

LEAR CORP  
Form 10-Q  
April 24, 2015  
Table of Contents

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

---

FORM 10-Q

---

(Mark One)

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

For the quarterly period ended March 28, 2015.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 001-11311

---

LEAR CORPORATION

(Exact name of registrant as specified in its charter)

---

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-3386776  
(I.R.S. Employer  
Identification No.)

21557 Telegraph Road, Southfield, MI  
(Address of principal executive offices)  
(248) 447-1500  
(Registrant's telephone number, including area code)

48033  
(Zip code)

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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  (Do not check if a smaller reporting company) Smaller reporting company

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

As of April 21, 2015, the number of shares outstanding of the registrant's common stock was 77,759,935 shares.



Table of Contents

LEAR CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED MARCH 28, 2015

INDEX

	Page No.
<u>Part I – Financial Information</u>	
<u>Item 1 – Condensed Consolidated Financial Statements</u>	
<u>Introduction to the Condensed Consolidated Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets - March 28, 2015 (Unaudited) and December 31, 2014</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) - Three Months Ended March 28, 2015 and March 29, 2014</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) - Three Months Ended March 28, 2015 and March 29, 2014</u>	<u>6</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
Item 3 – Quantitative and Qualitative Disclosures about Market Risk (included in Item 2)	
<u>Item 4 – Controls and Procedures</u>	<u>43</u>
<u>Part II – Other Information</u>	
<u>Item 1 – Legal Proceedings</u>	<u>44</u>
<u>Item 1A – Risk Factors</u>	<u>44</u>
<u>Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>44</u>
<u>Item 6 – Exhibits</u>	<u>44</u>
<u>Signatures</u>	<u>45</u>

Table of Contents

LEAR CORPORATION

PART I — FINANCIAL INFORMATION

ITEM 1 — CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We have prepared the condensed consolidated financial statements of Lear Corporation and subsidiaries, without audit, pursuant to the rules and regulations of the 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 have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, for the year ended December 31, 2014.

The financial information presented reflects all adjustments (consisting of normal recurring adjustments) which are, in our opinion, necessary for a fair presentation of the results of operations, cash flows and financial position for the interim periods presented. These results are not necessarily indicative of a full year's results of operations.

Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

	March 28, 2015 <sup>(1)</sup>	December 31, 2014
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$748.2	\$1,094.1
Accounts receivable	3,170.5	2,471.7
Inventories	985.8	853.7
Other	737.9	960.1
Total current assets	5,642.4	5,379.6
<b>LONG-TERM ASSETS:</b>		
Property, plant and equipment, net	1,714.6	1,624.7
Goodwill	1,057.9	726.2
Other	1,203.5	1,419.7
Total long-term assets	3,976.0	3,770.6
Total assets	\$9,618.4	\$9,150.2
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and drafts	\$2,761.3	\$2,525.3
Accrued liabilities	1,288.0	1,188.8
Current portion long-term debt	10.6	243.7
Total current liabilities	4,059.9	3,957.8
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt	1,972.4	1,475.0
Other	694.3	688.1
Total long-term liabilities	2,666.7	2,163.1
<b>EQUITY:</b>		
Preferred stock, 100,000,000 shares authorized (including 10,896,250 Series A convertible preferred stock authorized); no shares outstanding	—	—
Common stock, \$0.01 par value, 300,000,000 shares authorized; 80,563,291 shares issued as of March 28, 2015 and December 31, 2014	0.8	0.8
Additional paid-in capital	1,404.1	1,475.2
Common stock held in treasury, 2,805,370 and 2,541,306 shares as of March 28, 2015 and December 31, 2014, respectively, at cost	(251.7	) (176.9
Retained earnings	2,288.7	2,161.7
Accumulated other comprehensive loss	(629.8	) (502.0
Lear Corporation stockholders' equity	2,812.1	2,958.8
Noncontrolling interests	79.7	70.5
Equity	2,891.8	3,029.3
Total liabilities and equity	\$9,618.4	\$9,150.2

<sup>(1)</sup> Unaudited.

The accompanying notes are an integral part of these condensed consolidated balance sheets.

Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited; in millions, except per share data)

	Three Months Ended	
	March 28, 2015	March 29, 2014
Net sales	\$4,521.4	\$4,359.8
Cost of sales	4,095.7	3,999.3
Selling, general and administrative expenses	151.7	136.7
Amortization of intangible assets	13.3	8.5
Interest expense	24.4	16.8
Other expense, net	30.0	29.2
Consolidated income before provision for income taxes and equity in net income of affiliates	206.3	169.3
Provision for income taxes	62.9	52.7
Equity in net income of affiliates	(13.3	) (12.0
Consolidated net income	156.7	128.6
Less: Net income attributable to noncontrolling interests	9.4	6.6
Net income attributable to Lear	\$147.3	\$122.0
Basic net income per share attributable to Lear	\$1.88	\$1.50
Diluted net income per share attributable to Lear	\$1.86	\$1.47
Cash dividends declared per share	\$0.25	\$0.20
Average common shares outstanding	78,250,590	81,075,811
Average diluted shares outstanding	79,079,598	82,761,597
Consolidated comprehensive income (Note 13)	\$28.8	\$117.8
Less: Comprehensive income attributable to noncontrolling interests	9.3	4.8
Comprehensive income attributable to Lear	\$19.5	\$113.0

The accompanying notes are an integral part of these condensed consolidated statements.

Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Three Months Ended	
	March 28, 2015	March 29, 2014
Cash Flows from Operating Activities:		
Consolidated net income	\$156.7	\$128.6
Adjustments to reconcile consolidated net income to net cash used in operating activities:		
Depreciation and amortization	84.5	74.5
Net change in recoverable customer engineering, development and tooling	(7.8	) 8.3
Net change in working capital items (see below)	(344.2	) (286.8
Other, net	44.2	21.2
Net cash used in operating activities	(66.6	) (54.2
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(98.8	) (96.4
Acquisition of Eagle Ottawa, net of cash acquired and use of \$350 million restricted cash (see non-cash investing activities below) (Note 2)	(473.3	) —
Other, net	7.9	(14.0
Net cash used in investing activities	(564.2	) (110.4
Cash Flows from Financing Activities:		
Proceeds from the issuance of senior notes	—	325.0
Credit agreement borrowings	500.0	—
Repurchase of senior notes, net of use of \$250 million restricted cash in 2015 (see non-cash financing activities below) (Note 8)	(5.0	) (327.1
Payment of debt issuance and other financing costs	—	(3.8
Repurchase of common stock	(112.4	) —
Dividends paid to Lear Corporation stockholders	(22.0	) (17.5
Dividends paid to noncontrolling interests	(0.1	) (5.8
Other, net	(46.0	) (21.1
Net cash provided by (used in) financing activities	314.5	(50.3
Effect of foreign currency translation	(29.6	) (3.4
Net Change in Cash and Cash Equivalents	(345.9	) (218.3
Cash and Cash Equivalents as of Beginning of Period	1,094.1	1,137.7
Cash and Cash Equivalents as of End of Period	\$748.2	\$919.4
Changes in Working Capital Items:		
Accounts receivable	\$(677.1	) \$(754.5
Inventories	(9.5	) (52.6
Accounts payable (including \$45.7 million of cash paid in 2015 in conjunction with the acquisition of Eagle Ottawa to settle pre-existing accounts payable)	278.2	449.2
Accrued liabilities and other	64.2	71.1
Net change in working capital items	\$(344.2	) \$(286.8
Supplementary Disclosure:		
Cash paid for interest	\$32.2	\$35.6

Edgar Filing: LEAR CORP - Form 10-Q

Cash paid for income taxes, net of refunds received	\$40.2	\$40.2
Non-cash Investing Activities:		
Cash restricted for use — acquisition of Eagle Ottawa	\$(350.0)	) \$—
Non-cash Financing Activities:		
Cash restricted for use — repurchase of senior notes	\$(250.0)	) \$—

The accompanying notes are an integral part of these condensed consolidated statements.

6

---



Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## (1) Basis of Presentation

Lear Corporation ("Lear," and together with its consolidated subsidiaries, the "Company") and its affiliates design and manufacture automotive seating and electrical distribution systems and related components. The Company's main customers are automotive original equipment manufacturers. The Company operates facilities worldwide.

The accompanying condensed consolidated financial statements include the accounts of Lear, a Delaware corporation, and the wholly owned and less than wholly owned subsidiaries controlled by Lear. In addition, Lear consolidates all entities, including variable interest entities, in which it has a controlling financial interest. Investments in affiliates in which Lear does not have control, but does have the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method.

The Company's annual financial results are reported on a calendar year basis, and quarterly interim results are reported using a thirteen week reporting calendar.

Certain amounts in the prior period's financial statements have been reclassified to conform to the presentation used in the quarter ended March 28, 2015.

## Cost of Sales and Selling, General and Administrative Expenses

Cost of sales includes material, labor and overhead costs associated with the manufacture and distribution of the Company's products. Distribution costs include inbound freight costs, purchasing and receiving costs, inspection costs, warehousing costs and other costs of the Company's distribution network. Selling, general and administrative expenses include selling, engineering and development and administrative costs not directly associated with the manufacture and distribution of the Company's products.

