AMERICAN BILTRITE INC
Form 10-K
March 30, 2009

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

FORM 10-K

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

For the fiscal year ended December 31, 2008

Commission File Number 1-4773

AMERICAN BILTRITE INC.
(Exact name of registrant as specified in its charter)

Delaware	04-1701350
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

57 River Street
Wellesley Hills, MA 02481-2097
(Address of Principal Executive Offices)
(781) 237-6655
(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $.01 Par Value	NYSE Amex

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES [ ] NO [X]

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the 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 12 months and (2) has been subject to such filing requirements for the past 90 days. 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 the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2008 was $7.4 million.

The number of shares of the registrant's common stock, par value $.01 per share, outstanding as of March 16, 2009 was 3,441,551.

Documents Incorporated by Reference – Portions of the proxy statement for the annual meeting of stockholders to be held on May 12, 2009, which will be filed by the registrant within 120 days after December 31, 2008, are incorporated by reference into Part III of this Annual Report on Form 10-K.

Factors That May Affect Future Results – Some of the information presented in or incorporated by reference in this report constitutes “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks, uncertainties and assumptions. These forward-looking statements are based on the registrant's expectations, as of the date of this report, of future events. Except as required by applicable law, the registrant undertakes no obligation to update any of these forward-looking statements. Although the registrant believes that its expectations are based on reasonable assumptions, within the bounds of its knowledge of its business and operations, there can be no assurance that actual results will not differ materially from its expectations. Readers are cautioned not to place undue reliance on any forward-looking statements. Factors that could cause or contribute to the registrant's actual results differing from its expectations include those factors discussed elsewhere in this report, including in Item 1A (Risk Factors).

PART I

ITEM 1. BUSINESS

General Development of Business

American Biltrite Inc. (together with, unless the context otherwise indicates, its wholly-owned subsidiaries and K&M Associates L.P., "ABI" or the "Company") was organized in 1908 and is a Delaware corporation. ABI's major operations include its Tape Division, a controlling interest in K&M Associates L.P., a Rhode Island limited partnership ("K&M"), and ownership of a Canadian subsidiary, American Biltrite (Canada) Ltd. ("AB Canada"). ABI also presently owns 55.4% of the outstanding common stock of Congoleum Corporation, a Delaware corporation ("Congoleum"). Congoleum filed a voluntary petition with the United States Bankruptcy Court for the District of New Jersey (the “Bankruptcy Court”) (Case No. 03-51524) seeking relief under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in 2003. ABI expects its ownership interest in Congoleum to be eliminated pursuant to the terms of the plan of reorganization for Congoleum pending in the Bankruptcy Court or any future plan or outcome in those proceedings.

The Tape Division produces adhesive-coated, pressure-sensitive papers and films used to protect material during handling or storage or to serve as a carrier for transferring decals or die-cut lettering. The Tape Division also produces pressure sensitive tapes and adhesive products used for applications in the heating, ventilating and air conditioning (HVAC), footwear, automotive, electrical and electronic industries.

In 1995, ABI acquired a controlling interest in K&M, a designer, supplier, distributor and servicer of a wide variety of adult, children's and specialty items of fashion jewelry and related accessories throughout the U.S. and Canada. ABI, through wholly-owned subsidiaries, owns an aggregate 94.5% interest (7% as sole general partner and 87.5% in limited partner interests) in K&M. K&M wholesales its products to mass merchandisers, specialty stores and department stores.

Congoleum is a leading manufacturer of resilient sheet and tile flooring. In 1993, ABI acquired an ownership position in Congoleum in exchange for its U.S. tile business (the "Tile Division"). In 1995, ABI acquired voting control of Congoleum when Congoleum sold a new issue of shares of its Class A common stock to the public which had one vote per share and used the proceeds to redeem most of the two-vote-per-share Class B shares held by the then majority shareholder. ABI's interest has increased further since then as a result of Congoleum's repurchases of its common stock combined with open market purchases of Congoleum common stock by ABI. As of December 31, 2008, ABI's ownership of 151,100 shares of Congoleum's Class A common stock and 4,395,605 shares of Congoleum's Class B common stock represented 69.4% of the outstanding equity voting interests of Congoleum.

Congoleum is a defendant in a large number of asbestos-related lawsuits. On December 31, 2003, Congoleum filed a voluntary petition with the Bankruptcy Court seeking relief under Chapter 11 of the Bankruptcy Code as a means to resolve claims asserted against it related to the use of asbestos in its products decades ago. During 2003, Congoleum had obtained the requisite votes of asbestos personal injury claimants necessary to seek approval of a proposed, pre-packaged Chapter 11 plan of reorganization. In January 2004, Congoleum filed its proposed plan of reorganization and disclosure statement with the Bankruptcy Court. From that filing through 2007, several subsequent plans were negotiated with representatives of the Asbestos Claimants' Committee (the "ACC"), the Future Claimants' Representative (the "FCR") and other asbestos claimant representatives. In addition, an insurance company, Continental Casualty Company, and its affiliate, Continental Insurance Company (collectively, "CNA"), filed a plan of reorganization and the Official Committee of Bondholders (the "Bondholders' Committee") (representing holders of Congoleum's 8 5/8% Senior Notes due August 1, 2008 (the "Senior Notes")) also filed a plan of reorganization. In May 2006, the Bankruptcy Court ordered the principal parties in interest in Congoleum's reorganization proceedings to participate in reorganization plan mediation discussions. Several mediation sessions took place during 2006, culminating in two competing plans, one which Congoleum filed jointly with the ACC in September 2006 (the "Tenth Plan") and the other filed by CNA, both of which the Bankruptcy Court subsequently ruled were not confirmable as a matter of law. In March 2007, Congoleum resumed global plan mediation discussions with the various parties seeking to resolve the issues raised in the Bankruptcy Court's ruling with respect to the Tenth Plan. In July 2007, the FCR filed a plan of reorganization and proposed disclosure statement. After extensive further mediation sessions, on February 5, 2008, the FCR, the ACC, the Bondholders' Committee and Congoleum jointly filed a plan of reorganization (the "Joint Plan"). The Bankruptcy Court approved the disclosure statement for the Joint Plan in February 2008, and the Joint Plan was solicited in accordance with court-approved voting procedures. Various objections to the Joint Plan were filed, and on May 12, 2008 the Bankruptcy Court heard oral argument on summary judgment motions relating to certain of those objections. On June 6, 2008, the Bankruptcy Court issued a ruling that the Joint Plan was not legally confirmable, and issued an Order to Show Cause why the case should not be converted or dismissed pursuant to 11 U.S.C. § 1112. Following a further hearing on June 26, 2008, the Bankruptcy Court issued an opinion that vacated the Order to Show Cause and instructed the parties to submit a confirmable plan by the end of calendar year 2008. Following further negotiations, the Bondholders' Committee, the ACC, the FCR, representatives of holders of pre-petition settlements and Congoleum reached an agreement in principle which the Company understands that Congoleum believe addressed the issues raised by the Bankruptcy Court in the ruling on the Joint Plan and in the court's prior decisions. A term sheet describing the proposed material terms of a contemplated new plan of reorganization and a settlement of avoidance litigation with respect to pre-petition claim settlements (the "Litigation Settlement") was entered into by those parties and was filed with the Bankruptcy Court on August 14, 2008. Certain insurers and a large bondholder have filed objections to the Litigation Settlement and/or reserved their rights to object to confirmation of the contemplated new plan of reorganization. The Bankruptcy Court approved the Litigation Settlement following a hearing on October 20, 2008, but the court reserved certain issues, including whether any plan of reorganization embodying the settlement meets the standards required for confirmation of a plan of reorganization. On November 14, 2008, Congoleum, the ACC and the Bondholders' Committee filed an amended joint plan of reorganization for Congoleum, et al. with the Bankruptcy Court (the "Amended Joint Plan"). In January 2009, an insurer filed a motion for summary judgment seeking denial of confirmation of the Amended

Joint Plan, and a hearing was held on February 5, 2009. On February 26, 2009, the Bankruptcy Court rendered an opinion denying confirmation of the Amended Joint Plan. Pursuant to the opinion, the Bankruptcy Court entered an order dismissing Congoleum's bankruptcy case (the "Order of Dismissal"). On February 27, 2009, Congoleum and the Bondholders' Committee appealed the Order of Dismissal to the U.S. District Court for the District of New Jersey. On March 3, 2009, an order was entered by the Bankruptcy Court granting a stay of the Bankruptcy Court's Order of Dismissal pending a final non-appealable decision affirming the Order of Dismissal. See Notes 1 and 9 of the Notes to Consolidated Financial Statements set forth in Item 8 of this Annual Report on Form 10-K.

Outside the United States, the Tape Division operates production facilities in Belgium, Italy and Singapore, where bulk tape products are converted into various sizes. Sales offices at the Singapore and Italy locations and sales representative offices in Shanghai, China, Bangkok Thailand and Seoul, South Korea enable quicker response to customer demands in the European and Asian markets. The Company's wholly-owned Canadian subsidiary, American Biltrite (Canada) Ltd., produces resilient floor tile, rubber tiles and rolled rubber flooring and industrial products (including conveyor belting, truck and trailer splash guards and sheet rubber material) and imports certain rubber and tile products from China for resale. K&M maintains a purchasing office in China, from which it sources the majority of the products it sells.

ABI owns 50% of Compania Hulera Sula, S.A. de C.V. ("Hulera Sula"), a Honduran corporation, which produces soles, heels, sandals and other footwear products under license from ABI. Hulera Sula in turn owns 100% of Hulera Sacatepequez, S.A., a Guatemalan corporation which manufactures products in Guatemala similar to those of Hulera Sula. Hulera Sula also owns 60% of Fomtex, S.A., a Guatemalan corporation, which manufactures foam mattresses, beds and other foam products. During 2008, the Company wrote off its investment of $850 thousand in Hulera Sula as a result of Hulera Sula's recent operating results and the uncertainty in the Company's ability to recover its investment.

In October 2003, ABI discontinued the operations of its wholly owned subsidiary Janus Flooring Corporation ("Janus Flooring"), which manufactured pre-finished hardwood flooring in Canada. Results from Janus Flooring, including charges resulting from the shutdown, are reported as a discontinued operation in the Company's consolidated financial statement set forth in Item 8 of this Annual Report on Form 10-K. During 2006, the remaining assets of Janus Flooring were sold, and the discontinued operation was effectively dissolved. As of December 31, 2006, the Company merged Janus Flooring with and into American Biltrite (Canada) Ltd. During 2008, the Company recognized a gain of approximately $1.0 million on the sale of land and building owned by Janus Flooring. The sale of the property occurred in 2006, but the gain was deferred until 2008 upon the final resolution of an environmental matter and receipt of payment on a note receivable from the buyer of the property.

For financial reporting purposes, ABI operates in four industry segments: flooring products (Congoleum), the Tape Division, jewelry (K&M) and the Canadian division, which produces flooring and rubber products. See Note 14 of the Notes to Consolidated Financial Statements set forth in Item 8 of this Annual Report on Form 10-K.

Narrative Description of Business

Marketing, Distribution and Sales The Tape Division's protective papers and films are sold domestically and throughout the world, principally through distributors, but also directly to certain manufacturers. Other tape products are marketed through the Tape Division's own sales force and by third-party sales representatives and distributors throughout the world. ABI's Belgian, Italian and Singapore facilities sell these products throughout Europe and the Far East.

The products of K&M are sold domestically and in Canada through its own direct sales force and through third-party sales representatives. K&M's business and operations experience seasonal variations. In general, fashion jewelry supply, distribution and service businesses respond to the seasonal demands of mass merchandisers and other major retailers, which typically peak in preparation for end-of-year holiday shopping. Accordingly, K&M's working capital needs tend to be greatest in the second and third fiscal quarters as it increases inventories in advance of its peak selling season, while its revenues tend to be greater toward the end of each fiscal year, especially in the latter part of the third quarter and the first half of the fourth quarter.

AB Canada's floor tile, rubber products and industrial products are marketed principally through distributors. Seasonal variations in the sales and working capital requirements of this division are not significant.

Congoleum currently sells its products through approximately 13 distributors providing approximately 43 distribution points in the United States and Canada, as well as directly to a limited number of mass market retailers. Congoleum considers its distribution network to be very important to maintaining a competitive position. Although Congoleum has more than one distributor in some of its distribution territories and actively manages its credit exposure to its customers, the loss of a major customer could have a materially adverse impact on Congoleum's business, results of operations and financial condition, at least until a suitable replacement is in place. The sales pattern for Congoleum's products is seasonal, with peaks in retail sales typically occurring during March/April/May and September/October. Orders are generally shipped as soon as a truckload quantity has been accumulated, and backorders can be canceled without penalty.

Hulera Sula's footwear and foam products are marketed and distributed in certain Central American countries.

Financial information about products that contributed more than 10% of the Company's consolidated revenue during the last two fiscal years is included in Note 14 of the Notes to the Consolidated Financial Statements set forth in Item 8 of this Annual Report on Form 10-K.

Working Capital and Cash Flow In general, ABI's working capital requirements are not affected by accelerated delivery requirements of major customers or by obtaining a continuous allotment of raw material from suppliers. ABI does not provide special rights for customers to return merchandise and does not provide special seasonal or extended terms to its customers. K&M does provide pre-approved allowances in the form of markdowns and return authorizations as required.

Congoleum produces goods for inventory and sells on credit to customers. Generally, Congoleum's distributors carry inventory as needed to meet local or rapid delivery requirements. Congoleum’s typical credit terms generally require payment on invoices within 31 days, with a discount available for earlier payment. These practices are typical within the industry.

During 2008, Congoleum paid $15.9 million in fees and expenses (net of recoveries) related to implementation of its planned reorganization under Chapter 11 and litigation with certain insurance companies. Congoleum expects to spend an additional $20.3 million in 2009 on these matters. At December 31, 2008, Congoleum had incurred but not paid approximately $7.4 million in additional fees and expenses for services rendered through that date with respect to these matters. Congoleum anticipates that its debtor-in-possession financing facility (including anticipated extensions thereof), together with cash from operations, will provide it with sufficient liquidity to operate during 2009 while under Chapter 11 protection. There can be no assurances that Congoleum will continue to be in compliance with the required covenants under this facility or that the debtor-in-possession facility (as extended) will be renewed prior to its expiration if a plan of reorganization is not confirmed before that time. For a plan of reorganization to be confirmed, Congoleum will need to obtain and demonstrate the sufficiency of financing needed to effectuate the plan and emerge from its Chapter 11 case. Congoleum cannot presently determine the terms of any such financing it might obtain, nor can there be any assurances of its success obtaining it. As noted elsewhere in this Annual Report on Form 10-K, the Bankruptcy Court recently issued an opinion denying confirmation of the Amended Joint Plan and ordering Congoleum’s bankruptcy case be dismissed. That order is being appealed and the Bankruptcy Court has granted a stay of its dismissal order pending a final non-appealable decision affirming the dismissal order.

In connection with Congoleum’s plan of reorganization, ABI expects to spend $300 thousand in 2009, which is not expected to have a material adverse effect on ABI’s working capital or cash flow. ABI and Congoleum have separate credit facilities which are governed by independent credit agreements, and ABI is generally not otherwise liable for the separate obligations of Congoleum.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – ABI and Non-Debtor Subsidiaries” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Congoleum” in Item 7 of this Annual Report on Form 10-K.

Raw Materials ABI generally designs and engineers its own products. Most of the raw materials required by ABI for its manufacturing operations are available from multiple sources; however, ABI does purchase some of its raw materials from a single source or supplier. Any significant delay in or disruption of the supply of raw materials could substantially increase ABI's cost of materials, require product reformulation or require qualification of new suppliers, any one or more of which could materially adversely affect the business, operations or financial condition of ABI.

Congoleum does not have readily available alternative sources of supply for specific designs of transfer print film, which are produced utilizing print cylinders engraved to Congoleum's specifications. Although no loss of this source of supply is anticipated, replacement could take a considerable period of time and interrupt production of certain products. Congoleum maintains a raw material inventory and has an ongoing program to develop new sources, which is designed to provide continuity of supply for its raw material requirements. Although the Company and Congoleum have generally not had difficulty in obtaining their requirements for these materials, they have occasionally experienced significant price increases for some of these materials. Although the Company and Congoleum have been able to obtain sufficient supplies of specialty resin and other raw materials, there can be no assurances that they may not experience difficulty obtaining supplies and raw materials in the future, particularly if global supply conditions deteriorate, which could have a material adverse effect on profit margins.

Competition All businesses in which ABI is engaged are highly competitive, principally based upon pricing of the product, the quality of the product and service to the customer. ABI’s tape products compete with products of some of the largest fully integrated rubber and plastic companies, as well as those of smaller producers. Included among its competitors are 3M, Nitto Permacel, Ivex/Novasol and R-Tape. AB Canada's flooring products compete with those of other manufacturers of rubber and resilient floor tiles and with all other types of floor covering. AB Canada also competes with Armstrong World Industries, Inc., Flexco/Roppe, Nora and Mondo and with other manufacturers of alternate floor covering products. In the rubber products category, AB Canada has several competitors, principally among them being GRT Division of Enpro and WARCO/Biltrite.

