—	2
Other	7	10	—	17
Total	$74	$88	$186	$348

Fair value measurements which used significant unobservable inputs are as follows:

	Insurance Contracts (Dollars in Millions)	HFF
Predecessor – Ending balance at December 31, 2009	$180	$4
Actual return on plan assets:		
Relating to assets held at the reporting date	(1)	—
Purchases, sales and settlements	(1)	—
Predecessor – Ending balance at October 1, 2010	$178	$4
Actual return on plan assets:		
Relating to assets held at the reporting date	(1)	—
Purchases, sales and settlements	2	1
Successor – Ending balance at December 31, 2010	$179	$5
Actual return on plan assets:		
Relating to assets held at the reporting date	4	—
Purchases, sales and settlements	(3)	1
Successor – Ending balance at December 31, 2011	$180	$6
Actual return on plan assets:		
Relating to assets held at the reporting date	16	4
Purchases, sales and settlements	3	6
Successor – Ending balance at December 31, 2012	$199	$16

NOTE 20. 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 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 forecasted transactions excluding those forecasted transactions related to the payment of variable interest on existing debt is up to one year from the date of the forecasted transaction. The maximum length of time over which the Company hedges forecasted 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 counterparty to the derivative financial instruments. The Company limits this exposure by entering into agreements directly with a variety of major financial institutions with high credit standards that are expected to fully

satisfy their obligations under the contracts. Additionally, the Company's ability to utilize derivatives to manage risks is dependent on credit and market conditions.

Accounting for Derivative Financial Instruments

Derivative financial instruments are recorded as assets or liabilities in the consolidated balance sheets at fair value. The fair values of derivatives used to hedge the Company's risks fluctuate over time, generally in relation to the fair values or cash flows of the underlying hedged transactions or exposures. The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship.

At inception, the Company formally designates and documents the financial instrument as a hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transaction, including designation of the instrument as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation. Additionally, at inception and at least quarterly thereafter, the Company formally assesses whether the financial instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposure.

For a designated cash flow hedge, the effective portion of the change in the fair value of the derivative instrument is recorded in Accumulated other comprehensive (loss) income in the consolidated balance sheet. When the underlying hedged transaction is realized, the gain or loss included in Accumulated other comprehensive (loss) income is recorded in earnings and reflected in the consolidated statement of operations on the same line as the gain or loss on the hedged item attributable to the hedged risk. Any ineffective portion of a financial instrument's change in fair value is immediately recognized in operating results. For a designated fair value hedge, both the effective and ineffective portions of the change in the fair value of the derivative instrument are recorded in earnings and reflected in the consolidated statement of operations on the same line as the gain or loss on the hedged item attributable to the hedged risk. For a designated net investment hedge, the effective portion of the change in the fair value of the derivative instrument is recorded as a cumulative translation adjustment in Accumulated other comprehensive (loss) income in the consolidated balance sheet. Cash flows associated with designated hedges are reported in the same category as the underlying hedged item. Derivatives not designated as a hedge are adjusted to fair value through operating results. Cash flows associated with derivatives are reported in Net cash provided from operating activities in the Company's consolidated statements of cash flows.

Foreign Currency Exchange Rate 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. Where possible, the Company utilizes derivative financial instruments, including forward and option contracts, to protect the Company's cash flow from changes in exchange rates. Foreign currency exposures are reviewed monthly and any natural offsets are considered prior to entering into a derivative financial instrument. The Company's primary hedged 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 December 31, 2012 and 2011, the Company had forward contracts to hedge changes in foreign currency exchange rates with notional amounts of approximately $554 million and $741 million, respectively. Fair value estimates of these contracts are based on quoted market prices. A portion of these instruments have been designated as cash flow hedges with the effective portion of the gain or loss reported in the Accumulated other comprehensive (loss) income component of Stockholders' equity in the Company's consolidated balance sheet. The ineffective portion of these instruments is recorded as Cost of sales in the Company’s consolidated statement of operations.

Interest Rate Risk

As of December 31, 2012 and 2011, the Company has no outstanding interest rate swaps. On April 6, 2011, the Company refinanced its variable rate Term Loan with a fixed rate bond. In conjunction with the refinancing of the Term Loan, the Company terminated outstanding interest rate swaps with a notional amount of $250 million for a loss of less than $1 million. Approximately 85% and 87% of the Company's borrowings were effectively on a fixed rate basis as of December 31, 2012 and December 31, 2011, respectively.

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Financial Statement Presentation

The Company presents its derivative positions and any related material collateral under master netting agreements on a net basis. Derivative financial instruments designated and non-designated as hedging instruments are included in the Company's consolidated balance sheets at December 31, 2012 and 2011 as follows (dollars in millions):

Risk Hedged	Assets Classification	2012	2011	Liabilities Classification	2012	2011
Designated						
Foreign currency	Other current assets	$16	$—	Other current assets	$1	$—
Foreign currency	Other current liabilities	1	8	Other current liabilities	1	24
Non-designated						
Foreign currency	Other current assets	6	—	Other current assets	—	—
		$23	$8		$2	$24

Gains and losses on derivative financial instruments recorded in Cost of sales and Interest expense for the year ended December 31, 2012 and 2011 are as follows:

	Amount of Gain (Loss) Recorded in AOCI, net of tax		Reclassified from AOCI into Income		Recorded in Income	
	2012	2011	2012	2011	2012	2011
Foreign currency risk – Cost of sales						
Cash flow hedges	$16	$(8)	$18	$5	$—	$—
Non-designated cash flow hedges	—	—	—	—	(4)	(4)
	$16	$(8)	$18	$5	$(4)	$(4)
Interest rate risk – Interest expense						
Cash flow hedges	$—	$1	$—	$—	$—	$—

Concentrations of Credit Risk

Financial instruments including cash equivalents, derivative contracts, and accounts receivable, expose the Company to counterparty 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 counterparty and through monitoring counterparty credit risks. The Company's concentration of credit risk related to derivative contracts at December 31, 2012 and 2011 is not material.

Hyundai Kia Automotive Group is one of the Company's largest customers, accounting for 33%, 31% and 29% of total product sales in 2012, 2011 and 2010, respectively. Additionally, Ford is one of the Company's largest customers and accounted for 27%, 27% and 25% of total product sales in 2012, 2011 and 2010, respectively. 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 December 31, 2012 and 2011, respectively.

	2012	2011
Ford and its affiliates	19%	24%
Hyundai Mobis Company	16%	14%
Hyundai Motor Company	10%	10%

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

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NOTE 21. Commitments and Contingencies

Guarantees and Commitments

The Company has guaranteed approximately $54 million for subsidiary lease payments under various arrangements generally spanning between one and ten years in duration, and $6 million for affiliate credit lines and other credit support agreements. In connection with an agreement entered in 2009 with the Pension Benefit Guarantee Corporation ("PBGC"), the Company agreed to provide a guarantee by certain affiliates of certain contingent pension obligations of up to $30 million, the term of this guarantee is dependent upon certain contingent events as set forth in the PBGC Agreement.

Purchase Obligations

In January 2003, the Company commenced a 10-year outsourcing agreement with International Business Machines ("IBM") pursuant to which the Company outsources most of its information technology needs on a global basis, including mainframe support services, data centers, customer support centers, application development and maintenance, data network management, desktop support, disaster recovery and web hosting ("IBM Outsourcing Agreement"). During 2006, the IBM Outsourcing Agreement was modified to change the service delivery model and related service charges. Expenses incurred under the IBM Outsourcing Agreement were approximately $13 million during the year ended December 31, 2012 and 2011, $4 million during the three–month Successor period ended December 31, 2010, and $18 million during the nine–month Predecessor period ended October 1, 2010.