## (2) Acquisition

On January 5, 2015, the Company completed the acquisition of 100% of the outstanding equity interests of Everett Smith Group, Ltd., the parent company of Eagle Ottawa, LLC ("Eagle Ottawa"). Eagle Ottawa is a leading provider of leather for the automotive industry, with annual sales of approximately \$1 billion, including annual sales to Lear of approximately \$200 million. The net purchase price of \$843.4 million is subject to adjustment and consists of cash paid of \$823.3 million, net of cash acquired, and contingent consideration of \$20.1 million. In addition, the Company incurred transaction costs related to advisory services of \$8.4 million for the three months ended March 28, 2015, which have been expensed as incurred and are recorded in selling, general and administrative expenses. The acquisition was financed with \$350 million of restricted cash proceeds from the Company's offering of \$650 million in aggregate principal amount of senior unsecured notes due 2025 at a stated coupon rate of 5.25% (the "2025 Notes") issued in November 2014 and borrowings under a \$500 million delayed-draw term loan facility ("Term Loan Facility") established in November 2014 under the Company's amended and restated senior secured credit agreement (the "Credit Agreement") (see Note 8, "Debt").

The Eagle Ottawa acquisition was accounted for as a business combination, and accordingly, the assets acquired and liabilities assumed are included in the accompanying condensed consolidated balance sheet as of March 28, 2015. The operating results and cash flows of Eagle Ottawa are included in the accompanying condensed consolidated financial statements from the date of acquisition and in the Company's seating segment. The preliminary purchase price and related allocation are shown below (in millions):

Purchase price paid, net of cash acquired	\$ 823.3
Contingent consideration	20.1
Net purchase price	\$ 843.4
Property, plant and equipment	\$ 141.4
Other assets purchased and liabilities assumed, net	136.2
Goodwill	354.5

Edgar Filing: LEAR CORP - Form 10-Q

Intangible assets	211.3
Preliminary purchase price allocation	\$843.4

Contingent consideration represents the discounted value of estimated amounts due to the seller pending the resolution of certain tax matters. The undiscounted value of estimated contingent consideration is \$23.1 million.

7

---

Table of Contents

## LEAR CORPORATION

Recognized goodwill is attributable to the assembled workforce, expected synergies and other intangible assets that do not qualify for separate recognition.

Intangible assets consist of amounts recognized for the fair value of customer-based assets and were based on an independent appraisal. Customer-based assets include Eagle Ottawa's established relationships with its customers and the ability of these customers to generate future economic profits for the Company. It is currently estimated that these intangible assets have a weighted average useful life of approximately ten years.

The purchase price and related allocation are preliminary and will be revised as a result of adjustments made to the purchase price, additional information obtained regarding liabilities assumed, including, but not limited to, contingent liabilities, and revisions of provisional estimates of fair values related to certain tax attributes.

As of the acquisition date, the Company had amounts payable to Eagle Ottawa of \$45.7 million for purchases of raw materials. As a result of the acquisition, these amounts payable were effectively settled at carrying value, which approximated fair value. The purchase price paid to the former owner discussed above excludes cash paid to settle this pre-existing relationship.

The proforma effects of this acquisition would not materially impact the Company's reported results for any period presented.

For further information on acquired assets measured at fair value, see Note 16 "Financial Instruments."

**(3) Restructuring**

Restructuring costs include employee termination benefits, fixed asset impairment charges and contract termination costs, as well as other incremental costs resulting from the restructuring actions. These incremental costs principally include equipment and personnel relocation costs. The Company also incurs incremental manufacturing inefficiency costs at the operating locations impacted by the restructuring actions during the related restructuring implementation period. Restructuring costs are recognized in the Company's consolidated financial statements in accordance with accounting principles generally accepted in the United States ("GAAP"). Generally, charges are recorded as restructuring actions are approved and/or implemented.

In the first quarter of 2015, the Company recorded charges of \$7.3 million in connection with its restructuring actions. These charges consist of \$5.8 million recorded as cost of sales and \$1.5 million recorded as selling, general and administrative expenses. The restructuring charges consist of employee termination benefits of \$4.5 million, asset impairment charges of \$1.1 million and contract termination costs of \$1.0 million, as well as other related costs of \$0.7 million. Employee termination benefits were recorded based on existing union and employee contracts, statutory requirements, completed negotiations and Company policy. Asset impairment charges relate to the disposal of buildings, leasehold improvements and machinery and/or equipment with carrying values of \$1.1 million in excess of related estimated fair values. The Company expects to incur approximately \$30.3 million of additional restructuring costs related to activities initiated as of March 28, 2015, and expects that the components of such costs will be consistent with its historical experience. Any future restructuring actions will depend upon market conditions, customer actions and other factors.