The market for Congoleum's products is highly competitive. Resilient sheet and tile compete for both residential and commercial customers primarily with carpeting, hardwood, melamine laminate and ceramic tile. In residential applications, both tile and sheet products are used primarily in kitchens, bathrooms, laundry rooms and foyers and, to a lesser extent, in playrooms and basements. Ceramic tile is used primarily in kitchens, bathrooms and foyers. Carpeting is used primarily in bedrooms, family rooms and living rooms. Hardwood flooring and melamine laminate are used primarily in family rooms, foyers and kitchens. Commercial grade resilient flooring faces substantial competition from carpeting, ceramic tile, rubber tile, hardwood flooring and stone in commercial applications. Congoleum believes, based upon its market research, that purchase decisions are influenced primarily by fashion elements such as design, color and style, durability, ease of maintenance, price and ease of installation. Both tile and sheet resilient flooring are easy to replace for repair and redecoration and, in Congoleum's view, have advantages over other floor covering products in terms of both price and ease of installation and maintenance.

Congoleum encounters competition from three other manufacturers in North America and, to a lesser extent, foreign manufacturers. In the resilient category, Armstrong World Industries, Inc. has the largest market share. Some of Congoleum's competitors have substantially greater financial and other resources and access to capital than Congoleum.

K&M competes with other companies that sell similar products on the basis of product pricing and the effectiveness of merchandising services offered. In assessing K&M's products and services, K&M's customers tend to focus on margin dollars realized from the customers' sales of product and return on inventory investment needed to be made by the customer in order to generate sales. In its business of supplying and servicing fashion jewelry and accessory products, K&M competes with a variety of competitors, among them are Liz Claiborne Inc., Jones Apparel Group and a number of other companies offering similar products and/or services. K&M also competes with numerous importers and overseas suppliers of similar items.

Patents and Trademarks ABI and its subsidiaries own many trademarks, including the Congoleum brand name, the AB® logo, TransferRite®, ProtecRite®, Autowrap®, Ideal Seal®, Therm-X®, and Ideal® at the Tape Division, Estrie®, AB Colors Plus® Dura-Shield® and Transseal® at AB Canada, and Amtico®, which is used solely in the Canadian market. These trademarks are important for the Company in maintaining a competitive position. K&M also licenses the Panama Jack®, Guess?®, Rocawear®, Its Happy Bunny®, and Peanuts® trademarks as well as certain others for use with its jewelry products. The licensing agreements are subject to expiration dates and other termination provisions, and the licensor or the Company may choose not to extend or renew certain agreements. The Company has an ongoing program seeking additional or replacement licenses. The Company also believes that patents and know-how play an important role in maintaining competitive position.

Research and Development Research and development efforts at the Company concentrate on new product development, increasing efficiencies of the various manufacturing processes, and improving the features and performance of existing products. Expenditures for research and development were $6.0 million and $6.2 million, on a consolidated basis, for 2008 and 2007, respectively.

Key Customers For the year ended December 31, 2008, two customers of Congoleum accounted for over 10% of ABI's consolidated net sales. The two customers together accounted for 63% of Congoleum's net sales of $172.6 million. These customers are Congoleum's distributor to the manufactured housing market, LaSalle-Bristol, and its largest retail distributor, Mohawk Industries, Inc. No other customer accounted for more than 10% of ABI's consolidated sales. The loss of one or both of these customers would have a material adverse effect on Congoleum's business, results of operations and financial condition and would likely have a material adverse effect on the Company's business, results of operations or financial condition.

K&M's top three customers in terms of net sales in 2008 together accounted for 54% of K&M's net sales. The loss of the largest of these customers would have a material adverse effect on K&M's business, results of operations and financial condition and would likely have a material adverse effect on the Company's business, results of operations or financial condition.

Sales to five unaffiliated customers of the Tape Division together constitute approximately 20% of the net sales for the Tape Division. The loss of the largest of these unaffiliated customers and/or two or more of the other four unaffiliated customers could have a material adverse effect on the Tape Division's business, results of operations and financial condition.

Sales to five unaffiliated customers of AB Canada together constitute approximately 22% of the net sales for AB Canada. The loss of the largest of these unaffiliated customers and/or two or more of the other four unaffiliated customers could have a material adverse effect on AB Canada's business, results of operations and financial condition.

AB Canada’s sales to Congoleum accounted for approximately 6% of AB Canada’s net sales in 2008. The loss of Congoleum’s business would have a significant, adverse effect on AB Canada’s revenue. These intercompany sales are eliminated from the Company’s consolidated financial statements, in accordance with generally accepted accounting principles. See Note 14 of the Notes to Consolidated Financial Statements set forth in Item 8 of this Annual Report on Form 10-K.

Backlog The dollar amount of backlog of orders believed to be firm as of December 31, 2008 and 2007 was $15.8 million and $16.3 million, respectively. It is anticipated that all of the backlog as of December 31, 2008 will be filled within the current fiscal year. There are no seasonal or other significant aspects of the backlog. In the opinion of management, backlog is not significant to the business of ABI.

Environmental Compliance Because of the nature of the operations conducted by ABI and Congoleum, each company’s facilities are subject to a broad range of federal, state, local and foreign legal and regulatory provisions relating to the environment, including those regulating the discharge of materials into the environment, the handling and disposal of solid and hazardous substances and wastes, and the remediation of contamination associated with releases of hazardous substances at owned or leased facilities and off-site disposal locations.

ABI and its subsidiaries, including Congoleum, have historically expended substantial amounts for compliance with existing environmental laws and regulations, including those matters described in Item 3 (Legal Proceedings) and Note 8 to the Notes to the Consolidated Financial Statements set forth in Item 8 of this Annual Report on Form 10-K. ABI and Congoleum will continue to be required to expend amounts in the future, due to the nature of past activities at their facilities, to comply with existing environmental laws, and those amounts may be substantial. Because environmental requirements have grown increasingly strict, however, ABI is unable to determine the ultimate cost of compliance with environmental laws and enforcement policies. The Company has established accruals for matters for which management considers a loss to be probable and reasonably estimable. ABI and Congoleum believe that compliance with existing federal, state, local and foreign provisions will not have a material adverse effect upon their financial positions nor do ABI and Congoleum expect to incur material recurring costs or capital expenditures relating to environmental matters, except as disclosed in Item 3 (Legal Proceedings) and Note 8 to the Notes to Consolidated Financial Statements set forth in Item 8 of this Annual Report on Form 10-K. However, there can be no assurances that the ultimate liability concerning these matters will not have a material adverse effect on the Company’s business, results of operations and financial condition.

Employees As of December 31, 2008, ABI and its subsidiaries employed approximately 1,300 people. Substantially all of ABI’s and its subsidiaries’ employees are employed on a full time basis.

Financial Information about Foreign and Domestic Operations and Export Sales

Financial information concerning foreign and domestic operations is in Note 14 of the Notes to the Consolidated Financial Statements set forth in Item 8 of this Annual Report on Form 10-K. The Company's consolidated export sales from the United States were $28.5 million in 2008 and $28.8 million in 2007.

Available Information

The Company is subject to the reporting and other information requirements of the Securities Exchange Act of 1934, as amended, and files annual, quarterly, and current reports, proxy statements and other documents with the Securities and Exchange Commission pursuant to those requirements. The public may read and copy any materials that the Company files with the Securities and Exchange Commission at the Securities and Exchange Commission's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. Also, the Securities and Exchange Commission maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the Securities and Exchange Commission. The public can obtain any documents that the Company files with the Securities and Exchange Commission at http://www.sec.gov.

Congoleum is also subject to the reporting and other information requirements of the Securities Exchange Act of 1934, as amended, and files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission pursuant to those requirements. Such reports, proxy statements and other information filed by or in connection with Congoleum with the Securities and Exchange Commission (the "Congoleum Reports") are available from the Securities and Exchange Commission in a similar manner as are the reports, proxy statements and other information filed by the Company with the Securities and Exchange Commission. The Company is providing this information regarding the availability of Congoleum Reports for informational purposes only. The Congoleum Reports are expressly not incorporated into or made a part of this report or any other reports, statements or other information filed by the Company with the Securities and Exchange Commission or otherwise made available by the Company. The Company expressly disclaims any liability for information disclosed or omitted in the Congoleum Reports and, except as required by the federal securities laws, expressly disclaims any obligation to update or correct any information included in the Congoleum Reports.

Item 1A. RISK FACTORS

The Company's independent registered public accountant has included a going concern paragraph in its opinion on the Company's consolidated financial statements.

The Company's independent registered public accountant has issued an opinion on the Company's consolidated financial statements that states that the consolidated financial statements were prepared assuming the Company will continue as a going concern and further states that the Company's need to refinance its credit facility raises substantial doubt about its ability to continue as a going concern. The Company's existing principal credit facility expires on September 30, 2009. As noted elsewhere in this Annual Report on Form 10-K, the Company is negotiating with its current lenders to obtain an amendment or waiver to address certain financial covenants under the Company's existing principal credit agreement which the Company expects it would not comply with for the period ended March 31, 2009 and subsequent periods and is negotiating to obtain alternative financing to replace its existing credit agreement, including the term loan and credit facility included as part of its credit agreement. If the Company is unable to obtain such an amendment or waiver or to obtain alternative financing on satisfactory terms, the Company may not be able to continue as a going concern.

The Company will have to amend its existing principal credit agreement, or obtain a waiver from its lenders, to cure defaults under that agreement, or obtain sufficient alternative financing.

The Company has had to amend its principal credit agreement several times in the past in order to avoid being in default of that agreement as a result of failing to satisfy certain financial covenants contained in that agreement. The Company currently expects that it would fail to comply with certain financial covenants under the credit agreement for the period ended March 31, 2009 and subsequent periods. As a result, the Company is currently negotiating with its lenders to amend the credit agreement to address, or obtain a waiver for, any such breaches. If an event of default were to occur, the lenders could cease to make borrowings available under the credit facility and require the Company to repay all amounts outstanding under the credit agreement. If the Company were unable to repay those amounts due, the lenders could have their rights over the collateral (most of the Company's and its subsidiaries' (excluding Congoleum) assets, as applicable) exercised, which would likely have a material adverse effect on the Company's business, results of operations or financial condition. Although the Company currently anticipates that it will be able to obtain a waiver or enter an amendment to address these matters, there can be no assurance that the Company will be successful in this regard. Further, any waiver or amendment the Company may obtain is expected to be limited in scope and duration such that the Company would likely need to obtain further amendments or waivers in the future or obtain alternative financing.

The Company relies on its revolving credit facility to fund its business, operations and working capital needs. That revolving credit facility expires on September 30, 2009 and the Company may not be able to renew or replace that facility on satisfactory terms.

The Company relies on borrowings under its $30 million revolving credit facility which is governed by its principal credit agreement to fund its business and operations. If the Company is not able to generate sufficient cash flows from its operations as a result of the current recession in the United States or otherwise, it may have greater reliance on the availability of borrowings under its credit facility. The Company's credit facility is scheduled to expire on September 30, 2009. As noted in the risk factor above "The Company will have to amend its existing principal credit agreement, or obtain a waiver from its lenders, to cure defaults under that agreement, or obtain sufficient alternative financing", the Company needs to obtain an amendment to the credit agreement, or a waiver from its lenders, to address financial covenants under that agreement which the Company expects it would not comply with for the period ended March 31, 2009 and subsequent periods. In addition, the Company will need to extend, refinance or replace the credit facility under the credit agreement by the expiration date or any earlier time required by any waiver or amendment it may enter into to address the expected covenant breaches. The Company is currently negotiating for alternative financing to replace its credit agreement. There can be no assurances that the Company will be able to obtain alternative financing on satisfactory terms. The global credit markets have recently been experiencing substantial disruption, and as a result, credit has become more expensive and difficult to obtain. In addition, creditors have generally been imposing more stringent restrictions on the terms of credit. If these conditions continue to exist, the Company may be unable to obtain adequate alternative financing and any alternative financing the Company may obtain may be significantly more expensive and restrictive than the terms under the existing credit agreement. If the terms of any alternative financing that the Company may obtain were significantly more expensive or restrictive or failed to provide the Company with sufficient funds for operations or otherwise, the Company's business, results of operations or financial condition would be materially adversely affected. In addition, if a lender under the existing or any future credit facility the Company may obtain fails to fund a request by the Company to borrow money under that credit facility, the Company's business, results of operations or financial condition may be materially adversely affected.

In addition, similar to the terms of the Company's existing principal credit agreement, any alternative financing the Company may obtain is expected to limit the Company's ability to obtain additional debt financing. Moreover, since the Company and most of its subsidiaries are expected to grant security interests in most of their assets as collateral for borrowings under any alternative financing the Company may obtain, the Company's ability to obtain any additional debt financing beyond that alternative financing will be limited.

The Company and its majority-owned subsidiary Congoleum have significant asbestos liability and funding exposure, and the Company's and Congoleum's strategies for resolving this exposure may not be successful. Any plan of reorganization for Congoleum is expected to result in elimination of the interests of Congoleum's equity holders, including the Company.

As more fully set forth in Notes 1, 8 and 9 of the Notes to Consolidated Financial Statements set forth in Item 8 of this Annual Report on Form 10-K, the Company and Congoleum have significant liability and funding exposure for asbestos personal injury claims. On December 31, 2003, Congoleum filed a voluntary petition with the Bankruptcy Court seeking relief under Chapter 11 of the Bankruptcy Code as a means to resolve claims asserted against it related to the use of asbestos in its products decades ago. An amended joint plan of reorganization for Congoleum proposed by the ACC, the Bondholders' Committee and Congoleum was filed in the Bankruptcy Court, which plan is referred to elsewhere in this Annual Report on Form 10-K as the "Amended Joint Plan." While Congoleum believed that the Amended Joint Plan had sufficient creditor support to be confirmed, the Bankruptcy Court recently issued an opinion denying confirmation of the Amended Joint Plan and ordering Congoleum's bankruptcy case be dismissed (which is referred to elsewhere in this Annual Report on Form 10-K as the "Order of Dismissal"). That order is being appealed with the United States District Court for the District of New Jersey and the Bankruptcy Court has granted a stay of its Order of Dismissal pending a final non-appealable decision affirming the Order of Dismissal. There can be no assurance that the appeal of the Order of Dismissal will be granted by the District Court or any other court which may be appealed to or that the Bankruptcy Court will not subsequently vacate its grant of a stay of its Order of Dismissal. If the appeal were denied, Congoleum's bankruptcy case could be dismissed, resulting in Congoleum no longer benefiting from the protection from creditor claims currently afforded to it by the chapter 11 case and the Bankruptcy Code. Further, as indicated in the Order of Dismissal, Congoleum's ability to refile another bankruptcy petition may be limited, which could result in Congoleum having to attempt to conduct its business and operations outside of the protections of the Bankruptcy Code, including attempting to defend against, satisfy or defray its creditor claims, such as its substantial asbestos liabilities and its Senior Notes, and continued litigation against its insurers to attempt to obtain insurance coverage for Congoleum's asbestos liabilities. It is unclear what effect the Order of Dismissal, the stay of the Bankruptcy Court's Order of Dismissal pending a final non-appealable decision affirming the Order of Dismissal and the continued litigation may have on Congoleum's business and operations, including with regard to its relationships with its vendors, suppliers, customers, lenders and other constituencies.

Under the terms of the Amended Joint Plan, ABI's ownership interest in Congoleum would be eliminated. ABI expects that its ownership interest in Congoleum would be eliminated under any alternate plan or outcome in Congoleum's Chapter 11 case.

ABI has certain intercompany claims against and arrangements with Congoleum. The Amended Joint Plan would govern an intercompany settlement and ongoing intercompany arrangements among ABI and its subsidiaries and reorganized Congoleum, which would be effective when the Amended Joint Plan took effect and would have a term of two years. Those intercompany arrangements include the provision of management services by ABI to reorganized Congoleum and other business relationships substantially consistent with their traditional relationships. The Amended Joint Plan provides that the final terms of the intercompany arrangements among ABI

and its subsidiaries and reorganized Congoleum would be memorialized in a new agreement to be entered into by reorganized Congoleum and American Biltrite in form and substance mutually agreeable to the Bondholders' Committee, the official asbestos claimants' committee and ABI. The existing arrangements currently in effect among ABI and its non-debtor subsidiaries and Congoleum expire on June 30, 2009, unless renewed. In addition, under the terms of the Amended Joint Plan, ABI's rights and claims to indemnification from Congoleum under the existing joint venture agreement between ABI and Congoleum that relate to ABI's contribution to Congoleum in 1993 of ABI's tile division, and the joint venture agreement itself, would have been deemed rejected and disallowed upon the effective date of the Amended Joint Plan, and therefore eliminated. The Amended Joint Plan's rejection and disallowance of the joint venture agreement and ABI's claims thereunder included any unfunded indemnification claims ABI may have had prepetition and during the pendency of Congoleum's Chapter 11 case as well as any such claims ABI might otherwise have been entitled to assert after the Amended Joint Plan became effective. If the appeal of the Order of Dismissal were denied, it is uncertain what would become of ABI's and its nondebtor subsidiaries' claims against and relationships with Congoleum, although ABI expects that those claims and relationships could be adversely affected and could even be rendered worthless. In addition, there can be no assurance that ABI, Congoleum and other applicable Congoleum constituencies will be able to reach agreement on the terms of any management services proposed to be provided by ABI to reorganized Congoleum or any other proposed business relationships among ABI and its affiliates and reorganized Congoleum. Any plan of reorganization for Congoleum that may be confirmed may have terms that differ significantly from the terms contemplated by the Amended Joint Plan, including with respect to any management services that may be provided by ABI to reorganized Congoleum and ABI's claims and interests and other business relationships with reorganized Congoleum.

In addition, in view of ABI's relationships with Congoleum, ABI will be affected by Congoleum's negotiations regarding, and its pursuit of, any plan of reorganization, and there can be no assurance as to what that impact, positive or negative, might be. In any event, the failure of Congoleum to obtain confirmation and consummation of a Chapter 11 plan of reorganization would have a material adverse effect on Congoleum's business, results of operations or financial condition and could have a material adverse effect on ABI's business, results of operations or financial condition.