Effective February 18, 2010, the date of the Court order, the Debtors entered into a settlement agreement with IBM (the "Settlement Agreement"), assumed the IBM Outsourcing Agreement, as amended and restated pursuant to the Settlement Agreement and agreed to the payment of cure amounts totaling approximately $11 million in connection therewith. The service charges under the IBM Outsourcing Agreement as amended and restated pursuant to the Settlement Agreement are expected to aggregate approximately $22 million during the remaining term of the agreement, subject to changes based on the Company's actual consumption of services to meet its then current business needs. The outsourcing agreement may also be terminated for the Company's business convenience under the agreement for a scheduled termination fee.

Operating Leases

At December 31, 2012, the Company had the following minimum rental commitments under non-cancelable operating leases: 2013 — $30 million; 2014 — $26 million; 2015 — $21 million; 2016 — $17 million; 2017 — $14 million; thereafter – million. Rent expense was $44 million for the year ended December 31, 2012, $44 million for the year ended December 31, 2011, $11 million for the three-month Successor period ended December 31, 2010, and $33 million for the nine-month Predecessor period ended October 1, 2010.

Litigation and Claims

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 $9 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.

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 December 31, 2012, the Company maintained accruals of approximately $8 million for claims aggregating approximately $138 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.

On May 28, 2009, the Debtors filed voluntary petitions in the Court seeking reorganization relief under the provisions of chapter 11 of the Bankruptcy Code. The Debtors’ chapter 11 cases have been assigned to the Honorable Christopher S. Sontchi and are being jointly administered as Case No. 09-11786. The Debtors continued to operate their business as debtors-in-possession under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Court until their emergence on October 1, 2010.

In December of 2009, the Court granted the Debtors' motion in part authorizing them to terminate or amend certain other postretirement employee benefits, including health care and life insurance. On December 29, 2009, the IUE-CWA, the Industrial Division of the Communications Workers of America, AFL-CIO, CLC, filed a notice of appeal of the Court's order with the District Court. By order dated March 31, 2010, the District Court affirmed the Court's order in all respects. On April 1, 2010, the IUE filed a notice of appeal. On July 13, 2010, the Circuit Court reversed the order of the District Court as to the IUE-CWA and directed the District Court to, among other things, direct the Court to order the Company to take whatever action is necessary to immediately restore terminated or modified benefits to their pre-termination/modification levels. On July 27, 2010, the Company filed a Petition for Rehearing or Rehearing En Banc requesting that the Circuit Court review the panel’s decision, which was denied. By orders dated August 30, 2010, the Court ruled that the Company should restore certain other postretirement employee benefits to the appellant-retirees and also to salaried retirees and certain retirees of the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (“UAW”). On September 1, 2010, the Company filed a Notice of Appeal to the District Court of the Court's decision to include non-appealing retirees, and on September 15, 2010 the UAW filed a Notice of Cross-Appeal. The appeals process includes mandatory mediation of the dispute. The Company subsequently reached an agreement with the original appellants in late-September 2010, which resulted in the Company not restoring other postretirement employee benefits of such retirees. On September 30, 2010, the UAW filed a complaint, which it amended on October 1, 2010, in the United States District Court for the Eastern District of Michigan seeking, among other things, a declaratory judgment to prohibit the Company from terminating certain other postretirement employee benefits for UAW retirees after the Effective Date. The Company has filed a motion to dismiss the UAW's complaint and a motion to transfer the case to the District of Delaware, which motions are pending. As of January 11, 2013, the parties agreed to a settlement term sheet. The parties are currently working towards a final settlement agreement and preliminary approval of the settlement by the court. As of December 31, 2012, the Company maintains an accrual for claims that are deemed probable of loss and are reasonably estimable based on the pending settlement.

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. The following table provides a reconciliation of changes in the product warranty and recall claims liability, inclusive of amounts of discontinued operations for the selected periods:

	Year Ended December 31	
	2012	2011
	(Dollars in Millions)	
Beginning balance	$66	$75
Accruals for products shipped	19	22
Changes in estimates	(6)	(12)
Settlements	(22)	(19)
Ending balance	$57	$66

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.

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Costs related to environmental assessments and remediation efforts at operating facilities, previously owned or operated facilities, or other waste site locations are accrued when it is probable that a liability has been incurred and the amount of that liability can be reasonably estimated. Estimated costs are recorded at undiscounted amounts, based on experience and assessments, and are regularly evaluated. The liabilities are recorded in Other current liabilities and Other non-current liabilities in the consolidated balance sheets. At December 31, 2012, the Company had recorded a reserve of approximately $1 million for environmental matters. However, estimating liabilities for environmental investigation and cleanup is complex and dependent upon a number of factors beyond the Company’s control and which may change dramatically. Accordingly, although the Company believes its reserve is adequate based on current information, the Company cannot provide any assurance that its ultimate environmental investigation and cleanup costs and liabilities will not exceed the amount of its current reserve.

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 December 31, 2012 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.

Under section 362 of the Bankruptcy Code, the filing of a bankruptcy petition automatically stayed most actions against a debtor, including most actions to collect pre-petition indebtedness or to exercise control over the property of the debtor’s estate. Substantially all pre-petition liabilities and claims relating to rejected executory contracts and unexpired leases have been settled under the Debtor’s 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 Court decisions for a period of time after the Effective Date.

NOTE 22. Segment Information

The Company defines its operating segments as components of its business for which separate discrete financial information is available that is evaluated regularly by the chief operating decision-making group, in deciding the allocation of resources and in assessing performance. The Company’s chief operating decision making group, comprised of the Chief Executive Officer and Chief Financial Officer, 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’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. Climate accounted for approximately 62%, 52%, 52%, and 51% of the Company's total product sales, excluding intra-product line eliminations, for the year ended December 31, 2012 and 2011, the three-month Successor period ended December 31, 2010 and the nine–month Predecessor period ended October 1, 2010, respectively.
- 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. Electronics accounted for approximately 18%, 18%, 18%, and 18% of the Company's total product sales, excluding intra-product line eliminations, for

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the year ended December 31, 2012 and 2011, the three-month Successor period ended December 31, 2010, and the nine–month Predecessor period ended October 1, 2010, respectively.

- Interiors — The Company's Interiors product line includes instrument panels, cockpit modules, door trim and floor consoles. Interiors accounted for approximately 20%, 30%, 30%, and 31% of the Company's total product sales, excluding intra-product line eliminations, for the year ended December 31, 2012 and 2011, the three-month Successor period ended December 31, 2010, and the nine-month Predecessor period ended October 1, 2010, respectively.
- Services — The Company's Services operations provide various transition services in support of divestiture transactions, principally related to the ACH Transactions. The Company supplied leased personnel and transition services as required by certain agreements entered into by the Company with ACH as a part of the ACH Transactions and as amended in 2008. As of August 31, 2010, the Company ceased providing substantially all transition and other services or leasing employees to ACH. Services to ACH were provided at a rate approximately equal to the Company's cost.

The accounting policies for the reportable segments are the same as those described in the Note 2 "Summary of Significant Accounting Policies" to the Company's consolidated financial statements. Key financial measures reviewed by the Company's chief operating decision makers are as follows.

Segment Net Sales

	Segment Net Sales			
	Successor			Predecessor
	Twelve Months Ended		Three Months Ended	Nine Months Ended
	December 31 2012	December 31 2011	December 31 2010	October 1 2010
		(Dollars in Millions)		
Climate	$4,286	$4,053	$954	$2,660
Electronics	1,250	1,367	326	935
Interiors	1,412	2,285	554	1,641
Eliminations	(91)	(173)	(57)	(134)
Total Products	6,857	7,532	1,777	5,102
Services	—	—	1	142
Total	$6,857	$7,532	$1,778	$5,244

Net sales to Hyundai Kia Automotive Group were $2.2 billion during the year ended December 31, 2012, $2.5 billion during the year ended December 31, 2011, $591 million during the three–month Successor period ended December 31, 2010, and $1.5 billion during the nine–month Predecessor period ended October 1, 2010. Net sales to Ford were $1.9 billion during the year ended December 31, 2012, $2.0 billion during the year ended December 31, 2011, $398 million during the three–month Successor period ended December 31, 2010, and $1.4 billion during the nine-month Predecessor period ended October 1, 2010.