A summary of 2015 activity is shown below (in millions):

	Accrual as of January 1, 2015	2015 Charges	Utilization		Accrual as of March 28, 2015
			Cash	Non-cash	
Employee termination benefits	\$45.1	\$4.5	\$(9.5)	\$—	\$40.1
Asset impairment charges	—	1.1	—	(1.1)	—
Contract termination costs	5.1	1.0	(0.8)	—	5.3
Other related costs	—	0.7	(0.7)	—	—
Total	\$50.2	\$7.3	\$(11.0)	\$(1.1)	\$45.4

**(4) Inventories**

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs. A summary of inventories is shown below (in millions):

8

---

Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

	March 28, 2015	December 31, 2014
Raw materials	\$737.0	\$668.3
Work-in-process	102.5	45.6
Finished goods	146.3	139.8
Inventories	\$985.8	\$853.7

## (5) Pre-Production Costs Related to Long-Term Supply Agreements

The Company incurs pre-production engineering and development ("E&D") and tooling costs related to the products produced for its customers under long-term supply agreements. The Company expenses all pre-production E&D costs for which reimbursement is not contractually guaranteed by the customer. In addition, the Company expenses all pre-production tooling costs related to customer-owned tools for which reimbursement is not contractually guaranteed by the customer or for which the Company does not have a non-cancelable right to use the tooling. During the first quarters of 2015 and 2014, the Company capitalized \$49.9 million and \$42.3 million, respectively, of pre-production E&D costs for which reimbursement is contractually guaranteed by the customer. During the first quarters of 2015 and 2014, the Company also capitalized \$37.8 million and \$66.3 million, respectively, of pre-production tooling costs related to customer-owned tools for which reimbursement is contractually guaranteed by the customer or for which the Company has a non-cancelable right to use the tooling. These amounts are included in other current and long-term assets in the accompanying condensed consolidated balance sheets. During the first quarters of 2015 and 2014, the Company collected \$76.3 million and \$103.2 million, respectively, of cash related to E&D and tooling costs. The classification of recoverable customer E&D and tooling costs related to long-term supply agreements is shown below (in millions):

	March 28, 2015	December 31, 2014
Current	\$123.0	\$121.1
Long-term	46.7	47.6
Recoverable customer E&D and tooling	\$169.7	\$168.7

## (6) Long-Term Assets

## Property, Plant and Equipment

Property, plant and equipment is stated at cost. Costs associated with the repair and maintenance of the Company's property, plant and equipment are expensed as incurred. Costs associated with improvements which extend the life, increase the capacity or improve the efficiency or safety of the Company's property, plant and equipment are capitalized and depreciated over the remaining useful life of the related asset. Depreciable property is depreciated over the estimated useful lives of the assets, using principally the straight-line method.

A summary of property, plant and equipment is shown below (in millions):

	March 28, 2015	December 31, 2014
Land	\$115.8	\$105.2
Buildings and improvements	546.5	523.5
Machinery and equipment	1,915.1	1,847.0
Construction in progress	186.2	186.9
Total property, plant and equipment	2,763.6	2,662.6
Less – accumulated depreciation	(1,049.0)	(1,037.9)
Property, plant and equipment, net	\$1,714.6	\$1,624.7

Depreciation expense was \$71.2 million and \$66.0 million for the three months ended March 28, 2015 and March 29, 2014.

9

---

Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The Company monitors its long-lived assets for impairment indicators on an ongoing basis in accordance with GAAP. If impairment indicators exist, the Company performs the required impairment analysis by comparing the undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. If the net book value exceeds the undiscounted cash flows, an impairment loss is measured and recognized. The Company does not believe that there were any indicators that would have resulted in long-lived asset impairment charges as of March 28, 2015. The Company will, however, continue to assess the impact of any significant industry events and long-term automotive production estimates on the realization of its long-lived assets.

In the first quarter of 2015, the Company recognized fixed asset impairment charges of \$1.1 million, in conjunction with its restructuring actions (Note 3, "Restructuring"), as well as additional fixed asset impairment charges of \$0.5 million in the three months ended March 28, 2015.

## (7) Goodwill

A summary of the changes in the carrying amount of goodwill, all of which relates to the seating segment, for the three months ended March 28, 2015, is shown below (in millions):

Balance as of January 1, 2015	\$726.2
Acquisition	354.5
Foreign currency translation and other	(22.8 )
Balance as of March 28, 2015	\$1,057.9

Goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment is more likely than not to have occurred. In conducting its annual impairment testing, the Company may first perform a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount. If not, no further goodwill impairment testing is required. If it is more likely than not that a reporting unit's fair value is less than its carrying amount, or if the Company elects not to perform a qualitative assessment of a reporting unit, the Company then compares the fair value of the reporting unit to the related net book value. If the net book value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. The Company conducts its annual impairment testing as of the first day of its fourth quarter.

The Company does not believe that there were any indicators that would have resulted in goodwill impairment charges as of March 28, 2015. The Company will, however, continue to assess the impact of significant events or circumstances on its recorded goodwill.