Any plan of reorganization for Congoleum, if proposed, will be subject to numerous conditions, approvals and other requirements, including the receipt of necessary creditor, claimant and court approvals. Certain insurers have contested the reorganization plans previously filed by Congoleum in the Bankruptcy Court and Congoleum is involved in ongoing litigation against its insurers in a state court coverage action. If the insurers are successful in contesting the appeal of the Order of Dismissal, any future reorganization plan or in denying coverage under the insurance policies, such reorganization plan may not become effective. Further, even if the insurers are not successful in contesting the appeal of the Order of Dismissal, any future plan that may be proposed or in denying coverage under the insurance policies, Congoleum may be required to incur significant time and expense litigating against the insurers, which could further delay any confirmation or effectiveness of any reorganization plan. In order to obtain confirmation of any reorganization plan, Congoleum will need sufficient funds to pay for the

continued litigation with these insurers as well as the bankruptcy proceedings generally. In addition, for a plan of reorganization to be confirmed, Congoleum will need to obtain and demonstrate the sufficiency of exit financing. Congoleum cannot presently determine the terms of such financing, nor can there be any assurances of its success obtaining it, particularly in light of the recent substantial disruption in the global credit markets which has resulted in credit becoming more expensive and difficult to obtain. Moreover, the failure of any lender under any credit facility Congoleum may have or obtain to fund requests for borrowings by Congoleum could negatively impact Congoleum's business, results of operations or financial condition and its chances of obtaining confirmation of any plan of reorganization.

The Company has its own direct asbestos liability as well. The Company's strategy remains to vigorously defend against and strategically settle its asbestos claims on a case-by-case basis. To date, the Company's insurers have funded substantially all of the Company's liabilities and expenses related to its asbestos liability under the Company's applicable insurance policies. The Company expects its insurance carriers will continue to defend and indemnify it for a substantial amount of its asbestos liabilities for the foreseeable future pursuant to an umbrella/first-layer excess policies arrangement between the Company and the applicable insurance carriers. It is possible that asbestos claims may be asserted against the Company alleging exposure allocable solely to years in which the Company’s insurance policies excluded coverage for asbestos, that the policies providing coverage under the umbrella/first-layer excess policies arrangement will exhaust, or that the carriers responsible for such policies may at some future date be unwilling or unable to meet their obligations under the policies or that arrangement. If ABI were to incur significant additional asbestos liabilities for which it did not have insurance coverage or was not able to receive recoveries under its insurance policies due to the carriers which underwrote those policies being insolvent or otherwise, ABI may have to fund such liabilities, which could have a material adverse effect on ABI's business, results of operations or financial condition.

As a result of Congoleum's significant liability and funding exposure for asbestos claims, there can be no assurance that if Congoleum were to incur any unforecasted or unexpected liability or disruption to its business or operations it would be able to withstand that liability or disruption and continue as an operating company. Any significant increase of the Company's asbestos liability and funding exposure would likely have a material adverse effect on the Company's business, operations and financial condition and possibly its ability to continue as a going concern.

In the past, federal legislation has been proposed which would establish a national trust to provide compensation to victims of asbestos-related injuries and channel all current and future asbestos-related personal injury claims to that trust. In light of the numerous uncertainties surrounding this and other possible asbestos legislation in the United States, ABI does not know what effects any such legislation, if adopted, may have upon its or Congoleum's businesses, results of operations or financial conditions, or upon any plan of reorganization for Congoleum.

For further information regarding the Company's and Congoleum's asbestos liability, insurance coverage and strategies to resolve that asbestos liability, please see Notes 1, 8 and 9 of the Notes to Consolidated Financial Statements and "Management’s Discussion and Analysis of Financial Condition and Results of Operations," which are included in Part II, Item 8 and Part II, Item 9, respectively, of this Annual Report on Form 10-K.

Elimination of the Company’s equity interests in Congoleum could have a material adverse impact on the business relationships between ABI and Congoleum and ABI’s business, operations and financial condition.

ABI expects that its ownership interest in Congoleum will be eliminated under any plan or outcome in Congoleum’s Chapter 11 case. There can be no assurances as to the ownership structure under the terms of any new reorganization plan for Congoleum that may be proposed or how such structure and any other change in ownership and control may affect reorganized Congoleum’s business, operations and financial condition, or its future relationships with ABI.

ABI provides management services to Congoleum, sells and purchases products to and from Congoleum, and receives royalties from Congoleum. Agreements for these current intercompany arrangements expire on June 30, 2009, or upon the effectiveness of a plan of reorganization for Congoleum, whichever comes first. It is not known whether ABI, Congoleum and the other parties in interest will agree to extend the term of these arrangements, and if so, for how long any extension would last or what the terms of any such extension and related intercompany arrangements would be. The terms of the Amended Joint Plan provided for certain intercompany arrangements continuing for a two year period ending on the second anniversary of the effective date of the Amended Joint Plan pursuant to a new agreement to be entered into by ABI and reorganized Congoleum on the effective date of the Amended Joint Plan. The Amended Joint Plan provided that the new agreement would be in form and substance mutually agreeable to the Bondholders' Committee, the ACC and ABI. Pursuant to that new agreement, ABI's current chief executive officer would serve as a director and the chief executive officer of reorganized Congoleum and ABI would have to make available to reorganized Congoleum substantially all of his time during normal working hours on an annual basis, ABI would have to make available to reorganized Congoleum approximately 25% of the time of ABI's current president and chief operating officer during normal working hours and on an annual basis, and ABI's current chief financial officer would serve as the chief financial officer of reorganized Congoleum and ABI would have to make available to reorganized Congoleum approximately 50% of his time during normal working hours and on an annual basis. Expiration or termination of such intercompany arrangements, failure to reach definitive agreement on final terms of future arrangements between ABI and reorganized Congoleum, or failure to consummate such arrangements in connection with the effectiveness of a plan of reorganization for Congoleum or otherwise could have a material adverse impact on the business relationships between ABI and Congoleum, and ABI’s business, operations and financial condition.

The Company and Congoleum sell their products on credit and their customers may fail to pay, or they may extend the payment period, for products sold to them on credit.

The Company and Congoleum sell their products on credit. Customers purchasing goods on credit from the Company or Congoleum may default on their obligations to pay, or they may extend the payment period, for products sold to them on credit, which may result in an increased investment in accounts receivable by the Company or Congoleum. In light of the current recession in the United States, the risk that the Company and Congoleum may realize an increased investment in accounts receivable may be greater. To the extent the Company and Congoleum are unable to collect receivables owed to them in a timely fashion, increased demands may be placed on their respective working capital, which could have a material adverse effect on their respective businesses, results of operations or financial condition.

The Company and its majority-owned subsidiary Congoleum may incur substantial liability for environmental claims and compliance matters.

Due to the nature of the Company's and its majority-owned subsidiary Congoleum's businesses and certain of the substances which are or have been used, produced or discharged by them, the Company's and Congoleum's operations and facilities are subject to a broad range of federal, state, local and foreign legal and regulatory provisions relating to the environment, including those regulating the discharge of materials into the environment, the handling and disposal of solid and hazardous substances and wastes and the remediation of contamination associated with releases of hazardous substances at Company and Congoleum facilities and off-site disposal locations. The Company and Congoleum have historically expended substantial amounts for compliance with existing environmental laws or regulations, including environmental remediation costs at both third-party sites and Company and Congoleum-owned sites. The Company and Congoleum will continue to be required to expend amounts in the future because of the nature of their prior activities at their facilities, in order to comply with existing environmental laws, and those amounts may be substantial. Although the Company and Congoleum believe that those amounts should not have a material adverse effect on their respective financial positions, there is no certainty that these amounts will not have a material adverse effect on their respective financial positions because, as a result of environmental requirements becoming increasingly strict, neither the Company nor Congoleum is able to determine the ultimate cost of compliance with environmental laws and enforcement policies.

Moreover, in addition to potentially having to pay substantial amounts for compliance, future environmental laws or regulations may require or cause the Company or Congoleum to modify or curtail their operations, which could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company and its majority-owned subsidiary Congoleum, may incur substantial liability for other product and general liability claims.

In the ordinary course of their businesses, the Company and its majority-owned subsidiary Congoleum become involved in lawsuits, administrative proceedings, product liability claims and other matters. In some of these proceedings, plaintiffs may seek to recover large and sometimes unspecified amounts and the matters may remain unresolved for several years. These matters could have a material adverse effect on the Company's business, results of operations or financial condition if the Company or Congoleum, as applicable, is unable to successfully defend against or settle these matters, and its insurance coverage is insufficient to satisfy any judgments against it or settlements relating to these matters, or the Company or Congoleum, as applicable, is unable to collect insurance proceeds relating to these matters.

The Company and its majority-owned subsidiary Congoleum are dependent upon a continuous supply of raw materials from third party suppliers and would be harmed if there were a significant, prolonged disruption in supply or increase in its raw material costs.

The Company and its majority-owned subsidiary Congoleum generally design and engineer their own products. Most of the raw materials required by the Company for its manufacturing operations are available from multiple sources; however, the Company does purchase some of its raw materials from a single source or supplier. Any significant delay in or disruption of the supply of raw materials could substantially increase the Company's cost of materials, require product reformulation or require qualification of new suppliers, any one or more of which could materially adversely affect the Company's business, results of operations or financial condition. The Company's majority-owned subsidiary Congoleum does not have readily available alternative sources of supply for specific designs of transfer print paper, which are produced utilizing print cylinders engraved to Congoleum's specifications. Although Congoleum does not anticipate any loss of this source of supply, replacement could take a considerable period of time and interrupt production of certain products, which could have a material adverse affect on the Company's business, results of operations or financial condition. The Company and Congoleum have occasionally experienced significant price increases for some of its raw materials. Although the Company has been able to obtain sufficient supplies of raw materials, there can be no assurances that it may not experience difficulty in the future, particularly if global supply conditions deteriorate, which could have a material adverse effect on profit margins. In addition, raw material and energy costs increased sharply over the past year, particularly during the first half of 2008, which has negatively impacted the Company's and Congoleum's businesses and operating results. Although raw material and energy costs have recently declined, it is not known whether raw material and energy prices will remain lower or will revert to increasing price levels. In light of the current and forecasted economic conditions in the United States and the industries in which the Company and Congoleum conduct business, the Company and Congoleum may be unable to pass increased raw material and energy costs on to their respective customers.

The Company and its majority-owned subsidiary Congoleum operate in highly competitive markets and some of their competitors have greater resources, and in order to be successful, the Company and Congoleum must keep pace with and anticipate changing customer preferences.

The market for the Company's and its majority-owned subsidiary Congoleum's products and services is highly competitive. Some of their respective competitors have greater financial and other resources and access to capital. Furthermore, to the extent any of the Company's or Congoleum's competitors make a filing under Chapter 11 of the Bankruptcy Code and emerge from bankruptcy as continuing operating companies that have shed much of their pre-filing liabilities, those competitors could have a cost competitive advantage over Congoleum. In addition, in order to maintain their competitive positions, the Company and Congoleum may need to make substantial investments in their businessese="font-family:inherit;font-size:10pt;">
Other current assets
159

170

Total current assets
1,577

1,708

Property and equipment, net
352

345

Intangible assets, net
127

129

Investments in non-consolidated affiliates
39

45

Other non-current assets
151

146

Total assets
$
2,246

$
2,373

LIABILITIES AND EQUITY
Short-term debt, including current portion of long-term debt
$
42

$
36

Accounts payable
439

463

Accrued employee liabilities
90

103

Other current liabilities
234

309

Total current liabilities
805

911

Long-term debt
347

346

Employee benefits
305

303

Deferred tax liabilities
22

20

Other non-current liabilities
62

69

Stockholders' equity:

Preferred stock (par value $0.01, 50 million shares authorized, none outstanding as of June 30, 2017 and December 31, 2016)
—

—

Common stock (par value $0.01, 250 million shares authorized, 55 million shares issued, 31 and 33 million shares outstanding as of June 30, 2017 and December 31, 2016, respectively)
1

1

Additional paid-in capital
1,331

1,327

Retained earnings	1,377	1,269
Accumulated other comprehensive loss	(204)	(233)
Treasury stock	(1,936)	(1,778)
Total Visteon Corporation stockholders’ equity	569	586
Non-controlling interests	136	138
Total equity	705	724
Total liabilities and equity	$ 2,246	$ 2,373

See accompanying notes to the consolidated financial statements.

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

	Six Months Ended June 30	
	2017	2016
Operating Activities		
Net income	$115	$53
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	41	41
Equity in net income of non-consolidated affiliates, net of dividends remitted	(5)	(3)
Non-cash stock-based compensation	6	4
Gain on India operations repurchase	(7)	—
(Gains) losses on divestitures and impairments	(2)	4
Other non-cash items	3	1
Changes in assets and liabilities:		
Accounts receivable	8	27
Inventories	(8)	5
Accounts payable	(20)	(17)
Accrued income taxes	2	(49)
Other assets and other liabilities	(47)	(52)
Net cash provided from operating activities	86	14
Investing Activities		
Capital expenditures	(47)	(37)
India operations repurchase	(47)	—
Climate Transaction withholding tax refund	—	356
Settlement of net investment hedge	5	—
Short-term investments	—	47
Loans to non-consolidated affiliates, net of repayments	—	(12)
Proceeds from asset sales and business divestitures	13	4
Net cash (used by) provided from investing activities	(76)	358
Financing Activities		
Short-term debt, net	7	(10)
Principal payments on debt	(2)	(1)
Distribution payments	(1)	(1,736)
Repurchase of common stock	(160)	(500)
Dividends paid to non-controlling interests	(11)	—
Stock based compensation tax withholding payments	(1)	(11)
Other	(3)	—
Net cash used by financing activities	(171)	(2,258)
Effect of exchange rate changes on cash and equivalents	13	4
Net decrease in cash and equivalents	(148)	(1,882)
Cash and equivalents at beginning of the period	878	2,729
Cash and equivalents at end of the period	$730	$847

See accompanying notes to the consolidated financial statements.

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VISTEON CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Description of Business

Visteon Corporation (the "Company" or "Visteon") is a global automotive supplier that designs, engineers and manufactures innovative electronics products for nearly every original equipment vehicle manufacturer ("OEM") worldwide including Ford, Mazda, Nissan/Renault, General Motors, Honda, BMW and Daimler. Visteon is headquartered in Van Buren Township, Michigan and has an international network of manufacturing operations, technical centers and joint venture operations, supported by approximately 10,000 employees, dedicated to the design, development, manufacture and support of its product offerings and its global customers. The Company's manufacturing and engineering footprint is principally located outside of the United States. Visteon delivers value for its customers and stockholders through its technology-focused core vehicle cockpit electronics business. The Company's cockpit electronics product portfolio includes instrument clusters, information displays, infotainment systems, audio systems, telematics solutions, and head up displays. The Company's vehicle cockpit electronics business is comprised of and reported under the Electronics segment. In addition to the Electronics segment, the Company had operations in South America and Europe associated with the former Climate business, not subject to discontinued operations classification, that comprised Other, and were exited by December 31, 2016.

NOTE 2. Summary of Significant Accounting Policies

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

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

Other (Income) Expense, Net:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(Dollars in Millions)			
Transformation initiatives	$—	$ 1	$—	$ 4
Transaction exchange (gains) losses	—	(1)	—	—
Gain on non-consolidated affiliate transactions, net	(3)	—	(2)	—
	$(3)	$ —	$(2)	$ 4

Transformation initiative costs include information technology separation costs, integration of acquired business, and financial and advisory services incurred in connection with the Company's transformation into a pure play cockpit electronics business. The gain on non-consolidated affiliate transactions represents the Company's sale of two cost method investments and an equity method investment during the six months ended June 30, 2017 as further described in Note 4, "Non-Consolidated Affiliates."

Restricted Cash: Restricted cash represents amounts designated for uses other than current operations and includes $3 million related to the Letter of Credit Facility, and $1 million related to cash collateral for other corporate purposes as of June 30, 2017.

Recently Issued Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-9, "Revenue from Contracts with Customers," which is the new comprehensive revenue recognition standard that will supersede existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. This ASU allows for both retrospective and prospective methods of adoption.

The Company has, with other industry leaders, interacted with the FASB on certain interpretation issues as well as interacted with non-authoritative industry groups with respect to the implementation of the standard and will continue to monitor the interactions between its industry group and the standard setters. The Company does not expect any changes to how it accounts for reimbursable

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pre-production costs, currently accounted for as a cost reduction. In addition, the Company continues to evaluate its contracts with customers, analyzing the impact, if any, on revenue from the sale of production parts. Currently, the Company does not expect the adoption of this standard to have a material impact on its results of operations or financial position; however, the Company expects to expand disclosures in line with the requirements of the new standard. The Company will adopt this standard January 1, 2018 and has selected the modified retrospective transition method. Under the modified retrospective method, the Company would recognize the cumulative effect of initially applying the standard as an adjustment to opening retained earnings at the date of initial application. As a policy election, the Company plans to exclude all shipping and handling costs from revenue, which is consistent with current accounting.