Segment Adjusted EBITDA

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, restructuring expenses and other reimbursable costs, certain employee charges and benefits, reorganization items and other non-operating gains and losses. Effective April 1, 2012 and in consideration of key transformation efforts including the sale of the Company's Lighting business, the Company began utilizing Adjusted EBITDA as its primary performance measure of segment profit or loss. Through March 31, 2012, the Company utilized gross margin, which was defined as total sales less manufacturing costs, product development costs and engineering costs, as its primary performance measure of reporting segment profit or loss.

Adjusted EBITDA is presented as a supplemental measure of the Company's financial performance that management believes is useful to investors because the excluded items may vary significantly in timing or amounts and/or may obscure trends useful in evaluating and comparing the Company's operating activities across reporting periods. 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

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operating activities as a measure of liquidity. Adjusted EBITDA has limitations as an analytical tool and is not intended to be a measure of cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. In addition, the Company uses Adjusted EBITDA (i) as a factor in incentive compensation decisions, (ii) to evaluate the effectiveness of the Company's business strategies and (iii) because the Company's credit agreements use measures similar to Adjusted EBITDA to measure compliance with certain covenants. Adjusted EBITDA, as determined and measured by the Company should not be compared to similarly titled measures of other companies.

	Segment Adjusted EBITDA			
	Successor			Predecessor
	Year Ended	Year Ended	Three Months Ended	Nine Months Ended
	December 31 2012	December 31 2011	December 31 2010	October 1 2010
	(Dollars in Millions)			
Climate	$315	$300	$57	$252
Electronics	101	126	5	72
Interiors	185	224	45	149
Discontinued operations	27	35	2	32
Total	$628	$685	$109	$505

The reconciliation of Adjusted EBITDA to net income attributable to Visteon for the years ended December 31, 2012 and 2011, the three-month Successor period ended December 31, 2010 and the nine-month Predecessor period ended October 1, 2010 follows:

	Successor			Predecessor
	Twelve Months Ended		Three Months Ended	Nine Months Ended
	December 31 2012	December 31 2011	December 31 2010	October 1 2010
	(Dollars in Millions)			
Total Adjusted EBITDA	$628	$685	$109	$505
Interest expense, net	35	27	9	159
Provision for income taxes	121	127	24	148
Depreciation and amortization	258	295	69	185
Restructuring expenses	79	24	27	14
Reorganization gains, net	—	—	—	(938)
Other expense, net	41	11	13	26
Equity investment gain	(63)	—	—	—
Other non-operating costs, net	27	30	(121)	(45)
Discontinued operations	30	91	2	16
Net income attributable to Visteon	$100	$80	$86	$940

Segment Operating Assets

	Inventories, net		Property and Equipment, net	
	2012	2011	2012	2011
	(Dollars in Millions)			
Climate	$276	$236	$974	$934
Electronics	67	66	130	144
Interiors	42	47	167	171

Discontinued operations	—	32	—	42
Total Segment	385	381	1,271	1,291
Corporate	—	—	55	121
Total consolidated	$385	$381	$1,326	$1,412

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

Segment Expenditures

	Depreciation and Amortization				Capital Expenditures			
	Successor			Predecessor	Successor			Predecessor
	Year Ended	Year Ended	Three Months Ended	Nine Months Ended	Year Ended	Year Ended	Three Months Ended	Nine Months Ended
	December 31			October 1	December 31			October 1
	2012	2011	2010	2010	2012	2011	2010	2010
	(Dollars in Millions)				(Dollars in Millions)			
Climate	$180	$187	$46	$102	$152	$168	$56	$60
Electronics	29	40	8	20	26	26	11	12
Interiors	30	37	8	27	31	38	14	20
Total Products	239	264	62	149	209	232	81	92
Corporate	19	31	7	36	9	8	4	8
Total	$258	$295	$69	$185	$218	$240	$85	$100

Corporate includes depreciation and amortization and capital expenditures attributable to the Company’s technical centers, corporate headquarters and other administrative and support functions.

Financial Information by Geographic Region

	Net Sales				Property and Equipment, net	
	Successor Year Ended December 31		Three Months Ended December 31	Predecessor Nine Months Ended October 1		
	2012	2011	2010	2010	2012	2011
	(Dollars in Millions)					
United States	$1,239	$1,104	$237	$1,005	$113	$199
Mexico	17	15	4	22	21	26
Canada	95	105	21	61	25	29
Intra-region eliminations	(12)	(6)	(4)	(26)	—	—
North America	1,339	1,218	258	1,062	159	254
Germany	147	199	40	129	24	20
France	548	713	177	512	83	96
Portugal	539	468	91	304	85	78
Spain	264	421	115	311	32	42
Czech Republic	227	246	61	195	38	67
Hungary	282	321	82	258	69	63
Slovakia	374	339	86	193	54	53
Other Europe	200	178	39	99	24	20
Intra-region eliminations	(190)	(114)	(29)	(80)	—	—
Europe	2,391	2,771	662	1,921	409	439
Korea	2,048	2,488	583	1,520	458	428
China	748	555	125	325	133	116
India	353	341	82	216	77	80
Japan	204	221	62	152	12	13

Thailand	339	225	63	152	28	27
Other Asia	12	19	8	25	—	—
Intra-region eliminations	(424)	(304)	(66)	(166)	—	—
Asia	3,280	3,545	857	2,224	708	664
South America	423	511	123	386	50	55
Inter-region eliminations	(576)	(513)	(122)	(349)	—	—
	$6,857	$7,532	$1,778	$5,244	$1,326	$1,412

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The decrease in sales in Korea of $588 million from 2011 to 2012 is due to the deconsolidation of Duckyang. Sales are attributable to geographic areas based on the location of the assets generating the sales.

NOTE 23. Condensed Consolidating Financial Information of Guarantor Subsidiaries

On April 6, 2011, the Company completed the sale of the Senior Notes. The Senior Notes were issued under an Indenture, dated April 6, 2011 (the "Indenture"), among the Company, the subsidiary guarantors named therein, and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Indenture and the form of Senior Notes provide, among other things, that the Senior Notes are senior unsecured obligations of the Company. Interest is payable on the Senior Notes on April 15 and October 15 of each year beginning on October 15, 2011 until maturity. Each of the Company's existing and future wholly owned domestic restricted subsidiaries that guarantee debt under the Company's asset based credit facility guarantee the Senior Notes.

Guarantor Financial Statements

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

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

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

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VISTEON CORPORATION
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Successor - Year Ended December 31, 2012				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in Millions)				
Net sales	$247	$1,392	$ 6,229	$(1,011)	$6,857
Cost of sales	454	1,140	5,685	(1,011)	6,268
Gross margin	(207)	252	544	—	589
Selling, general and administrative expenses	99	61	209	—	369
Equity in net income of non-consolidated affiliates	—	—	226	—	226
Restructuring expenses	4	—	75	—	79
Interest expense (income), net	39	(3)	(1)	—	35
Other expense, net	33	—	8	—	41
(Loss) income before income taxes and earnings of subsidiaries	(382)	194	479	—	291
Provision for income taxes	—	—	121	—	121
(Loss) income before earnings of subsidiaries	(382)	194	358	—	170
Equity in earnings of consolidated subsidiaries	497	277	—	(774)	—
Income from continuing operations	115	471	358	(774)	170
(Loss) income from discontinued operations, net of tax	(15)	42	(30)	—	(3)
Net income	100	513	328	(774)	167
Net income attributable to non-controlling interests	—	—	67	—	67
Net income attributable to Visteon Corporation	$100	$513	$ 261	$(774)	$100