## (8) Debt

A summary of long-term debt and the related weighted average interest rates is shown below (in millions):

	March 28, 2015		December 31, 2014	
	Long-Term Debt	Weighted Average Interest Rate	Long-Term Debt	Weighted Average Interest Rate
Credit Agreement — Term Loan Facility	\$500.0	1.68%	\$—	N/A
8.125% Senior Notes due 2020	—	N/A	243.7	8.25%
4.75% Senior Notes due 2023	500.0	4.75%	500.0	4.75%
5.375% Senior Notes due 2024	325.0	5.375%	325.0	5.375%
5.25% Senior Notes due 2025	650.0	5.25%	650.0	5.25%
Other	8.0	N/A	—	N/A
	1,983.0		1,718.7	
Less — Current portion	(10.6 )		(243.7 )	

Long-term debt	\$1,972.4	\$1,475.0
----------------	-----------	-----------

10

---



Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Senior Notes

As of March 28, 2015, the Company's senior notes consist of \$500 million in aggregate principal amount of senior unsecured notes due 2023 at a stated coupon rate of 4.75% (the "2023 Notes"), \$325 million in aggregate principal amount of senior unsecured notes due 2024 at a stated coupon rate of 5.375% (the "2024 Notes") and the 2025 Notes (together with the 2023 Notes and 2024 Notes, the "Notes").

2023 Notes

The 2023 Notes were issued in January 2013 and mature on January 15, 2023. Interest is payable on January 15 and July 15 of each year.

2024 Notes

The 2024 Notes were issued in March 2014 and mature on March 15, 2024. Interest is payable on March 15 and September 15 of each year. The proceeds from the offering of \$325 million, net of related issuance costs of \$3.8 million and together with existing cash on hand, were used to redeem the remaining outstanding aggregate principal amount of the Company's 7.875% senior unsecured notes due 2018 (the "2018 Notes") (\$280 million) and to redeem 10% of the original aggregate principal amount at maturity of the senior unsecured notes due 2020 (the "2020 Notes") (\$35 million) at stated redemption prices, plus accrued and unpaid interest to the respective redemption dates. In connection with these transactions, the Company paid an aggregate of \$327.1 million and recognized losses of \$17.5 million on the extinguishment of debt in the first quarter of 2014.

2025 Notes

The 2025 Notes were issued in November 2014 and mature on January 15, 2025. Interest is payable on January 15 and July 15 of each year. Of the \$650 million of proceeds from the offering, net of related issuance costs of \$8.4 million, \$250 million was restricted for the redemption of the remaining outstanding aggregate principal amount of the 2020 Notes (\$245 million) and \$350 million was restricted to finance, in part, the acquisition of Eagle Ottawa (see Note 2, "Acquisitions"). Cash proceeds restricted for redemption of the 2020 Notes and the acquisition of Eagle Ottawa were recorded in other current assets and other long-term assets, respectively, in the accompanying condensed consolidated balance sheet as of December 31, 2014. In January 2015, the Company acquired Eagle Ottawa and used \$350 million of restricted cash proceeds from the offering of the 2025 Notes, along with \$500 million in borrowings under the Term Loan Facility (see "— Credit Agreement" below), to finance the acquisition. In March 2015, the Company redeemed the 2020 Notes at a price equal to 104.063% of the principal amount thereof, plus accrued and unpaid interest to the redemption date. In connection with this transaction, the Company paid \$255.0 million, including \$250 million of restricted cash proceeds from the offering of the 2025 Notes, and recognized a loss of \$14.3 million on the extinguishment of debt in the first quarter of 2015. The use of restricted cash for the acquisition of Eagle Ottawa and the redemption of the 2020 Notes is reflected as non-cash investing and financing activities, respectively, in the accompanying condensed consolidated statement of cash flows for the three months ended March 28, 2015. The remaining proceeds of the 2025 Notes were used for general corporate purposes, including the payment of fees and expenses associated with the acquisition of Eagle Ottawa and related financing transactions.

Guarantees

The Notes are senior unsecured obligations. The Company's obligations under the Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by certain domestic subsidiaries, which are directly or indirectly 100% owned by Lear. See Note 18, "Supplemental Guarantor Condensed Consolidating Financial Statements."

Covenants

Subject to certain exceptions, the indentures governing the Notes contain restrictive covenants that, among other things, limit the ability of the Company to: (i) create or permit certain liens and (ii) consolidate or merge or sell all or substantially all of the Company's assets. The indentures governing the Notes also provide for customary events of default. In addition, the indentures governing the 2023 Notes and 2024 Notes limit the ability of the Company to enter

into sale and leaseback transactions.

As of March 28, 2015, the Company was in compliance with all covenants under the indentures governing the Notes.

Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## Credit Agreement

In November 2014, the Company amended and restated its Credit Agreement to, among other things, increase the borrowing capacity of the Revolving Credit Facility from \$1.0 billion to \$1.25 billion, extend the maturity date from January 30, 2018 to November 14, 2019, and establish the \$500 million Term Loan Facility, which matures on January 5, 2020. As of March 28, 2015 and December 31, 2014, there were no borrowings outstanding under the Revolving Credit Facility. In January 2015, the Company borrowed \$500 million under the Term Loan Facility to finance, in part, the acquisition of Eagle Ottawa.