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

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, these amendments are not expected to significantly impact net income, earnings per share, and the statement of cash flows. This new guidance was effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company's adoption of this standard did not have a material impact on its consolidated financial statements. The Company has adopted an entity-wide accounting policy election to account for forfeitures in compensation cost when they occur.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of certain cash receipts and cash payments." The ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain transactions are classified in the statement of cash flows. The ASU will be applied using a retrospective transition method to each period presented. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the presentation of net periodic pension cost and net periodic postretirement benefit cost." The ASU requires entities to present the service cost component of the net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. Entities will present the other components separately from the line item(s) that includes the service cost and outside of any subtotal of operating income, if one is presented, and disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. The standard will be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, for the guidance limiting the capitalization of net periodic benefit cost in assets to the service cost. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2017 and interim periods, with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." The ASU amends the scope of modification accounting for share-based payment arrangements, provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. The new guidance will allow companies to make certain changes to awards without accounting for them as modifications. It does not change the accounting for modifications. The new guidance will be applied prospectively to awards modified on or after the adoption date. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

NOTE 3. Discontinued Operations

During 2014 and 2015, the Company divested the majority of its global Interiors business (the "Interiors Divestiture") and completed the sale of its Argentina and Brazil interiors operations on December 1, 2016. Separately, the Company completed the sale of the majority of its global Climate business (the "Climate Transaction") during 2015. As the operations subject to the Interiors Divestiture

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and Climate Transaction met conditions required to qualify for discontinued operations reporting, the results of operations for the Interiors and Climate businesses have been reclassified to income (loss) from discontinued operations, net of tax in the consolidated statements of comprehensive income for the three and six month periods ended June 30, 2017 and 2016.

Discontinued operations are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(Dollars in Millions)			
Sales	$—	$11	$—	$20
Cost of sales	—	15	—	28
Gross margin	—	(4)	—	(8)
Selling, general and administrative expenses	—	2	—	2
Loss (gain) on Climate Transaction	—	2	(7)	2
Loss and impairment on Interiors Divestiture	—	1	—	2
Other expense, net	—	1	—	1
(Loss) income from discontinued operations before income taxes	—	(10)	7	(15)
(Benefit) provision for income taxes	—	(1)	(1)	7
Net (loss) income from discontinued operations, net of tax, attributable to Visteon	$—	$(9)	$8	$(22)

In connection with the Climate Transaction, the Company completed the repurchase of the electronics operations located in India during the first quarter of 2017 for $47 million, recognizing a $7 million gain on settlement of purchase commitment contingencies. The Company had previously consolidated the India operations based on the Company's controlling financial interest as a result of the repurchase obligation, operating control, and the obligation to fund losses or benefit from earnings.

During the six months ended June 30, 2016, the Company recorded currency impacts of $8 million in connection with the Korean capital gains withholding tax recovered during the first quarter of 2016.

NOTE 4. Non-Consolidated Affiliates

Non-Consolidated Affiliate Transactions

Visteon and Yangfeng Visteon Automotive Trim Systems Co. Ltd. ("YFV") each own 50% of a joint venture under the name of Yanfeng Visteon Electronic (China) Investment Co., Ltd. ("YFVIC"). In October 2014, YFVIC completed the purchase of YFV’s 49% direct ownership in Yanfeng Visteon Automotive Electronics Co., Ltd ("YFVE") a consolidated joint venture of the Company. The purchase by YFVIC was financed through a shareholder loan from YFV and external borrowings which were guaranteed by Visteon, of which $18 million is outstanding as of June 30, 2017. The guarantee contains standard non-payment provisions to cover the borrowers in event of non-payment of principal, accrued interest, and other fees, and the loan is expected to be fully paid by September 2019.

During the first quarter of 2017, the Company completed the sale of its 50% interest in an equity method investment for proceeds of $7 million, consistent with its carrying value. Additionally, the Company sold a cost method

investment for proceeds of approximately $3 million and recorded a pretax loss of $1 million classified as "Other (income) expense, net."

During the second quarter of 2017, the Company sold a cost method investment for proceeds of approximately $3 million. The Company recorded a pretax gain of $3 million classified as "Other (income) expense, net."

Investments in Affiliates

The Company recorded equity in net income of affiliates of $3 million for both three month periods ended June 30, 2017 and 2016. For the six month periods ended June 30, 2017 and 2016, the Company recorded net income of affiliates of $5 million and $3 million, respectively.

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Investments in affiliates were $39 million and $45 million as of June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017 and December 31, 2016, investments in affiliates accounted for under the equity method totaled $38 million and $40 million, respectively, while investments in affiliates accounted for under the cost method were $1 million and $5 million as of June 30, 2017 and December 31, 2016, respectively.

Variable Interest Entities

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

The Company determined that YFVIC, is a VIE. The Company holds a variable interest in YFVIC primarily related to its ownership interests and subordinated financial support. The Company and YFV each own 50% of YFVIC and neither entity has the power to control the operations of YFVIC, therefore the Company is not the primary beneficiary of YFVIC and does not consolidate the joint venture.

A summary of the Company's investments in YFVIC is provided below.

	June 30 2017	December 31 2016
	(Dollars in Millions)	
Payables due to YFVIC	$ 7	$ 14
Exposure to loss in YFVIC		
Investment in YFVIC	$ 26	$ 22
Receivables due from YFVIC	16	15
Subordinated loan receivable	22	22
Loan guarantee	18	22
Maximum exposure to loss in YFVIC	$ 82	$ 81

NOTE 5. Restructuring Activities

Given the economically-sensitive and highly competitive nature of the automotive electronics industry, the Company continues to closely monitor current market factors and industry trends, taking action as necessary which may include 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. During the three and six months ended June 30, 2017, the Company recorded $3 million and $4 million of restructuring expenses, net of reversals, respectively.

Electronics

During the fourth quarter of 2016, the Company announced a restructuring program impacting engineering and administrative functions to further align the Company's engineering and related administrative footprint with its core product technologies and customers. Through June 30, 2017, the Company has recorded approximately $31 million of restructuring expenses under this program, and expects to incur up to $45 million of restructuring costs associated with approximately 250 employees. During the three and six months ended June 30, 2017, the Company has recorded approximately $3 million and $4 million, respectively, of restructuring expenses under this program, and $18 million

remains accrued as of June 30, 2017. The Company expects to record additional restructuring costs related to this program as the underlying plan is finalized.

During the first quarter of 2016, the Company announced a restructuring program to transform the Company's engineering organization and supporting functional areas to focus on execution and technology. The organization will be comprised of regional engineering, product management and advanced technologies, and global centers of competence. For the three and six month periods ended June 30, 2016, the Company recorded $1 million and $12 million, respectively, of restructuring expenses under this program, associated with approximately 100 employees. As of June 30, 2017 the plan is considered substantially complete.

During 2015, the Company announced a restructuring program designed to reduce the workforce at a European Electronics facility, of which $5 million remains accrued as of June 30, 2017.

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In connection with the acquisition of substantially all of the global automotive electronic business of Johnson Controls Inc. (the "Electronics Acquisition") in 2014, the Company commenced a restructuring program designed to achieve cost savings through transaction synergies. Charges for the program are considered substantially complete and approximately $1 million remains accrued as of June 30, 2017.

Other and Discontinued Operations

During 2016, the Company recorded restructuring expenses related to severance and termination benefits primarily related to the wind-down of certain operations in South America. As of June 30, 2017, the plan is considered substantially complete.

As of June 30, 2017, the Company retained approximately $6 million of restructuring reserves as part of the Interiors Divestiture associated with previously announced programs for the fundamental reorganization of operations at facilities in Brazil and France.

Restructuring Reserves

Restructuring reserve balances of $30 million and $40 million as of June 30, 2017 and December 31, 2016, respectively, are classified as "Other current liabilities" on the consolidated balance sheets. The Company anticipates that the activities associated with the current restructuring reserve balance will be substantially complete within one year. The Company’s consolidated restructuring reserves and related activity are summarized below, including amounts associated with discontinued operations.

	Electronics	Other	Total
	(Dollars in Millions)		
December 31, 2016	$31	$ 9	$40
Expense	1	—	1
Utilization	(8)	(1)	(9)
March 31, 2017	24	8	32
Expense	6	—	6
Utilization	(6)	(1)	(7)
Reversals	(2)	(1)	(3)
Foreign currency	2	—	2
June 30, 2017	$24	$ 6	$30

NOTE 6. Inventories

Inventories consist of the following components:

	June 30 2017	December 31 2016
	(Dollars in Millions)	
Raw materials	$92	$ 83
Work-in-process	45	34
Finished products	28	34
	$165	$ 151

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NOTE 7. Other Assets

Other current assets are comprised of the following components:

	June 30 2017	December 31 2016
	(Dollars in Millions)	
Recoverable taxes	$65	$ 60
Prepaid assets and deposits	35	35
Joint venture receivables	31	39
Notes receivable	18	18
Contractually reimbursable engineering costs	8	7
Foreign currency hedges	—	6
Other	2	5
	$159	$ 170

Notes receivable represent bank notes generally maturing within six months. The Company has entered into arrangements with a financial institution to sell customer notes receivable in Asia. The receivables under the arrangement are sold with recourse, but qualify as a sale as all rights to the notes have passed to the financial institution. During the six months ended June 30, 2017 the Company received cash of $6 million for the sale of notes receivables under these arrangements, of which $5 million remain outstanding.

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

	June 30 2017	December 31 2016
	(Dollars in Millions)	
Deferred tax assets	$51	$ 48
Recoverable taxes	35	34
Joint venture receivables	26	25
Contractually reimbursable engineering costs	15	11
Long term notes receivable	10	10
Other	14	18
	$151	$ 146

In conjunction with the Interiors Divestiture, the Company entered into a three year term loan with the buyer for $10 million, which matures on December 1, 2019.

Current and non-current contractually reimbursable engineering costs of $8 million and $15 million, respectively, as of June 30, 2017 and $7 million and $11 million, respectively, as of December 31, 2016, are related to pre-production design and development costs incurred pursuant to long-term supply arrangements that are contractually guaranteed for reimbursement by customers. The Company expects to receive cash reimbursement payments of approximately $6 million during the remainder of 2017, $4 million in 2018, and $13 million in 2019 and thereafter.

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NOTE 8. Intangible Assets, net

Intangible assets, net as of June 30, 2017 and December 31, 2016, are comprised of the following:

	Estimated Weighted Average Useful Life (years)	June 30, 2017			December 31, 2016		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
		(Dollars in Millions)					
Definite-Lived:							
Developed technology	10	$41	$ 27	$ 14	$40	$ 25	$ 15
Customer related	9	84	29	55	83	25	58
Capitalized software development	3	5	—	5	4	—	4
Other	32	8	1	7	8	1	7
Subtotal		138	57	81	135	51	84
Indefinite-Lived:							
Goodwill		46	—	46	45	—	45
Total		$184	$ 57	$ 127	$180	$ 51	$ 129

The Company recorded approximately $3 million and $6 million of amortization expense related to definite-lived intangible assets for the three and six months ended June 30, 2017. The Company currently estimates annual amortization expense to be $13 million for 2017, $14 million for 2018 and 2019, $11 million for 2020, and $10 million for 2021. Indefinite-lived intangible assets are not amortized but are tested for impairment at least annually, or earlier when events and circumstances indicate that it is more likely than not that such assets have been impaired. There were no indicators of potential impairment during the six months ended June 30, 2017.

The Company capitalizes software development costs after the software product development reaches technological feasibility and until the software product becomes releasable to customers. The capitalized software development costs are amortized over the useful life of the technology on a straight-line basis.

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

	Definite-lived intangibles				Indefinite-lived intangibles	
	Developed Technology	Customer Related	Capitalized Software Development	Other	Goodwill	Total
	(Dollars in Millions)					
December 31, 2016	$15	$ 58	$ 4	$ 7	$ 45	$129
Additions	—	—	1	—	—	1
Foreign currency	1	1	—	—	1	3
Amortization	(2)	(4)	—	—	—	(6)
June 30, 2017	$14	$ 55	$ 5	$ 7	$ 46	$127

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NOTE 9. Other Liabilities

Other current liabilities are summarized as follows:

	June 30 2017	December 31 2016
	(Dollars in Millions)	
Product warranty and recall accruals	$37	$ 43
Contribution payable	34	31
Restructuring reserves	30	40
Rent and royalties	25	23
Income taxes payable	21	22
Foreign currency hedges	15	7
Distribution payable	14	15
Joint venture payables	10	22
Deferred income	10	14
Dividends payable	6	5
Non-income taxes payable	5	8
Electronics operations repurchase commitment	—	50
Other	27	29
	$234	$ 309

On December 1, 2015, Visteon completed the sale and transfer of its equity ownership in Visteon Deutschland GmbH, which operated the Berlin, Germany interiors plant ("Germany Interiors Divestiture"). The Company contributed cash, of approximately $141 million, assets of $27 million, and liabilities of $198 million including pension related liabilities. The Company will make a final contribution payment of approximately $34 million during 2017 upon fulfillment of buyer contractual commitments.

On January 22, 2016 the Company paid to shareholders a special distribution of $1.74 billion, an additional $14 million will be paid over a two-year period upon vesting and settlement of restricted stock units and performance-based share units previously granted to the Company's employees. The special cash distribution was funded from the Climate Transaction proceeds.

Following the initial sale as part of the Climate Transaction, the Company repurchased an Electronics operation located in India on March 27, 2017 as further described in Note 3, "Discontinued Operations."

Other non-current liabilities are summarized as follows:

	June 30 2017	December 31 2016
	(Dollars in Millions)	
Deferred income	$16	$ 18
Product warranty and recall accruals	13	12
Income tax reserves	12	14
Non-income tax reserves	7	10
Other	14	15
	$62	$ 69

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NOTE 10. Debt

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

	June 30 2017	December 31 2016
	(Dollars in Millions)	
Short-Term Debt:		
Current portion of long-term debt	$1	$ 3
Short-term borrowings	41	33
	$42	$ 36
Long-Term Debt:		
Term debt facility	$347	$ 346

Short-Term Debt

Short-term borrowings are primarily related to the Company's non-U.S. consolidated joint ventures and are payable in U.S. Dollars, Chinese Renminbi and India Rupee. The Company had short-term borrowings of $41 million and $33 million as of June 30, 2017 and December 31, 2016, respectively. Short-term borrowings increased in the second quarter of 2017 primarily due to changes in working capital needs.

Available borrowings on outstanding affiliate credit facilities as of June 30, 2017 are approximately $24 million and certain of these facilities have pledged assets as security.

Long-Term Debt

As of December 31, 2016, the Company had an amended credit agreement (the “Credit Agreement”) which included a $350 million Term Facility maturing April 9, 2021 and a Revolving Credit Facility with capacity of $200 million maturing April 9, 2019. Borrowings under the Term Facility accrued interest at the greater of LIBOR or 0.75%, plus 2.75%, with an option by the Company to specify the LIBOR tenor of either 1, 2, 3, or 6 months. Loans drawn under the Revolving Credit Facility had an interest rate equal to LIBOR plus a margin ranging from 2.00% to 2.75% as specified by a ratings grid contained in the Credit Agreement. As of December 31, 2016, borrowings under the Revolving Credit Facility would accrue interest at LIBOR plus 2.50%. There were no outstanding borrowings at year-end.

On March 24, 2017, the Company entered into a second amendment to the Credit Agreement to, among other things, extend the maturity dates of both facilities by three years and increase the Revolving Credit Facility capacity to $300 million. The amended Revolving Credit Facility will mature on March 24, 2022 and the amended Term Facility will mature on March 24, 2024. The amendment reduced the LIBOR spread applicable to each of the Revolving Credit Facility and the Term Facility by 0.50% and reduced the LIBOR floor related to the Term Facility from 0.75% to 0.00%. The $350 million of borrowings under the amended Term Facility now accrue interest at a rate of LIBOR plus 2.25%. In conjuntion with the refinancing the Company received a credit rating upgrade from Standard & Poor's to BB from BB-. Pursuant to the ratings grid in the amended Revolving Credit Facility, any borrowing thereunder will accrue interest at LIBOR plus 1.75%. As of June 30, 2017, there were no outstanding borrowings under the amended Revolving Credit Facility.

The Revolving Credit Facility also provides $75 million availability for the issuance of letters of credit and a maximum of $20 million for swing line borrowing. Any amount of the facility utilized for letters of credit or swing

line loans outstanding will reduce the amount available under the amended Revolving Credit Facility. The Company may request increases in the limits under the amended Term Facility and the amended Revolving Credit Facility and may request the addition of one or more term loan facilities under the Credit Agreement. Outstanding borrowings may be prepaid without penalty (other than borrowings made for the purpose of reducing the effective interest rate margin or weighted average yield of the loans). There are mandatory prepayments of principal in connection with: (i) excess cash flow sweeps above certain leverage thresholds, (ii) certain asset sales or other dispositions, (iii) certain refinancing of indebtedness and (iv) over-advances under the Revolving Credit Facility. No excess cash flow sweeps are required at the Company's current leverage ratios.

The Credit Agreement requires the Company and its subsidiaries to comply with customary affirmative and negative covenants, and contains customary events of default. The Revolving Credit Facility also requires that the Company maintain a total net leverage ratio no greater than 3.00:1.00. During any period when the Company's corporate and family ratings meet investment

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grade ratings, certain of the negative covenants shall be suspended. As of June 30, 2017, the Company was in compliance with all covenants.

All obligations under the Credit Agreement and obligations in respect of certain cash management services and swap agreements with the lenders and their affiliates are unconditionally guaranteed by certain of the Company's subsidiaries. Under the terms of the Credit Agreement, all obligations under the Credit Agreement are secured by a first-priority perfected lien (subject to certain exceptions) on substantially all property of the Company and the subsidiaries party to the Security Agreement, subject to certain limitations.