	Successor - Year Ended December 31, 2011				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in Millions)				
Net sales	$194	$1,497	$ 7,045	$(1,204)	$7,532
Cost of sales	391	1,200	6,527	(1,204)	6,914
Gross margin	(197)	297	518	—	618
Selling, general and administrative expenses	102	67	218	—	387
Equity in net income of non-consolidated affiliates	—	—	168	—	168
Restructuring expenses	—	—	24	—	24
Interest expense (income), net	38	(12)	1	—	27
Other expense (income), net	27	(6)	(10)	—	11
(Loss) income before income taxes and earnings of subsidiaries	(364)	248	453	—	337
Provision for income taxes	—	—	127	—	127
	(364)	248	326	—	210

(Loss) income before earnings of subsidiaries					
Equity in earnings of consolidated subsidiaries	490	172	—	(662)	—
Income from continuing operations	126	420	326	(662)	210
(Loss) income from discontinued operations, net of tax	(46)	57	(67)	—	(56)
Net income	80	477	259	(662)	154
Net income attributable to non-controlling interests	—	—	74	—	74
Net income attributable to Visteon Corporation	$80	$477	$ 185	$(662)	$80

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	Successor - Three Months Ended December 31, 2010				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in Millions)				
Net sales	$29	$315	$ 1,679	$(245)	$1,778
Cost of sales	382	124	1,273	(245)	1,534
Gross margin	(353)	191	406	—	244
Selling, general and administrative expenses	37	25	45	—	107
Equity in net income of non-consolidated affiliates	—	—	41	—	41
Restructuring expenses	1	—	26	—	27
Interest expense (income), net	13	(4)	—	—	9
Other expense (income), net	14	—	(1)	—	13
(Loss) income before income taxes and earnings of subsidiaries	(418)	170	377	—	129
(Benefit) provision for income taxes	(3)	1	26	—	24
(Loss) income before earnings of subsidiaries	(415)	169	351	—	105
Equity in earnings of consolidated subsidiaries	507	58	—	(565)	—
Income from continuing operations	92	227	351	(565)	105
(Loss) income from discontinued operations, net of tax	(6)	7	(1)	—	—
Net income	86	234	350	(565)	105
Net income attributable to non-controlling interests	—	—	19	—	19
Net income attributable to Visteon Corporation	$86	$234	$ 331	$(565)	$86

	Predecessor - Nine Months Ended October 1, 2010				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in Millions)				
Net sales	$314	$1,009	$ 4,698	$(777)	$5,244
Cost of sales	354	637	4,481	(777)	4,695
Gross margin	(40)	372	217	—	549
Selling, general and administrative expenses	83	44	136	—	263
Equity in net income of non-consolidated affiliates	1	—	104	—	105
Restructuring expenses	5	1	8	—	14
Interest expense (income), net	181	(19)	(3)	—	159
Reorganization items, net	(8,594)	9,402	(1,746)	—	(938)
Other expense (income), net	25	(1)	2	—	26
Income (loss) before income taxes and earnings of subsidiaries	8,261	(9,055)	1,924	—	1,130
Provision for income taxes	2	—	146	—	148
	8,259	(9,055)	1,778	—	982

Income (loss) before earnings of subsidiaries					
Equity in earnings of consolidated subsidiaries	(7,273)	1,371	—	5,902	—
Income (loss) from continuing operations	986	(7,684)	1,778	5,902	982
(Loss) income from discontinued operations, net of tax	(46)	63	(3)	—	14
Net income (loss)	940	(7,621)	1,775	5,902	996
Net income attributable to non-controlling interests	—	—	56	—	56
Net income (loss) attributable to Visteon Corporation	$940	$(7,621)	$ 1,719	$5,902	$940

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VISTEON CORPORATION
CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

	Successor - Year Ended December 31, 2012				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in Millions)				
Net income	$100	$513	$ 328	$(774)	$167
Other comprehensive (loss) income, net of tax					
Foreign currency translation adjustments	52	53	76	(108)	73
Benefit plans, net of tax	(133)	(126)	(118)	243	(134)
Unrealized hedging (losses) gains and other, net of tax	16	16	22	(32)	22
Other comprehensive (loss) income, net of tax	(65)	(57)	(20)	103	(39)
Comprehensive income	35	456	308	(671)	128
Comprehensive income attributable to non-controlling interests	—	—	93	—	93
Comprehensive income attributable to Visteon Corporation	$35	$456	$ 215	$(671)	$35

	Successor - Year Ended December 31, 2011				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in Millions)				
Net income	$80	$477	$ 259	$(662)	$154
Other comprehensive (loss) income					
Foreign currency translation adjustments	(42)	(47)	(67)	103	(53)
Benefit plans, net of tax	(26)	(3)	(5)	8	(26)
Unrealized hedging (losses) gains and other, net of tax	(7)	(8)	(10)	16	(9)
Other comprehensive (loss) income, net of tax	(75)	(58)	(82)	127	(88)
Comprehensive income	5	419	177	(535)	66
Comprehensive income attributable to non-controlling interests	—	—	61	—	61
Comprehensive income attributable to Visteon Corporation	$5	$419	$ 116	$(535)	$5

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	Successor - Three Months Ended December 31, 2010				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in Millions)				
Net income	$86	$234	$ 350	$(565)	$105
Other comprehensive income (loss)					
Foreign currency translation adjustments	1	—	12	(10)	3
Benefit plans, net of tax	50	44	41	(84)	51
Unrealized hedging (losses) gains and other, net of tax	(1)	—	—	—	(1)
Other comprehensive income (loss), net of tax	50	44	53	(94)	53
Comprehensive income	136	278	403	(659)	158
Comprehensive income attributable to non-controlling interests	—	—	22	—	22
Comprehensive income attributable to Visteon Corporation	$136	$278	$ 381	$(659)	$136

	Predecessor - Nine Months Ended October 1, 2010				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in Millions)				
Net income (loss)	$940	$(7,621)	$ 1,775	$5,902	$996
Other comprehensive (loss) income					
Foreign currency translation adjustments	14	(248)	7	247	20
Benefit plans, net of tax	(232)	(138)	(8)	146	(232)
Unrealized hedging gains and other, net of tax	2	—	5	(2)	5
Other comprehensive (loss) income, net of tax	(216)	(386)	4	391	(207)
Comprehensive income (loss)	724	(8,007)	1,779	6,293	789
Comprehensive income attributable to non-controlling interests	—	—	65	—	65
Comprehensive income (loss) attributable to Visteon Corporation	$724	$(8,007)	$ 1,714	$6,293	$724

VISTEON CORPORATION
CONDENSED CONSOLIDATING BALANCE SHEETS

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

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	December 31, 2011				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in Millions)				
ASSETS					
Cash and equivalents	$114	$55	$ 554	$—	$723
Accounts receivable, net	235	540	1,015	(719)	1,071
Inventories, net	18	25	338	—	381
Other current assets	29	53	232	—	314
Total current assets	396	673	2,139	(719)	2,489
Property and equipment, net	89	81	1,242	—	1,412
Investment in affiliates	1,873	1,533	—	(3,406)	—
Equity in net assets of non-consolidated affiliates	—	—	644	—	644
Intangible assets, net	82	59	212	—	353
Other non-current assets	14	23	60	(26)	71
Total assets	$2,454	$2,369	$ 4,297	$(4,151)	$4,969
LIABILITIES AND EQUITY					
Short-term debt, including current portion of long-term debt	$90	$13	$ 217	$(233)	$87
Accounts payable	170	210	1,116	(486)	1,010
Other current liabilities	70	21	365	—	456
Total current liabilities	330	244	1,698	(719)	1,553
Long-term debt	497	—	41	(26)	512
Employee benefits	301	47	147	—	495
Other non-current liabilities	19	5	388	—	412
Stockholders' equity:					
Total Visteon Corporation stockholders' equity	1,307	2,073	1,333	(3,406)	1,307
Non-controlling interests	—	—	690	—	690
Total equity	1,307	2,073	2,023	(3,406)	1,997
Total liabilities and equity	$2,454	$2,369	$ 4,297	$(4,151)	$4,969