Advances under the Revolving Credit Facility generally bear interest at a variable rate per annum equal to (i) the Eurocurrency Rate (as defined) plus an adjustable margin of 1.0% to 2.25% based on the Company's corporate rating (1.50% as of March 28, 2015), payable on the last day of each applicable interest period but in no event less frequently than quarterly, or (ii) the Adjusted Base Rate (as defined) plus an adjustable margin of 0.0% to 1.25% based on the Company's corporate rating (0.50% as of March 28, 2015), payable quarterly. A facility fee, which ranges from 0.25% to 0.50% of the total amount committed under the Revolving Credit Facility, is payable quarterly.

Loans under the Term Loan Facility generally bear interest at a variable rate per annum equal to (i) the Eurocurrency Rate (as defined) plus an adjustable margin of 1.25% to 2.25% based on the Company's corporate rating (1.50% as of March 28, 2015), payable on the last day of each applicable interest period but in no event less frequently than quarterly, or (ii) the Adjusted Base Rate (as defined) plus an adjustable margin of 0.25% to 1.25% based on the Company's corporate rating (0.50% as of March 28, 2015), payable quarterly.

The Company's obligations under the Credit Agreement are secured on a first priority basis by a lien on substantially all of the U.S. assets of the Company and its domestic subsidiaries, as well as 100% of the stock of the Company's domestic subsidiaries and 65% of the stock of certain of the Company's foreign subsidiaries. In addition, obligations under the Revolving Credit Facility are guaranteed, jointly and severally, on a first priority basis, by certain domestic subsidiaries, which are directly or indirectly 100% owned by Lear. See Note 18, "Supplemental Guarantor Condensed Consolidating Financial Statements."

The Credit Agreement contains various customary representations, warranties and covenants by the Company, including, without limitation, (i) covenants regarding maximum leverage and minimum interest coverage, (ii) limitations on fundamental changes involving the Company or its subsidiaries and (iii) limitations on indebtedness, liens, investments and restricted payments. As of March 28, 2015, the Company was in compliance with all covenants under the Credit Agreement.

## Other

As of March 28, 2015, other long-term debt consists of amounts outstanding under capital leases.

For further information on the Notes and the Credit Agreement, see Note 6, "Debt," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

## (9) Pension and Other Postretirement Benefit Plans

## Net Periodic Pension and Other Postretirement Benefit Cost (Credit)

The components of the Company's net periodic pension benefit cost (credit) are shown below (in millions):

	Three Months Ended			
	March 28, 2015		March 29, 2014	
	U.S.	Foreign	U.S.	Foreign
Service cost	\$1.2	\$2.1	\$0.9	\$2.2
Interest cost	7.2	3.9	7.1	5.1
Expected return on plan assets	(9.9	) (5.9	) (9.5	) (6.7
Amortization of actuarial (gain) loss	0.6	1.1	(0.1	) 0.3
Settlement loss	0.1	—	0.1	—



Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The components of the Company's net periodic other postretirement benefit cost are shown below (in millions):

	Three Months Ended			
	March 28, 2015		March 29, 2014	
	U.S.	Foreign	U.S.	Foreign
Service cost	\$—	\$0.3	\$0.1	\$0.2
Interest cost	0.8	0.4	1.0	0.5
Amortization of actuarial (gain) loss	(0.3 )	0.1	(0.2 )	—
Amortization of prior service credit	—	(0.1 )	—	(0.1 )
Special termination benefits	—	—	—	0.2
Net periodic benefit cost	\$0.5	\$0.7	\$0.9	\$0.8
Contributions				

Employer contributions to the Company's domestic and foreign pension plans for the three months ended March 28, 2015, were \$6.0 million. The Company expects contributions to its domestic and foreign pension plans of approximately \$24 million in 2015. The Company may elect to make contributions in excess of minimum funding requirements in response to investment performance or changes in interest rates or when the Company believes that it is financially advantageous to do so and based on its other cash requirements.

Employer contributions to the Company's defined contribution retirement program for its salaried employees, determined as a percentage of each covered employee's eligible compensation, for the three months ended March 28, 2015, were \$7.3 million. The Company expects total contributions of approximately \$19 million to this program in 2015.

## (10) Other Expense, Net

Other expense, net includes non-income related taxes, foreign exchange gains and losses, gains and losses related to certain derivative instruments and hedging activities, gains and losses on the extinguishment of debt, gains and losses on the disposal of fixed assets and other miscellaneous income and expense. A summary of other expense, net is shown below (in millions):

	Three Months Ended	
	March 28, 2015	March 29, 2014
Other expense	\$32.3	\$29.8
Other income	(2.3 )	(0.6 )
Other expense, net	\$30.0	\$29.2

For the three months ended March 28, 2015 and March 29, 2014, other expense includes losses on the extinguishment of debt of \$14.3 million and \$17.5 million, respectively, (see Note 8, "Debt") and net foreign currency transaction losses of \$11.7 million and \$6.5 million, respectively.