During the six months ended June 30, 2017, the Company recorded $1 million of interest expense and deferred $2 million of costs as a non-current asset in connection with amending both the Term Facility and Revolving Credit Facility. The deferred costs will be amortized over the term of the debt facilities. As of June 30, 2017, the amended Term Facility remains at $350 million of aggregate principal and there were no outstanding borrowings under the amended Revolving Credit Facility.

Other

The Company has a $15 million letter of credit facility whereby the Company must maintain a collateral account equal to 103% of the aggregate stated amount of issued letters of credit (or 110% for non-U.S. currencies) and must reimburse any amounts drawn under issued letters of credit. The Company had $3 million of outstanding letters of credit issued under this facility secured by restricted cash, as of June 30, 2017.

Additionally, the Company had $17 million of locally issued letters of credit as of June 30, 2017, to support various tax appeals, customs arrangements and other obligations at its local affiliates.

NOTE 11. Employee Benefit Plans

Defined Benefit Plans

The Company's net periodic benefit costs for all defined benefit plans for the three month periods ended June 30, 2017 and 2016 were as follows:

	U.S. Plans		Non-U.S. Plans	
	2017	2016	2017	2016
	(Dollars in Millions)			
Costs Recognized in Income:				
Service cost	$—	$—	$1	$1
Interest cost	7	7	2	3
Expected return on plan assets	(10)	(11)	(2)	(3)
Settlements and curtailments	—	—	—	1
Amortization of losses and other	—	—	1	—
Net pension (income) expense	$(3)	$(4)	$2	$2

The Company's net periodic benefit costs for all defined benefit plans for the six month periods ended June 30, 2017 and 2016
were as follows:

	U.S. Plans		Non-U.S. Plans	
	2017	2016	2017	2016

	(Dollars in Millions)			
Costs Recognized in Income:				
Service cost	$—	$—	$1	$2
Interest cost	14	14	4	5
Expected return on plan assets	(20)	(21)	(4)	(5)
Settlements and curtailments	—	—	—	1
Amortization of losses and other	—	—	1	—
Net pension (income) expense	$(6)	$(7)	$2	$3

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During the six months ended June 30, 2017, cash contributions to the Company's defined benefit plans were less than $1 million for the U.S. plans and were $3 million for the non-U.S. plans. The Company expects to make cash contributions to its defined benefit pension plans of $7 million in 2017, which may be revised.

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

NOTE 12. Income Taxes

During the three and six month periods ended June 30, 2017, the Company recorded a provision for income tax on continuing operations of $10 million and $26 million, respectively, which reflects income tax expense in countries where the Company is profitable; withholding taxes; changes in uncertain tax benefits; and the inability to record a tax benefit for pretax losses and/or recognize expense for pretax income in certain jurisdictions (including the U.S.) due to valuation allowances. Pretax losses from continuing operations in jurisdictions where valuation allowances are maintained and no income tax benefits are recognized totaled
$9 million and $12 million for the six months ended June 30, 2017 and June 30, 2016, respectively, resulting in an increase in the Company's effective tax rate in those years.

The Company provides for U.S. and non-U.S. income taxes and non-U.S. withholding taxes on the projected future repatriations of the earnings from its non-U.S. operations that are not considered permanently reinvested at each tier of the legal entity structure.
During the six month periods ended June 30, 2017 and 2016, the Company recognized expense primarily related to non-U.S. withholding taxes of $4 million and $2 million, respectively, reflecting the Company's forecasts which contemplate numerous financial and operational considerations that impact future repatriations.

The Company's provision for income taxes in interim periods is computed by applying an estimated annual effective tax rate against income before income taxes, excluding equity in net income of non-consolidated affiliates for the period. Effective tax rates vary from period to period as separate calculations are performed for those countries where the Company's operations are profitable and whose results continue to be tax-effected and for those countries where full deferred tax valuation allowances exist and are maintained. In determining the estimated annual effective tax rate, the Company analyzes various factors, including but not limited to, forecasts of projected annual earnings, taxing jurisdictions in which the pretax income and/or pretax losses will be generated and available tax planning strategies. The Company’s estimated annual effective tax rate is updated each quarter and may be significantly impacted by changes to the mix of forecasted earnings by tax jurisdiction. The tax impact of adjustments to the estimated annual effective tax rate are recorded in the period such estimates are revised. The Company is also required to record the tax impact of certain other non-recurring tax items, including changes in judgment about valuation allowances and uncertain tax positions, and changes in tax laws or rates, in the interim period in which they occur, rather than include them in the estimated annual effective tax rate.
The need to maintain valuation allowances against deferred tax assets in the U.S. and other affected countries will cause variability in the Company’s quarterly and annual effective tax rates. Full valuation allowances against deferred tax assets in the U.S. and applicable foreign countries will be maintained until sufficient positive evidence exists to reduce or eliminate them. The factors considered by management in its determination of the probability of the realization of the deferred tax assets include, but are not limited to, recent historical financial results, historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. If, based upon the weight of available evidence, it is more likely than not the deferred tax assets will not be realized, a valuation allowance is recorded. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. As such, it is generally difficult

for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses, in particular, when there is a cumulative loss incurred over a three-year period. In regards to the full valuation allowance recorded against the U.S. net deferred tax assets, the cumulative U.S. pretax book loss adjusted for significant permanent items incurred over the three-year period ended December 31, 2016 limits the ability to consider other subjective evidence such as the Company's plans to improve U.S. profits, and as such, the Company continues to maintain a full valuation allowance against the U.S. net deferred tax assets. Based on the Company's current assessment, it is possible that within the next 12 to 24 months, the existing valuation allowance against the U.S. net deferred tax assets could be partially released. Any such release is dependent upon the sustained improvement in U.S. operating results, and, if such a release of the valuation allowance were to occur, it could have a significant impact on net income in the quarter in which it is deemed appropriate to partially release the reserve.

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Unrecognized Tax Benefits

Gross unrecognized tax benefits as of June 30, 2017 and December 31, 2016, including amounts attributable to discontinued operations, were $18 million and $35 million, respectively. Of these amounts approximately $9 million and $12 million as of June, 2017 and December 31, 2016, respectively, represent the amount of unrecognized benefits that, if recognized, would impact the effective tax rate. The gross unrecognized tax benefit differs from that which would impact the effective tax rate due to uncertain tax positions embedded in other deferred tax attributes carrying a full valuation allowance. If the uncertainty is resolved while a full valuation allowance is maintained, these uncertain tax positions should not impact the effective tax rate in current or future periods. The Company records interest and penalties related to uncertain tax positions as a component of income tax expense and related amounts accrued at June 30, 2017 and December 31, 2016 were $3 million and $4 million, respectively.

During the first quarter of 2017, the IRS completed the audit of the Company's U.S. tax returns for the 2012 and 2013 tax years. The closing of the audit did not have a material impact on the Company's effective tax rate due to the valuation allowances maintained against the Company's U.S. tax attributes resulting in a decrease in unrecognized tax benefits of $16 million. Also during the first quarter of 2017, the Company settled tax assessments from the Mexican tax authorities in the amount of $2 million related to certain transfer pricing-related issues.

With few exceptions, the Company is no longer subject to U.S. federal tax examinations for years before 2014, or state, local or non-U.S. income tax examinations for years before 2003, although U.S. net operating losses carried forward into open tax years technically remain open to adjustment. During the second quarter of 2017, the IRS contacted the Company to begin the examination process of the Company’s U.S. tax returns for 2014 and 2015. Although it is not possible to predict the timing of the resolution of all ongoing tax audits with accuracy, it is reasonably possible that certain tax proceedings in Europe, Asia and Mexico could conclude within the next twelve months and result in a significant increase or decrease in the balance of gross unrecognized tax benefits. Given the number of years, jurisdictions and positions subject to examination, the Company is unable to estimate the full range of possible adjustments to the balance of unrecognized tax benefits. The long-term portion of uncertain income tax positions (including interest) in the amount of $12 million is included in Other non-current liabilities on the consolidated balance sheet.

A reconciliation of the beginning and ending amount of unrecognized tax benefits including amounts attributable to discontinued operations is as follows:

	Six Months Ended June 30, 2017 (Dollars in Millions)
Beginning balance	$ 35
Tax positions related to current period:	
Additions	1
Tax positions related to prior periods:	
Reductions	(19)
Effect of exchange rate changes	1
Ending balance	$ 18

During 2012, Brazil tax authorities issued tax assessment notices to Visteon Sistemas Automotivos ("Sistemas") related to the sale of its chassis business to a third party, which required a deposit in the amount of $15 million during 2013 necessary to open a judicial proceeding against the government in order to suspend the debt and allow Sistemas to operate regularly before the tax authorities after attempts to reopen an appeal of the administrative decision failed. Adjusted for currency impacts and accrued interest, the deposit amount is approximately $15 million, as of June 30, 2017. The Company believes that the risk of a negative outcome is remote once the matter is fully litigated at the highest judicial level. These appeal payments, as well as income tax refund claims associated with other jurisdictions, total $18 million as of June 30, 2017, and are included in "Other non-current assets" on the consolidated balance sheet.

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NOTE 13. Stockholders’ Equity and Non-controlling Interests

Changes in equity for the three and six months ended June 30, 2017 and 2016 are as follows:

	2017			2016		
	Visteon	NCI	Total	Visteon	NCI	Total
	(Dollars in Millions)					
Three Months Ended June 30						
Beginning balance	$548	$132	$680	$586	$146	$732
Net income from continuing operations	45	3	48	35	4	39
Net income (loss) from discontinued operations	—	—	—	(9)	—	(9)
Net income	45	3	48	26	4	30
Other comprehensive income (loss)						
Foreign currency translation adjustments	21	1	22	(4)	(2)	(6)
Net investment hedge	(12)	—	(12)	4	—	4
Benefit plans	(1)	—	(1)	1	—	1
Unrealized hedging gain (loss)	(1)	—	(1)	—	—	—
Total other comprehensive income (loss)	7	1	8	1	(2)	(1)
Stock-based compensation, net	4	—	4	3	—	3
Share repurchase	(35)	—	(35)	—	—	—
Ending balance	$569	$136	$705	$616	$148	$764

	2017			2016		
	Visteon	NCI	Total	Visteon	NCI	Total
	(Dollars in Millions)					
Six Months Ended June 30						
Beginning balance	$586	$138	$724	$1,057	$142	$1,199
Net income from continuing operations	100	7	107	67	8	75
Net income (loss) from discontinued operations	8	—	8	(22)	—	(22)
Net income	108	7	115	45	8	53
Other comprehensive income (loss)						
Foreign currency translation adjustments	40	2	42	25	(2)	23
Net investment hedge	(13)	—	(13)	(2)	—	(2)
Benefit plans	(1)	—	(1)	1	—	1
Unrealized hedging gain (loss)	3	—	3	(4)	—	(4)
Total other comprehensive income (loss)	29	2	31	20	(2)	18
Stock-based compensation, net	6	—	6	(6)	—	(6)
Share repurchase	(160)	—	(160)	(500)	—	(500)
Dividends to non-controlling interests	—	(11)	(11)	—	—	—
Ending balance	$569	$136	$705	$616	$148	$764

Share Repurchase Program

During 2016, Visteon completed two stock buyback programs with a third-party financial institution to purchase shares of common stock for an aggregate purchase price of $500 million. Under these programs, Visteon purchased 7,190,506 shares at an average price of $69.48.

On January 10, 2017, the Company's board of directors authorized $400 million of share repurchase of its shares of common stock through. On February 27, 2017 the Company entered into an accelerated share buyback ("ASB") program with a third-party financial institution to purchase shares of Visteon common stock for an aggregate purchase price of $125 million. On March 2, 2017, the Company received an initial delivery of 1,062,022 shares of common

stock using a reference price of $94.16. The

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program was concluded in May 2017 and the Company received an additional 238,344 shares. In total, the Company purchased 1,300,366 shares at an average price of $96.13 under this ASB program.

During the second quarter of 2017, the Company entered into a brokerage agreement with a third party financial institution to execute open market share purchases of the Company's common stock. The Company paid approximately $35 million to repurchase 359,100 shares at an average price of $97.44.

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

Non-Controlling Interests

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

	June 30 2017	December 31 2016
	(Dollars in Millions)	
Yanfeng Visteon Automotive Electronics Co., Ltd.	$92	$ 97
Shanghai Visteon Automotive Electronics, Co., Ltd.	42	39
Other	2	2
	$136	$ 138

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Accumulated Other Comprehensive (Loss) Income

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

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(Dollars in Millions)			
Changes in AOCI:				
Beginning balance	$(211)	$(171)	$(233)	$(190)
Other comprehensive income (loss) before reclassification, net of tax	6	1	26	22
Amounts reclassified from AOCI	1	—	3	(2)
Ending balance	$(204)	$(170)	$(204)	$(170)
Changes in AOCI by Component:				
Foreign currency translation adjustments				
Beginning balance	$(144)	$(130)	$(163)	$(159)
Other comprehensive income before reclassification, net of tax (a)	21	(4)	40	25
Ending balance	(123)	(134)	(123)	(134)
Net investment hedge				
Beginning balance	9	(2)	10	4
Other comprehensive loss before reclassification, net of tax (a)	(12)	4	(13)	(2)
Ending balance	(3)	2	(3)	2
Benefit plans				
Beginning balance	(75)	(36)	(75)	(36)
Other comprehensive income before reclassification, net of tax (a)	(1)	—	(1)	—
Amounts reclassified from AOCI	—	1	—	1
Ending balance	(76)	(35)	(76)	(35)
Unrealized hedging (loss) gain				
Beginning balance	(1)	(3)	(5)	1
Other comprehensive income (loss) before reclassification, net of tax (b)	(2)	1	—	(1)
Amounts reclassified from AOCI	1	(1)	3	(3)
Ending balance	(2)	(3)	(2)	(3)
Total AOCI	$(204)	$(170)	$(204)	$(170)

(a) There were no income tax effects for the three month periods ending June 30, 2017 and 2016, due to the recording of valuation allowance.
(b) Net tax expense of less than $1 million and $1 million are related to unrealized hedging (loss) gain for the three months ended June 30, 2017 and 2016, respectively. Net tax expense of $1 million and less than $1 million are related to unrealized hedging gain for the six months ended June 30, 2017 and 2016, respectively.

NOTE 14. Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to Visteon by the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common and potentially dilutive common shares outstanding. Performance based share units are considered contingently issuable shares, and are included in the computation of diluted earnings per share based on the number of shares that would be issuable if the reporting date were the end of the contingency period and if the result would be dilutive.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(In Millions, Except Per Share Amounts)			
Numerator:				
Net income from continuing operations attributable to Visteon	$45	$35	$100	$67
Income (loss) from discontinued operations, net of tax	—	(9)	8	(22)
Net income attributable to Visteon	$45	$26	$108	$45
Denominator:				
Average common stock outstanding - basic	31.5	34.0	32.1	36.3
Dilutive effect of performance based share units and other	0.5	0.4	0.5	0.4
Diluted shares	32.0	34.4	32.6	36.7
Basic and Diluted Per Share Data:				
Basic earnings (loss) per share attributable to Visteon:				
Continuing operations	$1.43	$1.03	$3.12	$1.85
Discontinued operations	—	(0.26)	0.25	(0.61)
	$1.43	$0.77	$3.37	$1.24
Diluted earnings (loss) per share attributable to Visteon:				
Continuing operations	$1.41	$1.02	$3.07	$1.83
Discontinued operations	—	(0.26)	0.24	(0.60)
	$1.41	$0.76	$3.31	$1.23

NOTE 15. Fair Value Measurements and Financial Instruments

Fair Value Measurements

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.

Item Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis. The fair value measurements are generally determined using unobservable inputs and are classified within Level 3 of the fair value hierarchy. These assets include long-lived assets, intangible assets and investments in affiliates, which may be written down to fair value as a result of impairment. During the second quarter there were no items measured at fair value on a nonrecurring basis.

Items Not Carried at Fair Value

The Company's fair value of debt was approximately $400 million and $389 million as of June 30, 2017 and December 31, 2016, respectively. Fair value estimates were based on the current rates offered to the Company for debt of the same remaining maturities. Accordingly, the Company's debt fair value disclosures are classified as Level 2, "Other Observable Inputs" in the fair value hierarchy.

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

The Company presents its derivative positions and any related material collateral under master netting arrangements that provide for the net settlement of contracts, by counterparty, in the event of default or termination. Derivative financial instruments designated and non-designated as hedging instruments are included in the Company's consolidated balance sheets. There is no cash collateral on any of these derivatives.

Items Measured at Fair Value on a Recurring Basis

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

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

Foreign Exchange Risk: The Company's net cash inflows and outflows exposed to the risk of changes in foreign currency exchange rates arise from the sale of products in countries other than the manufacturing source, foreign currency denominated supplier payments, debt and other payables, subsidiary dividends and investments in subsidiaries. The Company primarily uses foreign currency derivative instruments, including forward and option contracts, to mitigate the variability of the value of cash flows denominated in currency other than the hedging entity's functional currency. Foreign currency exposures are reviewed periodically and any natural offsets are considered prior to entering into a derivative financial instrument. The Company's current hedged foreign currency exposures include the Euro, Japanese Yen, Thailand Bhat and Mexican Peso.