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VISTEON CORPORATION
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Successor - Year Ended December 31, 2012				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash (used by) provided from operating activities	$(143)	$121	$261	$—	$239
Investing activities					
Capital expenditures	(5)	(11)	(213)	—	(229)
Dividends received from consolidated affiliates	233	108	—	(341)	—
Proceeds from asset sales and business divestitures	93	11	87	—	191
Other	—	—	(2)	—	(2)
Net cash provided from (used by) investing activities	321	108	(128)	(341)	(40)
Financing activities					
Short-term debt, net	—	—	5	—	5
Proceeds from issuance of debt, net of issuance costs	—	—	831	—	831
Principal payments on debt	(1)	—	(823)	—	(824)
Repurchase of long-term notes	(52)	—	—	—	(52)
Repurchase of common stock	(50)	—	—	—	(50)
Dividends paid to consolidated affiliates	—	(232)	(109)	341	—
Dividends paid to non-controlling interests	—	—	(27)	—	(27)
Other	2	—	—	—	2
Net cash used by financing activities	(101)	(232)	(123)	341	(115)
Effect of exchange rate changes on cash and equivalents	—	2	16	—	18
Net increase (decrease) in cash and equivalents	77	(1)	26	—	102
Cash and equivalents at beginning of period	114	55	554	—	723
Cash and equivalents at end of period	$191	$54	$580	$—	$825

	Successor - Year Ended December 31, 2011				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided from operating activities	$(163)	$(75)	$413	$—	$175
Investing activities					
Capital expenditures	(4)	(12)	(242)	—	(258)
Dividends received from consolidated affiliates	109	173	—	(282)	—
Cash associated with deconsolidations	—	—	(52)	—	(52)
Proceeds from divestitures and asset sales	—	—	14	—	14
Other	—	—	(35)	—	(35)
Net cash used by investing activities	105	161	(315)	(282)	(331)
Financing activities					
Cash restriction, net	58	—	(7)	—	51
Short term debt, net	—	—	17	—	17
	492	—	11	—	503

Proceeds from issuance of debt, net of issuance costs					
Principal payments on debt	(501)	—	(12)	—	(513)
Rights offering fees	(33)	—	—	—	(33)
Dividends paid to consolidated affiliates	—	(109)	(173)	282	—
Dividends paid to non-controlling interests	—	—	(31)	—	(31)
Other	3	—	—	—	3
Net cash provided from (used by) financing activities	19	(109)	(195)	282	(3)
Effect of exchange rate changes on cash and equivalents	—	(3)	(20)	—	(23)
Net increase (decrease) in cash and equivalents	(39)	(26)	(117)	—	(182)
Cash and equivalents at beginning of period	153	81	671	—	905
Cash and equivalents at end of period	$114	$55	$554	$—	$723

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	Successor - Three Months Ended December 31, 2010				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided from operating activities	$79	$21	$54	$—	$154
Investing activities					
Capital expenditures	(2)	(2)	(88)	—	(92)
Dividends received from consolidated affiliates	—	8	—	(8)	—
Proceeds from divestitures and asset sales	—	—	16	—	16
Net cash (used by) provided from investing activities	(2)	6	(72)	(8)	(76)
Financing activities					
Cash restriction, net	11	—	5	—	16
Short term debt, net	—	—	6	—	6
Principal payments on debt	(1)	—	(60)	—	(61)
Dividends paid to consolidated affiliates	—	—	(8)	8	—
Other	2	—	(3)	—	(1)
Net cash provided from (used by) financing activities	12	—	(60)	8	(40)
Effect of exchange rate changes on cash and equivalents	—	(1)	2	—	1
Net increase (decrease) in cash and equivalents	89	26	(76)	—	39
Cash and equivalents at beginning of period	64	55	747	—	866
Cash and equivalents at end of period	$153	$81	$671	$—	$905

	Predecessor - Nine Months Ended October 1, 2010				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash (used by) provided from operating activities	$(309)	$(99)	$428	$—	$20
Investing activities					
Capital expenditures	(4)	(5)	(108)	—	(117)
Proceeds from divestitures and asset sales	11	1	33	—	45
Dividends received from consolidated affiliates	44	129	—	(173)	—
Acquisitions of joint venture interests	—	—	(3)	—	(3)
Net cash provided from (used by) investing activities	51	125	(78)	(173)	(75)
Financing activities					
Cash restriction, net	12	—	31	—	43
Short term debt, net	—	—	(9)	—	(9)
Payment of DIP facility	(75)	—	—	—	(75)
	472	—	9	—	481

Proceeds from issuance of debt, net of issuance costs					
Proceeds from rights offering, net of issuance costs	1,190	—	—	—	1,190
Principal payments on debt	(1,628)	—	(23)	—	(1,651)
Dividends paid to consolidated affiliates	—	(44)	(129)	173	—
Dividends paid to non-controlling interests	—	—	(19)	—	(19)
Other	(2)	—	—	—	(2)
Net cash used by financing activities	(31)	(44)	(140)	173	(42)
Effect of exchange rate changes on cash and equivalents	—	(3)	4	—	1
Net (decrease) increase in cash and equivalents	(289)	(21)	214	—	(96)
Cash and equivalents at beginning of period	353	76	533	—	962
Cash and equivalents at end of period	$64	$55	$747	$—	$866

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NOTE 24. Summary Quarterly Financial Data (Unaudited)

The following table presents summary quarterly financial data for continuing operations.

	2012				2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in Millions, Except Per Share Amounts)							
Net sales	$1,717	$1,693	$1,624	$1,823	$1,850	$2,046	$1,909	$1,727
Gross margin	134	128	129	198	143	192	139	144
Income before income taxes	13	127	72	79	80	78	81	98
(Loss) income from continuing operations	(14)	85	39	60	52	44	56	58
Net (loss) income	(11)	84	34	60	56	44	60	(6)
Net (loss) income attributable to Visteon Corporation	$(29)	$75	$15	$39	$39	$26	$41	$(26)
Per Share Data								
Basic (loss) earnings per share attributable to Visteon Corporation	$(0.56)	$1.41	$0.28	$0.74	$0.77	$0.51	$0.80	$(0.51)
Diluted (loss) earnings per share attributable to Visteon Corporation	$(0.56)	$1.40	$0.28	$0.74	$0.75	$0.50	$0.79	$(0.51)

Net (loss) income attributable to Visteon Corporation for the quarter ended March 31, 2012 included $41 million of restructuring expenses, in which $36 million was recorded in connection with the previously announced closure of the Company's Cadiz Electronics operation in El Puerto de Santa Maria, Spain. Net (loss) income attributable to Visteon Corporation for the quarter ended June 30, 2012 included $63 million representing Visteon's equity interest in a non-cash gain recorded by Yanfeng, a 50% owned non-consolidated affiliate of the Company. Net (loss) income attributable to Visteon Corporation for the quarter ended December 31, 2012 included $35 million of restructuring expenses, including $30 million of employee severance and termination benefits attributable to the Company's Interiors operations in Europe and $4 million of employee severance and termination benefits attributable to realignment of corporate and administrative functions to product group operations.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in periodic reports filed with the SEC under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As of December 31, 2012, an evaluation was performed under the supervision and with the participation of the Company’s management, including its Chief Executive and Financial Officers, of the effectiveness of the design and operation of disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2012.

Internal Control over Financial Reporting

Management’s report on internal control over financial reporting is presented in Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K along with the attestation report of Ernst & Young LLP, the Company’s independent registered public accounting firm, on the effectiveness of internal control over financial reporting as of December 31, 2012. There were no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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Item 9B. Other Information

On February 27, 2013, the Organization and Compensation Committee of the Board of Directors of the Company approved the payment of a special incentive award to certain employees of the Company, including Mr. Jeffrey M. Stafeil ($25,000), Executive Vice President and Chief Financial Officer, and Ms. Joy M. Greenway ($42,000), Senior Vice President. The awards were in recognition of the considerable contributions made by these individuals to the Company during 2012 and early 2013.