## (11) Income Taxes

The provision for income taxes was \$62.9 million for the first quarter of 2015, representing an effective tax rate of 30.5% on pretax income before equity in net income of affiliates of \$206.3 million, as compared to \$52.7 million for the first quarter of 2014, representing an effective tax rate of 31.1% on pretax income before equity in net income of affiliates of \$169.3 million.

In the first quarters of 2015 and 2014, the provision for income taxes was primarily impacted by the level and mix of earnings among tax jurisdictions. The provision was also impacted by a portion of the Company's restructuring charges and other expenses, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. In the first quarter of 2015,

the Company recognized tax benefits of \$14.0 million related to acquisition costs, debt redemption costs, restructuring charges and various other items. In the first quarter of 2014, the Company recognized tax benefits of \$9.9 million related to debt redemption costs, restructuring charges and various other items and tax benefits of \$5.5 million related to reductions in tax reserves due to tax audit settlements. Excluding these items, the effective tax rate in the first quarters of 2015 and 2014 approximated the U.S. federal statutory income tax rate of 35% adjusted for income taxes on foreign earnings, losses and remittances, valuation allowances, tax credits, income tax incentives and other permanent items.

Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The Company's current and future provision for income taxes is impacted by the initial recognition of and changes in valuation allowances in certain countries. The Company intends to maintain these allowances until it is more likely than not that the deferred tax assets will be realized. The Company's future provision for income taxes will include no tax benefit with respect to losses incurred and, except for certain jurisdictions, no tax expense with respect to income generated in these countries until the respective valuation allowances are eliminated. Accordingly, income taxes are impacted by changes in valuation allowances and the mix of earnings among jurisdictions. The Company evaluates the realizability of its deferred tax assets on a quarterly basis. In completing this evaluation, the Company considers all available evidence in order to determine whether, based on the weight of the evidence, a valuation allowance for its deferred tax assets is necessary. Such evidence includes historical results, future reversals of existing taxable temporary differences and expectations for future taxable income (exclusive of the reversal of temporary differences and carryforwards), as well as the implementation of feasible and prudent tax planning strategies. If, based on the weight of the evidence, it is more likely than not that all or a portion of the Company's deferred tax assets will not be realized, a valuation allowance is recorded. If operating results improve or decline on a continual basis in a particular jurisdiction, the Company's decision regarding the need for a valuation allowance could change, resulting in either the initial recognition or reversal of a valuation allowance in that jurisdiction, which could have a significant impact on income tax expense in the period recognized and subsequent periods.

For further information, see Note 7, "Income Taxes," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

## (12) Net Income Per Share Attributable to Lear

Basic net income per share attributable to Lear is computed by dividing net income attributable to Lear by the average number of common shares outstanding during the period. Common shares issuable upon the satisfaction of certain conditions pursuant to a contractual agreement are considered common shares outstanding and are included in the computation of basic net income per share attributable to Lear.

Diluted net income per share attributable to Lear is computed using the treasury stock method by dividing net income attributable to Lear by the average number of common shares outstanding, including the dilutive effect of common stock equivalents using the average share price during the period.

A summary of information used to compute basic and diluted net income per share attributable to Lear is shown below (in millions, except share and per share data):

	Three Months Ended	
	March 28, 2015	March 29, 2014
Net income attributable to Lear	\$147.3	\$122.0
Average common shares outstanding	78,250,590	81,075,811
Dilutive effect of common stock equivalents	829,008	1,685,786
Average diluted shares outstanding	79,079,598	82,761,597
Basic net income per share attributable to Lear	\$1.88	\$1.50
Diluted net income per share attributable to Lear	\$1.86	\$1.47

## (13) Comprehensive Income and Equity

## Comprehensive Income

Comprehensive income is defined as all changes in the Company's net assets except changes resulting from transactions with stockholders. It differs from net income in that certain items recorded in equity are included in

comprehensive income.

14

---



Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

A summary of comprehensive income and reconciliations of equity, Lear Corporation stockholders' equity and noncontrolling interests for the three months ended March 28, 2015, are shown below (in millions):

	Three Months Ended March 28, 2015		
	Equity	Lear Corporation Stockholders' Equity	Non-controlling Interests
Beginning equity balance	\$3,029.3	\$2,958.8	\$70.5
Stock-based compensation transactions	(33.5 )	(33.5 )	—
Repurchase of common stock	(112.4 )	(112.4 )	—
Dividends declared to Lear Corporation stockholders	(20.3 )	(20.3 )	—
Dividends paid to noncontrolling interests	(0.1 )	—	(0.1 )
Comprehensive income:			
Net income	156.7	147.3	9.4
Other comprehensive income (loss), net of tax:			
Defined benefit plan adjustments	7.7	7.7	—
Derivative instruments and hedging activities	5.7	5.7	—
Foreign currency translation adjustments	(141.3 )	(141.2 )	(0.1 )
Other comprehensive loss	(127.9 )	(127.8 )	(0.1 )
Comprehensive income	28.8	19.5	9.3
Ending equity balance	\$2,891.8	\$2,812.1	\$79.7