As of June 30, 2017, and December 31, 2016, the Company had foreign currency derivative instruments with aggregate notional value of approximately $122 million and $169 million, respectively. At June 30, 2017, approximately $89 million of the hedge instruments have been designated as cash flow hedges. Accordingly, the effective portion of changes in the fair value of the transactions are initially recognized in other comprehensive income, a component of shareholders' equity. Upon settlement of the transactions, the accumulated gains and losses are reclassified to income in the same periods during which the hedged cash flows impact earnings. The ineffective portion of changes in the fair value of the transactions, if any, is recognized directly in income. There was no ineffectiveness associated with such derivatives as of June 30, 2017 and December 31, 2016 and the fair value of these derivatives was a liability of $3 million and a liability of $6 million, respectively. The fair value estimates derived from observable data, or are supported by observable levels at which similar transactions are executed in the marketplace. The difference between the gross and net value of these derivatives after offset by counter party is not

material. The estimated AOCI that is expected to be reclassified into earnings within the next 12 months is approximately a loss of $2 million.

During 2015, the Company entered into cross currency swap transactions to mitigate the variability of the value of the Company's investment in certain non-U.S. entities. In April 2017, the Company terminated and received $5 million of proceeds upon settlement. There was no ineffectiveness associated with such derivatives at the time of the termination. The Company subsequently entered into new cross currency swap transactions with an aggregate notional amount of $150 million. The transactions are designated as net investment hedges of certain of the Company's European affiliates. Accordingly, the effective portion of changes in the fair value of the transactions are recognized in other comprehensive income, a component of shareholders' equity. There was no ineffectiveness associated with such derivatives as of June 30, 2017 and December 31, 2016 and the fair value of these derivatives was a liability of $12 million and an asset of $6 million, respectively.

Interest Rate Risk: The Company is subject to interest rate risk principally in relation to variable-rate debt. The Company uses financial derivative instruments to manage exposure to fluctuations in interest rates in connection with its risk management policies.

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During 2015, the Company entered into interest rate swaps to manage interest rate risk associated with the Term Facility. In April 2017 the Company terminated and paid $1 million to settle the contracts.

During the second quarter of 2017, the Company entered into new interest rate swap contracts with an aggregate notional value of $150 million to effectively convert designated interest payments related to the amended Term Facility from variable to fixed cash flows. The maturities of these swaps do not exceed the underlying obligations under the amended Term Facility. The instruments have been designated as cash flow hedges and the effective portion of the changes in the fair value of the swap transactions are recognized in other comprehensive income. Subsequently, the accumulated gains and losses recorded in equity are reclassified to income in the period during which the hedged cash transaction impacts earnings. The ineffective portion of changes in the fair value of the swap transactions, if any, are recognized directly in income. As of June 30, 2017 and December 31, 2016, the fair value was an asset of less than $1 million and a liability of $1 million, respectively and there has been no ineffectiveness associated with these derivatives. AOCI expected to be reclassified into earnings within the next 12 months is a loss of $1 million.

Financial Statement Presentation

Gains and losses on derivative financial instruments for the three and six months ended June 30, 2017 and 2016 are as follows:

	Recorded (Loss) Income into AOCI, net of tax		Reclassified from AOCI into (Income) Loss		Recorded in (Income) Loss	
	2017	2016	2017	2016	2017	2016
	(Dollars in Millions)					
Three Months Ended June 30						
Foreign currency risk - Cost of sales:						
Cash flow hedges	$(2)	$2	$ 1	$ (1)	$—	$—
Net investment hedges	(12)	4	—	—	—	—
Non-designated cash flow hedges	—	—	—	—	(2)	(1)
Interest rate risk - Interest expense, net:						
Interest rate swap	—	(1)	1	—	—	—
	$(14)	$5	$ 2	$ (1)	$(2)	$(1)
Six Months Ended June 30						
Foreign currency risk - Cost of sales:						
Cash flow hedges	$—	$3	$ 3	$ (3)	$—	$—
Net investment hedges	(13)	(2)	—	—	—	—
Non-designated cash flow hedges	—	—	—	—	(3)	(1)
Interest rate risk - Interest expense, net:						
Interest rate swap	—	(4)	1	—	—	—
	$(13)	$(3)	$ 4	$ (3)	$(3)	$(1)

Concentrations of Credit Risk

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

The Company's credit risk with any individual customer does not exceed ten percent of total accounts receivable except for Ford and its affiliates which represents 18% and 16% of the balance as of June 30, 2017 and December 31, 2016, respectively, Mazda which represents 10% of the balance as of June 30, 2017 and December 31, 2016, and Nissan/Renault which represents 9% and 10% of the balance as of June 30, 2017 and December 31, 2016, respectively.

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NOTE 16. Commitments and Contingencies

Litigation and Claims

In 2003, the Local Development Finance Authority of the Charter Township of Van Buren, Michigan (the "Township") issued, approximately $28 million in bonds finally maturing in 2032, the proceeds of which were used at least in part to assist in the development of the Company's U.S. headquarters located in the Township. During January 2010, the Company and the Township entered into a settlement agreement (the "Settlement Agreement") that, among other things, reduced the taxable value of the headquarters property to current market value and facilitated certain claims of the Township in the Company's chapter 11 proceedings. The Settlement Agreement also provided that the Company would continue to negotiate in good faith with the Township in the event that property tax payments was inadequate to permit the Township to meet its payment obligations with respect to the bonds. In September 2013, the Township notified the Company in writing that it is estimating a shortfall in tax revenues of between $25 million and $36 million, which could render it unable to satisfy its payment obligations under the bonds. On May 12, 2015, the Township commenced a proceeding against the Company in the U. S. Bankruptcy Court for the District of Delaware in connection with the foregoing. Upon the Company's motion to dismiss, the Township dismissed the proceeding before the Delaware Bankruptcy Court and re-commenced the proceeding against the Company in the Michigan Wayne County Circuit Court for the State of Michigan on July 2, 2015. The Township sought damages or, alternatively, declaratory judgment that, among other things, the Company is responsible under the Settlement Agreement for payment of any shortfall in the bond debt service payments. On February 2, 2016, the Wayne County Circuit Court dismissed the Township's lawsuit without prejudice on the basis that the Township's claims were not ripe for adjudication. The Township appealed the decision to the Michigan Court of Appeals, which affirmed the dismissal of the Township's lawsuit. The Township has sought leave to appeal from the Michigan Supreme Court. The Company disputes the factual and legal assertions made by the Township and intends to vigorously defend the matter. The Company is not able to estimate the possible loss or range of loss in connection with this matter.

The Company is currently involved in disputes with its former President and Chief Executive Officer, Timothy D. Leuliette. Mr. Leuliette filed an arbitration demand against the Company with the American Arbitration Association, alleging claims relating to the cessation of his employment. The Company subsequently filed a complaint against Mr. Leuliette in the U.S. District Court for the Eastern District of Michigan, seeking to enjoin the arbitration and asserting additional claims. The federal litigation is currently stayed pending a ruling in the arbitration. The Company disputes the factual and legal assertions made by Mr. Leuliette, has asserted counterclaims against him in the arbitration, and, although there can be no assurances, the Company does not currently believe that the resolution of these disputes will have a material adverse impact on its results of operations or financial condition.

In November 2013, the Company and Halla Visteon Climate Control Corporation, a Korean corporation ("HVCC"), jointly filed an Initial Notice of Voluntary Self-Disclosure statement with the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") regarding certain sales of automotive HVAC components by a minority-owned, Chinese joint venture of HVCC into Iran. The Company updated that notice in December 2013, and subsequently filed a voluntary self-disclosure regarding these sales with OFAC in March 2014. In May 2014, the Company voluntarily filed a supplementary self-disclosure identifying additional sales of automotive HVAC components by the Chinese joint venture, as well as similar sales involving an HVCC subsidiary in China, totaling approximately $12 million, and filed a final voluntary-self disclosure with OFAC on October 17, 2014. OFAC is currently reviewing the results of the Company's investigation. Following that review, OFAC may conclude that the disclosed sales resulted in violations of U.S. economic sanctions laws and warrant the imposition of civil penalties, such as fines, limitations on the Company's ability to export products from the United States, and/or referral for further investigation by the U.S. Department of Justice. Any such fines or restrictions may be material to the Company's financial results in the period in which they are imposed, but at this time is not able to estimate the possible loss or range of loss in connection with this matter. Additionally, disclosure of this conduct and any fines or other action relating to this conduct could harm

the Company’s reputation and have a material adverse effect on our business, operating results and financial condition. The Company cannot predict when OFAC will conclude its own review of our voluntary self-disclosures or whether it may impose any of the potential penalties described above.

The Company's operations in Brazil and Argentina are subject to highly complex labor, tax, customs and other laws. While the Company believes that it is in compliance with such laws, it is periodically engaged in litigation regarding the application of these laws. As of June 30, 2017, the Company maintained accruals of approximately $10 million and $5 million for claims aggregating approximately $55 million and $34 million in Brazil and Argentina, respectively. 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.

While the Company believes its accruals for litigation and claims are adequate, the final amounts required to resolve such matters could differ materially from recorded estimates and the Company's results of operations and cash flows could be materially affected.

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Guarantees and Commitments

The Company provided a $18 million loan guarantee to YFVIC. The guarantee contains standard non-payment provisions to cover the borrowers in event of non-payment of principal, accrued interest, and other fees, and the loan is expected to be fully paid by September 2019.

As part of the agreements of the Climate Transaction and Interiors Divestiture, the Company continues to provide lease guarantees to divested Climate and Interiors entities. As of June 30, 2017, the Company has approximately $7 million and $6 million of outstanding guarantees respectively, related to divested Climate and Interiors entities. These guarantees will generally cease upon expiration of current lease agreements.

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 following table provides a reconciliation of changes in the product warranty and recall claims liability:

	Six Months Ended June 30	
	2017	2016
	(Dollars in Millions)	
Beginning balance	$55	$38
Accruals for products shipped	10	8
Changes in estimates	2	1
Specific cause actions	—	(1)
Recoverable warranty/recalls	—	(1)
Foreign currency	2	1
Settlements	(19)	(9)
Ending balance	$50	$37

Other Contingent Matters

The Company is actively negotiating the possible exit of a European facility that would involve contributing cash, inventory, and fixed assets to a third party. The potential transaction is subject to works council, governmental, and legal approvals. While the terms have yet to be finalized, the potential contribution includes cash and working capital ranging from $15 million to $20 million and long term assets of approximately $10 million to $15 million. As of June 30, 2017, the Company did not meet the specific criteria necessary for the assets to be considered held for sale.

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 as of June 30, 2017 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

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such matters would have a material effect on the Company’s financial condition, results of operations or cash flows, although such an outcome is possible.

NOTE 17. Segment Information

Financial results for the Company's reportable segment have been prepared using a management approach, which is consistent with the basis and manner in which financial information is evaluated by the Company's chief operating decision maker in allocating resources and in assessing performance. The Company’s chief operating decision maker, the Chief Executive Officer, evaluates the performance of the Company’s segment primarily based on net sales, before elimination of inter-company shipments, Adjusted EBITDA (a non-GAAP financial measure, as defined below) and operating assets.

The Company’s current reportable segment is Electronics. The Company's Electronics segment provides vehicle cockpit electronics products to customers, including audio systems, information displays, instrument clusters, head up displays, infotainment systems, and telematics solutions. Prior to 2017, the Company also had Other operations consisting primarily of South Africa and South America climate operations substantially exited during the fourth quarter of 2016. As the Company ceased Other operations in 2016, future legacy impacts will be associated with the Company's continuing Electronics operations.

Segment Sales

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(Dollars in Millions)			
Electronics	$774	$762	$1,584	$1,555
Other	—	11	—	20
Total consolidated sales	$774	$773	$1,584	$1,575

Segment Adjusted EBITDA

The Company defines Adjusted EBITDA as net income attributable to the Company adjusted to eliminate the impact of depreciation and amortization, restructuring expense, net interest expense, loss on debt extinguishment, equity in net income of non-consolidated affiliates, loss on divestiture, gain on non-consolidated affiliate transactions, other net expense, provision for income taxes, discontinued operations, net income attributable to non-controlling interests, non-cash stock-based compensation expense, pension settlement gains and other non-operating gains and losses.

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 GAAP and does not purport to be a substitute for net income as an indicator of operating performance or cash flows from operating activities as a measure of liquidity. Adjusted EBITDA has limitations as an analytical tool and is not intended to be a measure of cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. In addition, the Company uses Adjusted EBITDA (i) as a factor in incentive compensation decisions, (ii) to evaluate the effectiveness of the Company's business strategies and (iii) the Company's credit agreements use measures similar to Adjusted EBITDA to

measure compliance with certain covenants.

Segment Adjusted EBITDA is summarized below:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(Dollars in Millions)			
Electronics	$84	$79	$185	$173
Other	—	(2)	—	(7)
Adjusted EBITDA	$84	$77	$185	$166

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The reconciliation of Adjusted EBITDA to net income attributable to Visteon is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(Dollars in Millions)			
Adjusted EBITDA	$84	$77	$185	$166
Depreciation and amortization	22	20	41	41
Restructuring expense	3	7	4	17
Interest expense, net	4	3	9	5
Equity in net income of non-consolidated affiliates	(3)	(3)	(5)	(3)
Other (income) expense, net	(3)	—	(2)	4
Provision for income taxes	10	9	26	22
(Income) loss from discontinued operations, net of tax	—	9	(8)	22
Net income attributable to non-controlling interests	3	4	7	8
Non-cash, stock-based compensation expense	4	2	6	4
Other	(1)	—	(1)	1
Net income attributable to Visteon Corporation	$45	$26	$108	$45

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management’s Discussion and Analysis (“MD&A”) is intended to help the reader understand the results of operations, financial condition and cash flows of Visteon Corporation (“Visteon” or the “Company”). MD&A is provided as a supplement to, and should be read in conjunction with, the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the Securities and Exchange Commission on February 23, 2017, and the financial statements and accompanying notes to the financial statements included elsewhere herein.

Description of Business

Visteon Corporation (the "Company" or "Visteon") is a global automotive supplier that designs, engineers and manufactures innovative electronics products for nearly every original equipment vehicle manufacturer ("OEM") worldwide including Ford, Mazda, Renault/Nissan, General Motors, Honda, BMW and Daimler. Visteon is headquartered in Van Buren Township, Michigan and has an international network of manufacturing operations, technical centers and joint venture operations, supported by approximately 10,000 employees, dedicated to the design, development, manufacture and support of its product offerings and its global customers. The Company's manufacturing and engineering footprint is principally located outside of the United States.

Visteon provides value for its customers and stockholders through its technology-focused vehicle cockpit electronics business, by delivering a rich, connected cockpit experience for every car from luxury to entry. The Company's cockpit electronics business is one of the broadest portfolios in the industry and includes instrument clusters, information displays, infotainment systems, audio systems, telematics solutions, and head up displays. The Company's vehicle cockpit electronics business comprises and is reported under the Electronics segment. In addition to the Electronics segment, the Company had residual operations in South America and South Africa previously associated with the Climate business, sold or exited by December 31, 2016, but not subject to discontinued operations classification that comprised Other.

Strategic Initiatives

Visteon is a technology-focused, pure-play supplier of automotive cockpit electronics and connected car solutions. The Company has laid out the following strategic initiatives for 2017 and beyond:

- Strengthen the Core - Visteon offers technology and related manufacturing operations for audio, head-up displays, information displays, infotainment, instrument clusters and telematics products. During the first half of 2017, the Company won $3.1 billion in new business, $0.3 billion higher than the first half of 2016. The second quarter 2017 new business wins are primarily cluster awards and include the fourth award of SmartCore cockpit technology. The Company's backlog, defined as cumulative remaining life of program booked sales, is approximately $17.3 billion as of June 30, 2017, or 5.5 times the last twelve months of sales, reflecting a strong booked sales base on which to launch future growth.

Core business financial results continue to improve with Adjusted EBITDA margin for electronics of 10.9% in second quarter 2017 compared with 10.4% in the same period of 2016. The Company expects to deliver cost efficiencies by streamlining selling, general and administration costs and engineering costs, improving free cash flow, optimizing the capital structure and driving savings benefits as revenue grows.

During 2016, the Company initiated a restructuring of its engineering and administration organization to focus on technology and execution and also to align the engineering and administrative footprint with its core technologies and customers. The organization will be comprised of customer regional engineering, product management and advanced technologies, and global centers of competence.

- Move Selectively to Adjacent Products - As consumer demand continues to evolve with an increase in electronics content per vehicle, the Company is advancing its expertise in the areas of cockpit domain controllers, next generation safety applications, and vehicle cybersecurity. Each of these areas require careful assessments of shifting consumer needs and how these new products complement Visteon's core products.

- Expand into Autonomous Driving - The Company's approach to autonomous driving is to feature fail-safe centralized domain hardware, designed for algorithmic developers, and applying artificial intelligence for object detection and other functions. The Company is developing a secure autonomous driving domain controller platform with an open framework based on neural networks. The Company projects a launch of the technology in 2018.

- Accelerate China Business - The Company plans to accelerate its China business as China’s economic environment offers significant growth opportunities in sales and new technology launches. Visteon will continue to leverage joint venture

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relationships to drive adoption of new offerings. Approximately 37% of the Company's $17.3 billion of backlog is expected to be manufactured in Asia.

- Enhance Shareholder Returns - On January 10, 2017, the Company's board of directors authorized management to purchase $400 million of Visteon common stock. On February 27, 2017, the Company entered into an accelerated share buyback ("ASB") program with a third-party financial institution to purchase shares of Visteon common stock for an aggregate purchase price of $125 million. On March 2, 2017, the Company received an initial delivery of 1,062,022 shares of common stock using a reference price of $94.16. On May 8, 2017, the Company received an additional 238,344 shares upon conclusion of the program. In total, the Company acquired 1,300,366 shares at an average price of $96.13.

During the second quarter of 2017, the Company spent approximately $35 million to repurchase 359,100 shares on the open market at an average price of $97.44.