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Part III

Item 10. Directors, Executive Officers and Corporate Governance

Except as set forth herein, the information required by Item 10 regarding its directors is incorporated by reference from the information under the captions “Item 1. Election of Directors,” “Corporate Governance - Board Committees,” "2014 Stockholder Proposals and Nominations" and “Section 16(a) Beneficial Ownership Reporting Compliance” in its 2013 Proxy Statement. The information required by Item 10 regarding its executive officers appears as Item 4A under Part I of this Annual Report on Form 10-K.

The Company has adopted a code of ethics, as such phrase is defined in Item 406 of Regulation S-K, that applies to all directors, officers and employees of the Company and its subsidiaries, including the Chief Executive Officer, the Executive Vice President and Chief Financial Officer and the Vice President and Chief Accounting Officer. The code, entitled “Ethics and Integrity Policy,” is available on the Company's website at www.visteon.com.

Item 11. Executive Compensation

The information required by Item 11 is incorporated by reference from the information under the captions “Compensation Committee Report,” “Executive Compensation” and “Director Compensation” in its 2013 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Except as set forth herein, the information required by Item 12 is incorporated by reference from the information under the caption “Stock Ownership” in its 2013 Proxy Statement.

Equity Compensation Plan Information

The following table summarizes information as of December 31, 2012 relating to its equity compensation plans pursuant to which grants of stock options, stock appreciation rights, stock rights, restricted stock, restricted stock units and other rights to acquire shares of its common stock may be made from time to time.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)(1)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(b)(1)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column(a)) (c)(2)
Equity compensation plans approved by security holders (3)	2,121,201	$ 67.40	2,129,820
Equity compensation plans not approved by security holders	—	—	—
Total	2,121,201	$ 67.40	2,129,820

(1) Comprised of stock options, stock appreciation rights, which may be settled in stock or cash at the election of the Company, and outstanding restricted stock and performance stock units, which may be settled in stock or cash at the election of the Company without further payment by the holder, granted pursuant to the Visteon Corporation 2010 Incentive Plan. Excludes 228,205 unvested shares of restricted common stock issued pursuant to the Visteon Corporation 2010 Incentive Plan. The weighted-average exercise price of outstanding options, warrants

and rights does not take into account restricted stock or performance stock units that will be settled without any further payment by the holder.

(2) Excludes an indefinite number of stock units that may be awarded under the Visteon Corporation Non-Employee Director Stock Unit Plan, which units may be settled in cash or shares of the Company's common stock. Such plan provides for an annual, automatic grant of stock units worth $95,000 to each non-employee director of the Company. There is no maximum number of securities that may be issued under this Plan, however, the Plan will terminate on December 15, 2020 unless earlier terminated by the Board of Directors.

(3) The Visteon Corporation 2010 Incentive Plan was approved as part the Company's plan of reorganization, which is deemed to be approved by security holders.

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Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is incorporated by reference from the information under the captions "Corporate Governance - Director Independence" and "Transactions with Related Persons" in its 2013 Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is incorporated by reference from the information under the captions "Audit Fees" and "Audit Committee Pre-Approval Process and Policies" in its 2013 Proxy Statement.

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Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Financial Statements

See “Index to Consolidated Financial Statements” in Part II, Item 8 hereof.

2. Financial Statement Schedules

Schedule II — Valuation and Qualifying Accounts

All other financial statement schedules are omitted because they are not required or applicable under instructions contained in Regulation S-X or because the information called for is shown in the financial statements and notes thereto.

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VISTEON CORPORATION AND SUBSIDIARIES
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	(Benefits)/ Charges to Income	Deductions(a)	Other(b)	Balance at End of Period
	(Dollars in Millions)				
Successor – Year Ended December 31, 2012:					
Allowance for doubtful accounts	$8	$3	$(4)	$—	$7
Valuation allowance for deferred taxes	1,657	(1)	—	39	1,695
Successor – Year Ended December 31, 2011:					
Allowance for doubtful accounts	$—	$8	$—	$—	$8
Valuation allowance for deferred taxes	1,463	190	—	4	1,657
Successor – Three Months Ended December 31, 2010:					
Allowance for doubtful accounts	$—	$(4)	$4	$—	$—
Valuation allowance for deferred taxes	1,485	(9)	—	(13)	1,463
Predecessor – Nine Months Ended October 1, 2010:					
Allowance for doubtful accounts	$23	$3	$(2)	$(24)	$—
Valuation allowance for deferred taxes	2,238	(774)	—	21	1,485

(a) Deductions represent uncollectible accounts charged off.
(b) Valuation allowance for deferred taxes

Represents adjustments recorded through other comprehensive income, exchange and valuation allowance charges allocated to discontinued operations.

Allowance for doubtful accounts

Other represents the revaluation of accounts receivable to fair value upon the adoption of fresh-start accounting in connection with the emergence from bankruptcy on October 1, 2010.

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Signatures

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, Visteon Corporation has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

VISTEON CORPORATION

By: /s/ Michael J. Widgren
Michael J. Widgren
Vice President, Corporate Controller and Chief Accounting Officer

Date: February 28, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on February 28, 2013, by the following persons on behalf of Visteon Corporation and in the capacities indicated.

Signature	Title
/s/ TIMOTHY D. LEULIETTE Timothy D. Leuliette	Director, President and Chief Executive Officer (Principal Executive Officer)
/s/ JEFFREY M. STAFEIL Jeffrey M. Stafeil	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ MICHAEL J. WIDGREN Michael J. Widgren	Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)
/s/ DUNCAN H. COCROFT* Duncan H. Cocroft	Director
/s/ JEFFREY D. JONES* Jeffrey D. Jones	Director
/s/ ROBERT MANZO* Robert Manzo	Director
/s/ FRANCIS M. SCRICCO* Francis M. Scricco	Director
/s/ DAVID L. TREADWELL* David L. Treadwell	Director
/s/ HARRY J. WILSON* Harry J. Wilson	Director

*By: /s/ PETER M. ZIPARO

Peter M. Ziparo
Attorney-in-Fact

Exhibit Index

Exhibit No.	Description
2.1	Fifth Amended Joint Plan of Reorganization, filed August 31, 2010 (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of Visteon Corporation filed on September 7, 2010 (File No. 001-15827)).
2.2	Fourth Amended Disclosure Statement, filed June 30, 2010 (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K of Visteon Corporation filed on September 7, 2010 (File No. 001-15827)).
3.1	Second Amended and Restated Certificate of Incorporation of Visteon Corporation (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form 8-A of Visteon Corporation filed on September 30, 2010 (File No. 000-54138)).
3.2	Third Amended and Restated Bylaws of Visteon Corporation, as amended through February 28, 2012 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of Visteon Corporation filed on March 1, 2012).
4.1	Warrant Agreement, dated as of October 1, 2010, by and between Visteon Corporation and Mellon Investor Services LLC (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form 8-A of Visteon Corporation filed on September 30, 2010 (File No. 000-54138)).
4.2	Warrant Agreement, dated as of October 1, 2010, by and between Visteon Corporation and Mellon Investor Services LLC (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form 8-A of Visteon Corporation filed on September 30, 2010 (File No. 000-54138)).
4.3	Form of Common Stock Certificate of Visteon Corporation (incorporated by reference to Exhibit 4.4 to the Current Report on Form 8-K of Visteon Corporation filed on October 1, 2010 (File No. 001-15827)).
4.4	Indenture, dated as of April 6, 2011, among Visteon Corporation, the guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as trustee, including the Form of 6.75% Senior Note due 2019 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Visteon Corporation filed on April 7, 2011 (File No. 001-15827)).
4.5	Indenture, dated as of December 20, 2011, by and between Visteon Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-3 of Visteon Corporation filed on December 20, 2011 (File No. 333-178639)).
10.1	Registration Rights Agreement, dated as of October 1, 2010, by and among Visteon Corporation and certain investors listed therein (incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K of Visteon Corporation filed on October 1, 2010 (File No. 001-15827)).
10.2	Equity Commitment Agreement, dated as of May 6, 2010, by and among Visteon Corporation, Alden Global Distressed Opportunities Fund, L.P., Allen Arbitrage, L.P., Allen Arbitrage Offshore, Armory Master Fund Ltd., Capital Ventures International, Caspian Capital Partners, L.P., Caspian Select Credit Master Fund, Ltd., Citadel Securities LLC, CQS Convertible and Quantitative Strategies Master Fund Limited, CQS Directional Opportunities Master Fund Limited, Crescent 1 L.P., CRS Fund Ltd., CSS, LLC, Cumber International S.A., Cumberland Benchmarked Partners, L.P., Cumberland Partners, Cyrus Europe Master Fund Ltd., Cyrus Opportunities Master Fund II, Ltd., Cyrus Select Opportunities

Master Fund, Ltd., Deutsche Bank Securities Inc. (solely with respect to the Distressed Products Group), Elliott International, L.P., Goldman, Sachs & Co. (solely with respect to the High Yield Distressed Investing Group), Halbis Distressed Opportunities Master Fund Ltd., Kivu Investment Fund Limited, LongView Partners B, L.P., Mariner LDC (Caspian), Mariner LDC (Riva Ridge), Merced Partners II, L.P., Merced Partners Limited Partnership, Monarch Master Funding Ltd., NewFinance Alden SPV, Oak Hill Advisors, L.P., Quintessence Fund L.P., QVT Fund LP, Riva Ridge Master Fund, Ltd., Seneca Capital LP, Silver Point Capital, L.P., SIPI Master Ltd., Solus Alternative Asset Management LP, Spectrum Investment Partners, L.P., Stark Criterion Master Fund Ltd., Stark Master Fund Ltd., The Liverpool Limited Partnership, The Seaport Group LLC Profit Sharing Plan, UBS Securities LLC, Venor Capital Management, Whitebox Combined Partners, L.P., and Whitebox Hedged High Yield Partners, L.P. (incorporated by reference to Exhibit 2.1 to the Quarterly Report on Form 10-Q of Visteon Corporation filed on August 9, 2010 (File No. 001-15827)).

Exhibit No.	Description
10.3	First Amendment, dated as of June 13, 2010, to the Equity Commitment Agreement, by and among Visteon Corporation, Alden Global Distressed Opportunities Fund, L.P., Allen Arbitrage, L.P., Allen Arbitrage Offshore, Armory Master Fund Ltd., Capital Ventures International, Caspian Capital Partners, L.P., Caspian Select Credit Master Fund, Ltd., Citadel Securities LLC, CQS Convertible and Quantitative Strategies Master Fund Limited, CQS Directional Opportunities Master Fund Limited, Crescent 1 L.P., CRS Fund Ltd., CSS, LLC, Cumber International S.A., Cumberland Benchmarked Partners, L.P., Cumberland Partners, Cyrus Europe Master Fund Ltd., Cyrus Opportunities Master Fund II, Ltd., Cyrus Select Opportunities Master Fund, Ltd., Deutsche Bank Securities Inc. (solely with respect to the Distressed Products Group), Elliott International, L.P., Goldman, Sachs & Co. (solely with respect to the High Yield Distressed Investing Group), Halbis Distressed Opportunities Master Fund Ltd., Kivu Investment Fund Limited, LongView Partners B, L.P., Mariner LDC (Caspian), Mariner LDC (Riva Ridge), Merced Partners II, L.P., Merced Partners Limited Partnership, Monarch Master Funding Ltd., NewFinance Alden SPV, Oak Hill Advisors, L.P., Quintessence Fund L.P., QVT Fund LP, Riva Ridge Master Fund, Ltd., Seneca Capital LP, Silver Point Capital, L.P., SIPI Master Ltd., Solus Alternative Asset Management LP, Spectrum Investment Partners, L.P., Stark Criterion Master Fund Ltd., Stark Master Fund Ltd., The Liverpool Limited Partnership, The Seaport Group LLC Profit Sharing Plan, UBS Securities LLC, Venor Capital Management, Whitebox Combined Partners, L.P., and Whitebox Hedged High Yield Partners, L.P. (incorporated by reference to Exhibit 2.2 to the Quarterly Report on Form 10-Q of Visteon Corporation filed on August 9, 2010 (File No. 001-15827)).
10.4	Registration Rights Agreement, dated as of April 6, 2011, among Visteon Corporation and the guarantors and initial purchasers party thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Visteon Corporation filed on April 7, 2011 (File No. 001-15827)).
10.5	Global Settlement and Release Agreement, dated September 29, 2010, by and among Visteon Corporation, Ford Motor Company and Automotive Components Holdings, LLC (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of Visteon Corporation filed on October 1, 2010 (File No. 001-15827)).
10.6	Form of Revolving Loan Credit Agreement, dated October 1, 2010, as amended and restated as of April 6, 2011, by and among Visteon Corporation, certain of its domestic subsidiaries signatory thereto, Morgan Stanley Senior Funding, Inc., as administrative agent and co-collateral agent, Bank of America, N.A., as co-collateral agent, and the lenders and L/C issuers party thereto (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Visteon Corporation filed on April 7, 2011 (File No. 001-15827)).
10.6.1	Fourth Amendment to Revolving Loan Credit Agreement, dated as of April 3, 2012, by and among Visteon Corporation, certain of its domestic subsidiaries signatory thereto, Morgan Stanley Senior Funding, Inc., as administrative agent and co-collateral agent, Bank of America, N.A., as co-collateral agent, and the lenders and L/C issuers party thereto (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q of Visteon Corporation filed on May 2, 2012).
10.6.2	Fifth Amendment to Revolving Loan Credit Agreement and Consent, dated as of July 3, 2012, by and among Visteon Corporation, certain of its domestic subsidiaries signatory thereto, Morgan Stanley Senior Funding, Inc., as administrative agent and co-collateral agent, Bank of America, N.A., as co-collateral agent, and the lenders and L/C issuers party thereto (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Visteon Corporation filed on August 2, 2012).
10.6.3	

	Sixth Amendment to Revolving Loan Credit Agreement, dated as of January 28, 2013, by and among Visteon Corporation, certain of its domestic subsidiaries signatory thereto, Morgan Stanley Senior Funding, Inc., as administrative agent and co-collateral agent, Bank of America, N.A., as co-collateral agent, and the lenders and L/C issuers party thereto.
10.7	Asset Purchase Agreement, dated as of March 9, 2012, by and among Visteon Corporation, certain of Visteon's subsidiaries, VARROCCORP Holding BV and Varroc Engineering Pvt. Ltd. (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Visteon Corporation filed on May 2, 2012).
10.8	Letter Agreement between Visteon Corporation and Alden Global Distressed Opportunities Master Fund, L.P., dated as of May 11, 2011 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Visteon Corporation filed on May 12, 2011 (File No. 001-15827)).
10.9	Registration Rights Agreement between Visteon Corporation and Evercore Trust Company, N.A., independent fiduciary of the Visteon Defined Benefit Master Trust, dated as of January 9, 2012 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Visteon Corporation filed on January 10, 2012 (File No. 001-15827)).
10.10	KRW 1 Trillion Bridge Loan Agreement, dated as of July 4, 2012, by and among Visteon Korea Holdings Company and Kookmin Bank (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Visteon Corporation filed on August 2, 2012).