The Company anticipates that additional share repurchases, 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.

Executive Summary

The Company's Electronics sales for the three months ended June 30, 2017 totaled $774 million, the pie charts below highlight the sales breakdown for the three and six months ended June 30, 2017.

Three Months Ended June 30, 2017
Six Months Ended June 30, 2017

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In the second quarter of 2017 global light vehicle production was relatively flat year over year. Lower volumes in Europe (3%) and North America (3%) were modestly offset by growth in Asia Pacific (1%) and continued strong growth for South America (16%).

Light vehicle production levels for the three months ended June 30, 2017 and 2016, by geographic region are provided below:

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	Change	2017	2016	Change
	(Units in Millions)					
Global	23.0	23.0	(0.1)%	47.3	46.1	2.8 %
Asia Pacific	11.4	11.3	1.4 %	24.0	23.2	3.6 %
Europe	5.7	5.9	(3.0)%	11.6	11.4	1.3 %
North America	4.5	4.6	(3.0)%	9.0	9.1	(0.7)%
South America	0.8	0.7	15.9 %	1.5	1.3	16.8 %
Other	0.6	0.5	7.5 %	1.2	1.1	13.0 %

Source: IHS Automotive

Significant aspects of the Company's financial results during the three and six months periods ended June 30, 2017 include the following:

- The Company recorded sales of $774 million for the three months ended June 30, 2017, representing an increase of $1 million when compared with the same period of 2016. The increase was primarily due to favorable volumes, product mix, and net new business, partially offset by Chinese Renminbi and Euro currency impacts, customer pricing net of design changes and the exit of other climate operations in 2016.
- The Company recorded sales of $1,584 million for the six months ended June 30, 2017, representing an increase of $9 million when compared with the same period of 2016. The increase was primarily due to favorable volumes, product mix, and net new business, partially offset by Chinese Renminbi and Euro currency impacts, customer pricing net of design changes and the exit of other climate operations in 2016.
- Gross margin was $112 million or 14.5% of sales for the three months ended June 30, 2017, compared to $109 million or 14.1% of sales for the same period of 2016. The increase was primarily attributable to favorable volumes, net new business and product mix, and improved cost performance, partially offset by customer pricing and currency impacts including the Chinese Renminbi and Euro partially offset by the Japanese Yen.
- Gross margin was $243 million or 15.3% of sales for the six months ended June 30, 2017, compared to $230 million or 14.6% of sales for the same period of 2016. The increase was primarily attributable to the exit of the Company's other climate operations in 2016, favorable volumes, net new business and product mix, and improved cost performance, partially offset by customer pricing and currency impacts including the Chinese Renminbi and Euro partially offset by the Japanese Yen and Mexican Peso.
- Net income attributable to Visteon was $45 million for the three months ended June 30, 2017, compared to net income of $26 million for the same period of 2016. The increase of $19 million includes the non-recurrence of 2016 discontinued operations net loss of $9 million. The increase also includes lower restructuring expenses of $4 million, other income related to the sale of non-consolidated affiliates of $3 million, and improved gross margin of $3 million.
- Net income attributable to Visteon was $108 million for the six months ended June 30, 2017, compared to net income of $45 million for the same period of 2016. The increase of $63 million includes discontinued operations impacts of $30 million, lower restructuring charges of $13 million and lower selling, general and administrative expenses of $6 million. Gross margin improved $13 million including $6 million for electronics operations and $7 million related to the 2016 exit of the climate operations. These improvements were partially offset by higher income taxes of $4 million.
- Including discontinued operations, the Company generated $86 million of cash in operating activities during the six months ended June 30, 2017, compared to cash provided by operations of $14 million during the same period of 2016

representing a $72 million improvement. The increase in operating cash flows is attributable to higher net income of $62 million and lower cash tax payments, net of expense of $43 million primarily due to the non-recurrence of transaction related taxes incurred in 2016, partially offset by higher working capital use of approximately $35 million largely driven by an increase in China domestic sales.

- Total cash was $734 million as of June 30, 2017, $148 million lower than $882 million as of December 31, 2016, primarily attributable to share repurchases of $160 million and the repurchase of the India electronics operations sold in connection with the Climate Transaction of $47 million, partially offset by the change in cash provided by operating activities of $72 million.

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The Company's consolidated results of operations for the three months ended June 30, 2017 and 2016 were as follows:

	Three Months Ended June 30		
	2017	2016	Change
	(Dollars in Millions)		
Sales	$774	$773	$ 1
Cost of sales	662	664	(2)
Gross margin	112	109	3
Selling, general and administrative expenses	53	54	(1)
Restructuring expense	3	7	(4)
Interest expense, net	4	3	1
Equity in net income of non-consolidated affiliates	3	3	—
Other (income) expense, net	(3)	—	(3)
Provision for income taxes	10	9	1
Net income from continuing operations	48	39	9
Loss from discontinued operations	—	(9)	9
Net income	48	30	18
Net income attributable to non-controlling interests	3	4	(1)
Net income attributable to Visteon Corporation	$45	$26	$ 19
Adjusted EBITDA*	$84	$77	$ 7

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

Results of Operations - Three Months Ended June 30, 2017 and 2016

Prior to 2017, the Company also had Other operations consisting primarily of the South Africa and the South America climate operations exited during the fourth quarter of 2016.

Sales

	Electronics	Other	Total
	(Dollars in Millions)		
Three months ended June 30, 2016	$762	$11	$773
Volume, mix, and net new business	45	—	45
Currency	(12)	—	(12)
Customer pricing and other	(21)	—	(21)
Exit and wind-down	—	(11)	(11)
Three months ended June 30, 2017	$774	$—	$774

Sales for the three months ended June 30, 2017 totaled $774 million, which represents an increase of $1 million compared with the same period of 2016. Favorable volumes, product mix, and net new business increased sales by $45 million. Unfavorable currency decreased sales by $12 million, primarily attributable to the Chinese Renminbi and Euro partially offset by the Brazilian Real and Japanese Yen. The exit of other climate operations in 2016 decreased sales by $11 million. Other reductions were associated with customer pricing, net of design savings.

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Cost of Sales

	Electronics	Other	Total
	(Dollars in Millions)		
Three months ended June 30, 2016	$651	$13	$664
Currency	(6)	—	(6)
Volume, mix, and net new business	41	—	41
Exit and wind-down	—	(13)	(13)
Net cost performance	(24)	—	(24)
Three months ended June 30, 2017	$662	$—	$662

Cost of sales decreased $2 million for the three months ended June 30, 2017 when compared with the same period in 2016. Increased volumes, product mix, and net new business increased cost of sales by $41 million. Foreign currency decreased cost of sales by $6 million primarily attributable to the Chinese Renminbi, Euro, Japanese Yen, and Mexican Peso, partially offset by the Brazilian Real. The exit and wind down of other climate operations decreased costs by $13 million. Net efficiencies, including material, design and usage economics and lower engineering costs, partially offset by increased manufacturing expense, decreased cost of sales by $24 million.

Cost of sales includes net engineering costs comprised of gross engineering expenses related to forward model program development and advanced engineering activities, partially offset by engineering cost recoveries from customers. Electronics gross engineering expenses were $97 million for the three months ended June 30, 2017, $2 million lower than the same period of 2016. Engineering recoveries were $25 million for the three months ended June 30, 2017, $8 million higher than the same period of 2016. Engineering cost recoveries can fluctuate period to period depending on underlying contractual terms and conditions and achievement of related development milestones.

Gross Margin

Gross margin was $112 million or 14.5% of sales for the three months ended June 30, 2017 compared to $109 million or 14.1% of sales for the same period of 2016. The increase in gross margin of $3 million included favorable volumes, net new business, and product mix of $4 million, and impacts of the 2016 exit of other climate operations of $2 million. These increases were partially offset by currency of $6 million as the impact of the Chinese Renminbi and Euro more than offset the impact of the Japanese Yen, Mexican Peso, and Brazilian Real. Gross margin also included $3 million of favorable net cost performance reflecting material cost efficiencies and lower engineering expenses which more than offset customer pricing and higher manufacturing costs.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses were $53 million or 6.8% and $54 million or 7.0% during the three months ended June 30, 2017 and 2016, respectively. The decrease is primarily related to net efficiencies and currency partially offset by higher incentive compensation costs.

Restructuring Expense

During the fourth quarter of 2016, the Company announced a restructuring program impacting the engineering and administrative functions to further align the Company's engineering and related administrative footprint with its core product technologies and customers. During the three months ended June 30, 2017, the Company recorded $3 million of restructuring expenses under this program. Through June 30, 2017, the Company recorded approximately $31 million of restructuring expenses under this program, and expects to incur up to $45 million of restructuring costs

associated with approximately 250 employees.

During the three months ended June 30, 2016, the Company recorded $7 million of restructuring expenses primarily related to severance and termination benefits, in connection with the wind-down of certain operations in South America.

Interest Expense, Net

Interest expense, net, was $4 million and $3 million for the three months ended June 30, 2017 and 2016, respectively. Interest expense for the three months ended June 30, 2017 includes termination impacts of the Company's interest rate swap as further described in Note 15, "Fair Value Measurements and Financial Instruments."

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Equity in Net Income of Non-Consolidated Affiliates

Equity in net income of non-consolidated affiliates was $3 million for both three month periods ending June 30, 2017 and 2016.

Other (Income) Expense, Net

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

	Three Months Ended June 30	
	2017	2016
	(Dollars in Millions)	
Transformation initiatives	$—	$ 1
Transaction exchange losses	—	(1)
Gain on non-consolidated affiliate transactions, net	(3)	—
	$(3)	$ —

Transformation initiative costs include information technology separation costs, integration of acquired business, and financial and advisory services incurred in connection with the Company's transformation into a pure play cockpit electronics business. The gain on non-consolidated affiliate transactions, net are described in Note 4, "Non-Consolidated Affiliates."

Income Taxes

The Company's provision for income taxes of $10 million for the three months ended June 30, 2017, represents an increase of $1 million when compared with $9 million in the same period of 2016. The increase in tax expense is primarily attributable to the year-over-year increase in earnings and changes in assessments regarding the potential realization of deferred tax assets, partially offset by the year-over-year decrease for uncertain tax positions, including interest, of approximately $1 million.

Discontinued Operations

The operations subject to the Interiors Divestiture and Climate Transaction met conditions required to qualify for discontinued operations reporting. Accordingly, the results of operations for the Interiors business have been reclassified to income (loss) from discontinued operations, net of tax in the consolidated statements of comprehensive income for the three month period ended June 30, 2016. See Note 3 “Discontinued Operations" for additional disclosures.

Net Income

Net income attributable to Visteon was $45 million for the three months ended June 30, 2017, compared to net income of $26 million for the same period of 2016. The increase of $19 million includes the non-recurrence of 2016 discontinued operations net loss of $9 million. The increase also includes lower restructuring expenses of $4 million, other income related to the sale of non-consolidated affiliates of $3 million, and improved gross margin of $3 million.
Adjusted EBITDA

Adjusted EBITDA (a non-GAAP financial measure, as defined below) was $84 million for the three months ended June 30, 2017, representing an increase of $7 million when compared with Adjusted EBITDA of $77 million for the same period of 2016. The increase includes volume, mix and net new business of $4 million, climate operations exited in 2016 of $2 million, and selling, general and administrative cost efficiencies of $1 million. Other increases include favorable net cost performance reflecting material cost efficiencies and lower engineering expenses which more than offset customer pricing and higher manufacturing costs. Foreign currency decreased Adjusted EBITDA by $5 million attributable to the Chinese Renminbi and Euro, partially offset by the Japanese Yen.

The Company defines Adjusted EBITDA as net income attributable to the Company adjusted to eliminate the impact of depreciation and amortization, restructuring expense, net interest expense, loss on debt extinguishment, equity in net income of non-consolidated affiliates, loss on divestiture, gain on non-consolidated affiliate transactions, other net expense, provision for income taxes, discontinued operations, net income attributable to non-controlling interests, non-cash stock-based compensation expense, and other non-operating gains and losses.

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

The reconciliation of Adjusted EBITDA to net income attributable to Visteon for the three months ended June 30, 2017 and 2016, is as follows:

	Three Months Ended June 30		
	2017	2016	Change
	(Dollars in Millions)		
Adjusted EBITDA	$84	$77	$ 7
Depreciation and amortization	22	20	2
Restructuring expense	3	7	(4)
Interest expense, net	4	3	1
Equity income of non-consolidated affiliates	(3)	(3)	—
Other (income) expense, net	(3)	—	(3)
Provision for income taxes	10	9	1
Loss from discontinued operations, net of tax	—	9	(9)
Net income attributable to non-controlling interests	3	4	(1)
Non-cash, stock-based compensation	4	2	2
Other	(1)	—	(1)
Net income attributable to Visteon Corporation	$45	$26	$ 19

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The Company's consolidated results of operations for the six months ended June 30, 2017 and 2016 were as follows:

	Six Months Ended June 30		
	2017	2016	Change
	(Dollars in Millions)		
Sales	$1,584	$1,575	$ 9
Cost of sales	1,341	1,345	(4)
Gross margin	243	230	13
Selling, general and administrative expenses	104	110	(6)
Restructuring expense	4	17	(13)
Interest expense, net	9	5	4
Equity in net income of non-consolidated affiliates	5	3	2
Other (income) expense, net	(2)	4	(6)
Provision for income taxes	26	22	4
Net income from continuing operations	107	75	32
Income (loss) from discontinued operations	8	(22)	30
Net income	115	53	62
Net income attributable to non-controlling interests	7	8	(1)
Net income attributable to Visteon Corporation	$108	$45	$ 63
Adjusted EBITDA*	$185	$166	$ 19

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

Results of Operations - Six Months Ended June 30, 2017 and 2016

Prior to 2017, the Company also had Other operations consisting of the South Africa and the South America climate operations exited during the fourth quarter of 2016.

Sales

	Electronics	Other	Total
	(Dollars in Millions)		
Six months ended June 30, 2016	$1,555	$20	$1,575
Volume, mix, and net new business	91	—	91
Currency	(23)	—	(23)
Customer pricing and other	(39)	—	(39)
Exit and wind-down	—	(20)	(20)
Six months ended June 30, 2017	$1,584	$—	$1,584

Sales for the six months ended June 30, 2017 totaled $1,584 million, which represents an increase of $9 million compared with the same period of 2016. Favorable volumes, product mix, and net new business increased sales by $91 million. Unfavorable currency decreased sales by $23 million, primarily attributable to the Chinese Renminbi, and Euro partially offset by the Brazilian Real and the Japanese Yen. The exit of other climate operations in 2016 decreased sales by $20 million. Other reductions were associated with customer pricing, net of design savings.

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Cost of Sales

	Electronics	Other	Total
	(Dollars in Millions)		
Six months ended June 30, 2016	$1,318	$27	$1,345
Currency	(19)	—	(19)
Volume, mix, and net new business	82	—	82
Exit and wind-down	—	(27)	(27)
Net cost performance	(40)	—	(40)
Six months ended June 30, 2017	$1,341	$—	$1,341

Cost of sales decreased $4 million for the six months ended June 30, 2017 when compared with the same period in 2016. Increased volumes, product mix, and net new business increased cost of sales by $82 million. Foreign currency decreased cost of sales by $19 million primarily attributable to the Chinese Renminbi, Euro, Japanese Yen, and Mexican Peso, partially offset by the Brazilian Real. The exit and wind down of other climate operations decreased cost of sales by $27 million. Net efficiencies, including material, design and usage economics, and lower engineering costs, partially offset by higher manufacturing and warranty costs decreased cost of sales by $40 million.

Cost of sales includes net engineering costs, comprised of gross engineering expenses related to forward model program development and advanced engineering activities, partially offset by engineering cost recoveries from customers. Electronics gross engineering expenses were $189 million for the six months ended June 30, 2017, a decrease of $3 million compared to the same period of 2016. Engineering recoveries were $46 million for the six months ended June 30, 2017, $10 million higher than the recoveries recorded in the same period of 2016. Engineering cost recoveries can fluctuate period to period depending on underlying contractual terms and conditions and achievement of related development milestones.

Gross Margin

Gross margin was $243 million or 15.3% of sales for the six months ended June 30, 2017 compared to $230 million or 14.6% of sales for the same period of 2016. The $13 million increase in gross margin included $9 million from favorable volumes, net new business and product mix and $7 million related to the exit of climate operations. Currency decreased gross margin by $4 million as the impact of the Chinese Renminbi and Euro more than offset the impact of the Japanese Yen, Mexican Peso, and Brazilian Real. Gross margin also included $1 million of favorable material cost efficiencies and lower engineering costs partially offset by customer pricing reductions, and higher manufacturing costs.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses were $104 million or 6.6% of sales and $110 million or 7.0% of sales during the six months ended June 30, 2017 and 2016, respectively. The decrease is primarily related to net efficiencies including lower bad debt expense and impacts of restructuring actions.

Restructuring Expense

During the fourth quarter of 2016, the Company announced a restructuring program impacting engineering and administrative functions to further align the Company's engineering and related administrative footprint with its core product technologies and customers. Through June 30, 2017, the Company has recorded approximately $31 million of restructuring expenses, net of reversals, under this program, associated with approximately 250 employees, and expects to incur up to $45 million of restructuring costs for this program. During the six months ended June 30, 2017,

the Company has recorded approximately $4 million of restructuring expenses, net of reversals, under this program.