Exhibit No.	Description
10.10.1	Amendment and Restatement Relating Bridge Facility Agreement, dated as of July 30, 2012, by and among Visteon Korea Holdings Corporation and Kookmin Bank (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of Visteon Corporation filed on August 2, 2012).
10.11	Visteon Corporation 2010 Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8 of Visteon Corporation filed on September 30, 2010 (File No. 333-169695)).*
10.11.1	Form of Terms and Conditions of Initial Restricted Stock Grants under the Visteon Corporation 2010 Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-8 of Visteon Corporation filed on September 30, 2010 (File No. 333-169695)).*
10.11.2	Form of Terms and Conditions of Initial Restricted Stock Unit Grants under the Visteon Corporation 2010 Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-8 of Visteon Corporation filed on September 30, 2010 (File No. 333-169695)).*
10.11.3	Form of Terms and Conditions of Nonqualified Stock Options under the Visteon Corporation 2010 Incentive Plan (incorporated by reference to Exhibit 10.10.3 to the Annual Report on Form 10-K of Visteon for the period ended December 31, 2010).*
10.11.4	Form of Terms and Conditions of Stock Appreciation Rights under the Visteon Corporation 2010 Incentive Plan (incorporated by reference to Exhibit 10.10.4 to the Annual Report on Form 10-K of Visteon for the period ended December 31, 2010).*
10.11.5	Form of Terms and Conditions of Restricted Stock Grants under the Visteon Corporation 2010 Incentive Plan (incorporated by reference to Exhibit 10.10.5 to the Annual Report on Form 10-K of Visteon for the period ended December 31, 2010).*
10.11.6	Form of Terms and Conditions of Restricted Stock Unit Grants under the Visteon Corporation 2010 Incentive Plan (incorporated by reference to Exhibit 10.10.6 to the Annual Report on Form 10-K of Visteon for the period ended December 31, 2010).*
10.11.7	Form of Terms and Conditions of Performance Unit Grants under the Visteon Corporation 2010 Incentive Plan (incorporated by reference to Exhibit 10.10.7 to the Annual Report on Form 10-K of Visteon for the period ended December 31, 2010).*
10.11.8	Form of Terms and Conditions of Performance Unit Grants under the Visteon Corporation 2010 Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Visteon Corporation filed on March 5, 2012).*
10.11.9	Restricted Stock Unit Grant Agreement for Timothy D. Leuliette under the Visteon Corporation 2010 Incentive Plan (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Visteon Corporation filed on October 2, 2012).*
10.11.10	Performance Stock Unit Grant Agreement for Timothy D. Leuliette under the Visteon Corporation 2010 Incentive Plan (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of Visteon Corporation filed on October 2, 2012).*
10.11.11	

	Amendment, dated as of September 13, 2012, to the Terms and Conditions of Restricted Stock Grants under the Visteon Corporation 2010 Incentive Plan and the Terms and Conditions of Restricted Stock Unit Grants under the Visteon Corporation 2010 Incentive Plan (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Visteon Corporation filed on September 18, 2012).*
10.11.12	Form of executive Performance Stock Unit Grant Agreement (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Visteon Corporation filed on October 31, 2012).*
10.11.13	Form of executive Restricted Stock Unit Grant Agreement (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of Visteon Corporation filed on October 31, 2012).*
10.11.14	Restricted Stock Unit Grant Agreement, dated October 18, 2012, between Visteon Corporation and Francis M. Scricco, Chairman (incorporated by reference to Exhibit 10.18 to the Quarterly Report on Form 10-Q of Visteon Corporation filed on November 1, 2012).*
10.12	Visteon Corporation Amended and Restated Deferred Compensation Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.11 to the Registration Statement on Form S-1 of Visteon Corporation filed on October 22, 2010 (File No. 333-107104)).*
10.13	Visteon Corporation 2010 Supplemental Executive Retirement Plan, as amended and restated (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Visteon Corporation filed on November 3, 2011 (File No. 001-15827)).*

Exhibit No.	Description
10.13.1	Amendment, dated as of September 13, 2012, to the Visteon Corporation 2010 Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Visteon Corporation filed on September 18, 2012).*
10.14	Visteon Corporation 2011 Savings Parity Plan (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Visteon Corporation filed on November 3, 2011 (File No. 001-15827)).*
10.14.1	Amendment, dated as of September 13, 2012, to the Visteon Corporation 2011 Savings Parity Plan, as amended through September 13, 2012 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Visteon Corporation filed on September 18, 2012).*
10.15	2010 Visteon Executive Severance Plan, as amended and restated as of October 18, 2012 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Visteon Corporation filed on October 31, 2012).*
10.16	Visteon Corporation Non-Employee Director Stock Unit Plan (incorporated by reference to Exhibit 10.15 to Amendment No. 2 to the Registration Statement on Form S-1 of Visteon Corporation filed on December 22, 2010 (File No. 333-170104)).*
10.17	Form of Executive Retiree Health Care Agreement (incorporated by reference to Exhibit 10.23 to the Annual Report on Form 10-K of Visteon for the period ended December 31, 2009).*
10.17.1	Schedule identifying substantially identical agreements to Executive Retiree Health Care Agreement constituting Exhibit 10.17 hereto entered into by Visteon with Mr. Stebbins.*
10.18	Employment Agreement, dated October 1, 2010, by and between Visteon Corporation and Donald J. Stebbins (incorporated by reference to Exhibit 10.5 to the current report on Form 8-K of Visteon Corporation filed on October 1, 2010 (File No. 001-15827)).*
10.19	Employment Agreement, dated as of December 12, 2011, between Visteon Engineering Services Ltd. and Robert C. Pallash (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Visteon Corporation filed on May 2, 2012).*
10.20	P.R. China Employment Agreement, dated as of December 12, 2011, between Visteon Asia Pacific, Inc. and Robert C. Pallash (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of Visteon Corporation filed on May 2, 2012).*
10.21	Letter Agreement, dated August 10, 2012, relating to the appointment of Timothy D. Leuliette as Interim Chairman of the Board, Interim Chief Executive Officer and Interim President (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Visteon Corporation filed on August 13, 2012).*
10.22	Employment Agreement by and between Timothy D. Leuliette and Visteon Corporation, dated as of September 30, 2012 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Visteon Corporation filed on October 2, 2012).*
10.23	Separation Agreement by and between Donald J. Stebbins and Visteon Corporation, dated as of August 10, 2012 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Visteon Corporation filed on August 13, 2012).*

10.24	Separation Agreement by and between Martin E. Welch III and Visteon Corporation, dated as of October 3, 2012 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Visteon Corporation filed on October 4, 2012).*
10.25	Change in Control Agreement by and between Timothy D. Leuliette and Visteon Corporation, dated as of September 30, 2012 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Visteon Corporation filed on October 2, 2012).*
10.26	Form of Change in Control Agreement between Visteon Corporation and executive officers of Visteon Corporation (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Visteon Corporation filed on October 31, 2012).*
10.26.1	Schedule identifying substantially identical agreements to Officer Change in Control Agreement constituting Exhibit 10.26 hereto entered into by Visteon Corporation with Messrs. Pallash, Meszaros, Sharnas, Shull, Stafeil and Widgren and Ms. Greenway.*
10.27	Change in Control Agreement, effective as of October 17, 2011, between Visteon Corporation and Martin E. Welch III (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of Visteon Corporation filed on November 3, 2011 (File No. 001-15827)).*
10.28	Master Share Purchase Agreement, dated as of January 11, 2013, by and among Visteon Corporation, certain subsidiaries of Visteon Corporation, and Halla Climate Control Corporation.
12.1	Statement re: Computation of Ratios.
14.1	Visteon Corporation - Ethics and Integrity Policy (code of business conduct and ethics) (incorporated by reference to Exhibit 14.1 to the Quarterly Report on Form 10-Q of Visteon dated July 30, 2008).

Exhibit No.	Description
21.1	Subsidiaries of Visteon Corporation.
23.1	Consent of Independent Registered Public Accounting Firm, PricewaterhouseCoopers LLP.
23.2	Consent of Independent Registered Public Accounting Firm, Ernst & Young LLP.
24.1	Powers of Attorney relating to execution of this Annual Report on Form 10-K.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer dated February 28, 2013.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer dated February 28, 2013.
32.1	Section 1350 Certification of Chief Executive Officer dated February 28, 2013.
32.2	Section 1350 Certification of Chief Financial Officer dated February 28, 2013.
101.INS	XBRL Instance Document.**
101.SCH	XBRL Taxonomy Extension Schema Document.**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.**

*Indicates that exhibit is a management contract or compensatory plan or arrangement.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files as Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

In lieu of filing certain instruments with respect to long-term debt of the kind described in Item 601(b)(4) of Regulation S-K, Visteon agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.