During the first quarter of 2016, the Company announced a restructuring program to transform the Company's engineering organization and supporting functional areas to focus on execution and technology. The organization will be comprised of regional engineering, product management and advanced technologies, and global centers of competence. Through the first six months of 2016, the Company recorded approximately $12 million of restructuring expenses, net of reversals, under this program, associated with approximately 100 employees. Additionally, the Company recorded restructuring expenses related to severance and termination benefits primarily related to the wind-down of certain operations in South America in 2016.

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Interest Expense, Net

Interest expense, net was $9 million and $5 million for the six months ended June 30, 2017 and 2016, respectively. The increase in net interest expense results from lower interest income due to lower cash balances, financing fees for the Amended Credit Facilities as further described in Note 10, "Debt" and termination impacts of the Company's interest rate swap as further described in Note 15, "Fair Value Measurements and Financial Instruments."

Equity in Net Income of Non-Consolidated Affiliates

Equity in net income of non-consolidated affiliates was $5 million and $3 million for the six month periods ended June 30, 2017 and 2016 respectively. The income is primarily attributable to the Company's equity interest in Yanfeng Visteon Investment Company and increased primarily related to the timing of engineering recoveries.

Other (Income) Expense, Net

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

	Six Months Ended June 30	
	2017	2016
	(Dollars in Millions)	
Transformation initiatives	$ —	$ 4
Gain on non-consolidated affiliate transactions, net	(2)	—
	$ (2)	$ 4

Transformation initiative costs include information technology separation costs, integration of acquired business, and financial and advisory services incurred in connection with the Company's transformation into a pure play cockpit electronics business. The gain on non-consolidated affiliate transactions, net are described in Note 4, "Non-Consolidated Affiliates."

Income Taxes

The Company's provision for income taxes of $26 million for the six months ended June 30, 2017 represents an increase of $4 million when compared with $22 million in the same period of 2016. The increase in tax expense is attributable to several items including the year-over-year increase in earnings, as well as changes in the mix of earnings and differing tax rates between jurisdictions, the non-recurrence of a $3 million discrete income tax benefit in connection with certain income tax incentives formally approved by the Portuguese tax authorities during the first quarter of 2016, and $2 million resulting from changes in assessments regarding the potential realization of deferred tax assets. These increases were partially offset by the year-over-year decrease for uncertain tax positions, including interest, of approximately $3 million.

Discontinued Operations

The operations subject to the Interiors Divestiture and Climate Transaction met conditions required to qualify for discontinued operations reporting. Accordingly, the results of operations for the Interiors and Climate businesses have been reclassified to income (loss) from discontinued operations, net of tax in the consolidated statements of comprehensive income for the six month periods ended June 30, 2017 and 2016. The six months ending June 30, 2017 included a $7 million gain on the repurchase of the India electronics operations associated with the 2015 Climate

Transaction. The six months ending June 30, 2016 primarily included results of the South America interiors operations divested on December 1, 2016 and a tax benefit related to previously divested climate operations.

Net Income

Net income attributable to Visteon was $108 million for the six months ended June 30, 2017, compared to net income of $45 million for the same period of 2016. The increase of $63 million includes discontinued operations impacts of $30 million, lower restructuring charges of $13 million and lower selling, general and administrative expenses of $6 million. Gross margin improved $13 million including $6 million for electronics operations and $7 million related to the 2016 exit of the climate operations. These improvements were partially offset by higher income taxes of $4 million.

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Adjusted EBITDA

Adjusted EBITDA (a non-GAAP financial measure, as defined below) was $185 million for the six months ended June 30, 2017, representing an increase of $19 million when compared with Adjusted EBITDA of $166 million for the same period of 2016. The increase included $9 million from favorable volumes, net new business and product mix primarily in Asia, $7 million related to other climate operations exited in 2016 and $5 million for selling, general and administrative cost efficiencies. Foreign currency decreased Adjusted EBITDA by $3 million attributable to the Chinese Renminbi and Euro partially offset by the Japanese Yen and Mexican Peso. Other cost performance includes material cost efficiencies and lower engineering costs offset by unfavorable customer pricing reductions, higher manufacturing costs, and increased warranty costs.

The Company defines Adjusted EBITDA as net income attributable to the Company adjusted to eliminate the impact of depreciation and amortization, restructuring expense, net interest expense, loss on debt extinguishment, equity in net income of non-consolidated affiliates, loss on divestiture, gain on non-consolidated affiliate transactions, other net expense, provision for income taxes, discontinued operations, net income attributable to non-controlling interests, non-cash stock-based compensation expense, and other non-operating gains and losses.

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 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 six months ended June 30, 2017 and 2016, is as follows:

	Six Months Ended June 30		
	2017	2016	Change
	(Dollars in Millions)		
Adjusted EBITDA	$185	$166	$ 19
Depreciation and amortization	41	41	—
Restructuring expense	4	17	(13)
Interest expense, net	9	5	4
Equity in net income of non-consolidated affiliates	(5)	(3)	(2)
Other (income) expense, net	(2)	4	(6)
Provision for income taxes	26	22	4
(Income) loss from discontinued operations, net of tax	(8)	22	(30)

Net income attributable to non-controlling interests	7	8	(1)
Non-cash, stock-based compensation expense	6	4	2
Other	(1)	1	(2)
Net income attributable to Visteon Corporation	$ 108	$ 45	$ 63

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Liquidity

The Company's primary sources of liquidity are cash flows from operations, existing cash balances, and borrowings under available credit facilities, if necessary. The Company believes that funds generated from these sources will be adequate to fund its liquidity for current business requirements.

A portion of the Company's cash flows from operations are generated outside of the U.S. Accordingly, the Company utilizes a combination of cash repatriation strategies, including dividends, royalties, intercompany loan arrangements and other distributions and advances to provide the funds necessary to meet obligations globally. The Company's ability to access funds from its subsidiaries is subject to, among other things, customary regulatory and statutory requirements and contractual arrangements including joint venture agreements and local credit facilities. Moreover, repatriation efforts may be modified by the Company according to prevailing circumstances.

The Company's ability to generate operating cash flow is dependent on the level, variability and timing of its customers' worldwide vehicle production, which may be affected by many factors including, but not limited to, general economic conditions, specific industry conditions, financial markets, competitive factors and legislative and regulatory changes. The Company monitors the macroeconomic environment and its impact on vehicle production volumes in relation to the Company's specific cash needs. 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 year-end shutdowns at key customers.

In the event that the Company's funding requirements exceed cash provided by its operating activities, the Company will meet such requirements by reduction of existing cash balances, by drawing on its $300 million Revolving Credit Facility or other affiliate working capital lines, by seeking additional capital through debt or equity markets, or some combination thereof.

Access to additional capital through the debt or equity markets is influenced by the Company's credit ratings. On March 7, 2017, Standard & Poor's Ratings Services upgraded the Company to 'BB', from 'BB-', with stable outlook. Moody's has reaffirmed the Company's credit rating of Ba3. See Note 10 "Debt" to the accompanying consolidated financial statements for a more comprehensive discussion of the Company's debt facilities. Incremental funding requirements of the Company's consolidated foreign entities are primarily accommodated by intercompany cash pooling structures. Affiliate working capital lines are primarily used by the Company's consolidated joint ventures. As of June 30, 2017, these lines had additional availability of $24 million.

Cash Balances

As of June 30, 2017, the Company had total cash of $734 million, including $4 million of restricted cash. Cash balances totaling $487 million were located in jurisdictions outside of the United States, of which approximately $190 million is considered permanently reinvested for funding ongoing operations outside of the U.S. If such permanently reinvested funds are repatriated to operations in the U.S., the Company would be required to accrue additional tax expense, primarily related to foreign withholding taxes.

Other Items Affecting Liquidity

During the second half of 2017, the Company expects to make remaining payments of approximately $34 million related to the Germany interiors divestiture that closed on December 1, 2015. Also, as announced during the fourth quarter of 2016, the Company expects to incur restructuring costs to further align the Company's engineering and related administrative footprint with its core product technologies and customers. Approximately $31 million has been expensed and $13 million has been paid since inception to date through June 30, 2017. The Company estimates that it

may incur up to $45 million in cumulative expenses to complete these actions. In addition, the Company is in active negotiations related to the potential exit of a European facility. Management continually seeks to streamline the Company's operations and may incur additional restructuring charges in the future.

The Company is authorized to spend an additional $240 million to repurchase Visteon common stock pursuant to the $400 million share repurchase authorization, as discussed in Note 13, "Stockholders' Equity and Non-Controlling Interests" of the consolidated financial statements under Item 1.

During the six months ended June 30, 2017, cash contributions to the Company's U.S. and non-U.S. defined benefit pension plan were $3 million. The Company expects to make cash contributions to its defined benefit pension plans of $7 million in 2017. Estimated cash contributions for 2018 through 2020, under current regulations and market assumptions are approximately $29 million.

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Cash Flows

Operating Activities
Including discontinued operations, the Company generated $86 million of cash in operating activities during the six months ended June 30, 2017, compared to cash provided by operations of $14 million during the same period of 2016, representing a $72 million improvement. The increase in operating cash flows is attributable to higher net income of $62 million and lower cash tax payments, net of expense of $43 million primarily due to the non-recurrence of transaction related taxes incurred in 2016, partially offset by higher working capital use of approximately $35 million largely driven by an increase in China domestic sales.
Investing Activities

Cash used from investing activities during the six months ended June 30, 2017 totaled $76 million, compared to net cash provided by investing activities of $358 million for the same period in 2016, representing a decrease of $434 million. Net cash used by investing activities during the six months ended June 30, 2017, includes the purchase of the India electronics operations associated with the Climate Transaction for $47 million and capital expenditures of $47 million. These outflows were partially offset by proceeds for divestitures of equity and cost based investments in China and Europe of $13 million and net investment hedge settlement proceeds of $5 million.
Net cash flow provided by investing activities for the six months ended June 30, 2016 includes the Climate Transaction withholding tax refund of $356 million, liquidation of investments of short-term securities of $47 million and proceeds from asset sales of $4 million, partially offset by capital expenditures of $37 million, and a $12 million shareholder loan to a non-consolidated affiliate.

Financing Activities

Cash used by financing activities during the six months ended June 30, 2017, totaled $171 million, compared to $2,258 million used by financing activities for the same period in 2016, for a decrease in cash used by financing activities of $2,087 million. Cash used by financing activities during the six months ended June 30, 2017 included share repurchases of $160 million and dividends paid to non-controlling interests of $11 million.

Cash used by financing activities during the six months ended June 30, 2016 of $2,258 million included a distribution payment of $1,736 million, share repurchases of $500 million, stock based compensation tax withholding payments of $11 million and net debt payments of $11 million.

Debt and Capital Structure

See Note 10, “Debt” to the consolidated financial statements included in Item 1.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet financial arrangements that have or are reasonably likely to have a material current or future effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Fair Value Measurement

See Note 15, “Fair Value Measurements and Financial Instruments” to the consolidated financial statements included in Item 1.

Recent Accounting Pronouncements

See Note 2 “Summary of Significant Accounting Policies” to the accompanying consolidated financial statements in Item 1.

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Forward-Looking Statements

Certain statements contained or incorporated in this Quarterly Report on Form 10-Q 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 vehicle production volumes and platform mix.
- Increases in our vendor's commodity costs or disruptions in the supply of commodities, including aluminum, copper, fuel and natural gas.
- 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.

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- 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.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary market risks to which the Company is exposed includes 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 mitigation of market risks, including hedging activities. However, derivative instruments are not used for speculative or trading purposes, as per clearly defined risk management policies. The Company's use of derivative instruments may entail risk of credit loss in the event of non-performance of a counter-party to a financial derivative contract. The Company limits its counterparty exposure by entering into agreements directly with a variety of major financial institutions with high credit profiles to support an expectation that the counterparty is capable of meeting the obligations under the contracts. In addition, 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 that are exposed to the risk of adverse changes in exchange rates as related to the sale of products in countries other than the manufacturing source, foreign currency denominated supplier payments, debt and other payables, subsidiary dividends, investments in subsidiaries and anticipated foreign currency denominated transaction proceeds. The Company utilizes derivative financial instruments to manage foreign currency exchange rate risks. Forward and option contracts may be utilized to reduce the impact to the Company's cash flows from adverse movements in exchange rates. Foreign currency exposures are reviewed periodically and any natural offsets are considered prior to entering into a financial derivative instrument. The Company’s primary hedged foreign currency exposures include Euro, Japanese yen, Thailand baht and Mexican peso. The Company's policy requires that hedge transactions relate to a specific portion of the exposure not to exceed the aggregate amount of the underlying transaction. As of June 30, 2017, and December 31, 2016, the net fair value of foreign currency forward and option contracts was a net liability of $15 million and less than $1 million, respectively. Maturities of these instruments generally do not exceed eighteen months.

During 2015, the Company entered into cross currency swap transactions to mitigate the variability of the value of the Company's investment in certain non-U.S. entities. In April 2017, the Company terminated and received $5 million of proceeds upon settlement. There was no ineffectiveness associated with such derivatives at the time of the termination. The Company subsequently entered into new cross currency swap transactions with an aggregate notional amount of $150 million. The transactions are designated as net investment hedges of certain of the Company's European affiliates. Accordingly, the effective portion of changes in the fair value of the transactions are recognized in other comprehensive income, a component of shareholders' equity. There was no ineffectiveness associated with such derivatives as of June 30, 2017 and December 31, 2016 and the fair value of these derivatives was a liability of $12 million and an asset of $6 million, respectively.

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 $28 million and $31 million for foreign currency derivative financial instruments as of June 30, 2017 and December 31, 2016, 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. As 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.

Interest Rate Risk

The Company is subject to interest rate risk principally in relation to variable-rate debt. The Company uses financial derivative instruments to manage exposure to fluctuations in interest rates in accordance with its risk management policies. During 2015, the Company entered into interest rate swaps to manage interest rate risk related to the variable rate interest payments of the Term Facility. In April 2017, the Company terminated these swaps and paid $1 million to settle the contracts.

During the second quarter of 2017, the Company entered into new interest rate swap contracts with an aggregate notional value of $150 million to effectively convert designated interest payments related to the amended Term Facility from variable to fixed cash flows. The maturities of these swaps do not exceed the underlying amended Term Facility. The instruments have been designated as cash flow hedges and accordingly, the effective portion of the changes in the fair value of the swap transactions are initially recognized in other comprehensive income. Subsequently, the accumulated gains and losses recorded in equity are

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reclassified to income in the period during which the hedged transaction impacts earnings. The ineffective portion of changes in the fair value of the swap transactions, if any, are recognized directly in income. As of June 30, 2017 and December 31, 2016, the fair value of the Company's interest rate swaps was an asset of less than $1 million and a liability of $1 million, respectively. There has been no ineffectiveness associated with these derivatives.

The Company significantly reduced interest rate exposure after entering the swap transactions in 2015. The variable rate basis of debt is approximately 60% and 59% as of June 30, 2017 and December 31, 2016, respectively.

Commodity Risk

The Company's exposures to market risk arising 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 determine to utilize derivatives in the future.

Item 4. 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 Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of June 30, 2017, an evaluation was performed under the supervision and with the participation of the Company’s management, including its Chief Executive and Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of June 30, 2017.

Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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Part II
Other Information

Item 1. Legal Proceedings

See the information above under Note 16, "Commitments and Contingencies," to the consolidated financial statements which is incorporated herein by reference.

Item 1A. Risk Factors

For information regarding factors that could affect the Company's results of operations, financial condition and liquidity, see the risk factors discussed in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. See also, "Forward-Looking Statements" included in Part I, Item 2 of this Quarterly Report on Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes information relating to purchases made by or on behalf of the Company, or an affiliated purchaser, of shares of the Company's common stock during the second quarter of 2017.

Period	Total Number of Shares (or Units) Purchased (1)	Average Price Paid per Share (or Unit)	Total Number of Shares (or units) Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (3) (in millions)
Apr. 1, 2017 to Jun. 30, 2017	361,201	$97.46	359,100	$240
Total	361,201	$97.46	359,100	$240

(1) Includes 2,101 shares surrendered to the Company by employees to satisfy tax withholding obligations in connection with the vesting of restricted share and stock unit awards made pursuant to the Visteon Corporation 2010 Incentive Plan.

(2) On February 27, 2017, the Company entered into an ASB program with a third-party financial institution to purchase shares of common stock for an aggregate purchase price of $125 million. On March 2, 2017 the Company received an initial delivery of 1,062,022. On May 8, 2017, the Company received an additional 238,344 shares upon conclusion of the program. In total, the Company acquired 1,300,366 shares under the ASB program. In addition, the Company purchased 359,100 shares on the open market at an average price of $97.44 per share totaling approximately $35 million during the second quarter of 2017.

(3) On January 10, 2017, the Company's board of directors authorized $400 million of share repurchase of its shares of common stock. As of June 30, 2017, there is $240 million remaining on the authorization. Additional repurchases of common stock, if any, may occur at the discretion of the Company.

Item 6. Exhibits

The exhibits listed on the "Exhibit Index" on Page 47 hereof are filed with this report or incorporated by reference as set forth therein.

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/ Stephanie S. Marianos
Stephanie S. Marianos
Vice President and Chief Accounting Officer

Date: July 27, 2017

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Exhibit Index

Exhibit No.	Description
10.1	2010 Visteon Executive Severance Plan, effective June 7, 2017.*
31.1	Rule 13a-14(a) Certification of Chief Executive Officer dated July 27, 2017.
31.2	Rule 13a-14(a) Certification of Executive Vice President, Chief Financial Officer dated July 27, 2017.
32.1	Section 1350 Certification of Chief Executive Officer dated July 27, 2017.
32.2	Section 1350 Certification of Executive Vice President, Chief Financial Officer dated July 27, 2017.
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.