A summary of changes, net of tax, in accumulated other comprehensive loss for the three months ended March 28, 2015, is shown below (in millions):

	Three Months Ended March 28, 2015
Defined benefit plan adjustments:	
Balance at beginning of period	\$(219.2 )
Reclassification adjustments (net of tax expense of \$0.4 million)	1.1
Other comprehensive income recognized during the period (net of tax impact of \$— million)	6.6
Balance at end of period	\$(211.5 )
Derivative instruments and hedging activities:	
Balance at beginning of period	\$(33.2 )
Reclassification adjustments (net of tax expense of \$1.3 million)	3.4
Other comprehensive income recognized during the period (net of tax expense of \$1.1 million)	2.3
Balance at end of period	\$(27.5 )
Foreign currency translation adjustments:	
Balance at beginning of period	\$(249.6 )
Other comprehensive loss recognized during the period (net of tax benefit of \$4.1 million)	(141.2 )
Balance at end of period	\$(390.8 )

Other comprehensive loss related to the Company's defined benefit plans includes pretax reclassification adjustments of \$1.5 million for the three months ended March 28, 2015. See Note 9, "Pension and Other Postretirement Benefit Plans." Other comprehensive loss related to the Company's derivative instruments and hedging activities includes pretax reclassification adjustments of \$4.7 million for the three months ended March 28, 2015. See Note 16,

"Financial Instruments."

For the three months ended March 28, 2015, foreign currency translation adjustments are related primarily to the weakening of the Euro and, to a lesser extent, the Brazilian real relative to the U.S. dollar and include pretax losses related to intercompany transactions for which settlement is not planned or anticipated in the foreseeable future of \$13.4 million.

Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

A summary of comprehensive income and reconciliations of equity, Lear Corporation stockholders' equity and noncontrolling interests for the three months ended March 29, 2014, are shown below (in millions):

	Three Months Ended March 29, 2014		
	Equity	Lear Corporation Stockholders' Equity	Non-controlling Interests
Beginning equity balance	\$3,149.5	\$3,045.9	\$103.6
Stock-based compensation transactions	0.3	0.3	—
Repurchase of common stock	—	—	—
Dividends declared to Lear Corporation stockholders	(17.2 )	(17.2 )	—
Dividends paid to noncontrolling interests	(5.8 )	—	(5.8 )
Acquisition of noncontrolling interests	(2.1 )	0.3	(2.4 )
Comprehensive income:			
Net income	128.6	122.0	6.6
Other comprehensive income (loss), net of tax:			
Defined benefit plan adjustments	—	—	—
Derivative instruments and hedging activities	1.9	1.9	—
Foreign currency translation adjustments	(12.7 )	(10.9 )	(1.8 )
Other comprehensive loss	(10.8 )	(9.0 )	(1.8 )
Comprehensive income	117.8	113.0	4.8
Ending equity balance	\$3,242.5	\$3,142.3	\$100.2

A summary of changes, net of tax, in accumulated other comprehensive loss for the three months ended March 29, 2014, is shown below (in millions):

	Three Months Ended March 29, 2014
Defined benefit plan adjustments:	
Balance at beginning of period	\$(104.5 )
Reclassification adjustments (net of tax impact of \$— million)	—
Balance at end of period	\$(104.5 )
Derivative instruments and hedging activities:	
Balance at beginning of period	\$(5.3 )
Reclassification adjustments (net of tax benefit of \$0.3 million)	(0.7 )
Other comprehensive income recognized during the period (net of tax expense of \$0.6 million)	2.6
Balance at end of period	\$(3.4 )
Foreign currency translation adjustments:	
Balance at beginning of period	\$(56.3 )
Other comprehensive loss recognized during the period (net of tax impact of \$— million)	(10.9 )
Balance at end of period	\$(67.2 )

Other comprehensive loss related to the Company's derivative instruments and hedging activities includes pretax reclassification adjustments of (\$1.0) million for three months ended March 29, 2014. See Note 16, "Financial Instruments."

For the three months ended March 29, 2014, foreign currency translation adjustments are related primarily to the Chinese renminbi and the Brazilian real and include pretax gains related to intercompany transactions for which

settlement is not planned or anticipated in the foreseeable future of \$0.5 million.

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Lear Corporation Stockholders' Equity

Common Stock Share Repurchase Program

In February 2015, the Company's Board of Directors authorized a \$661 million increase to the existing common stock share repurchase program to provide for aggregate repurchases of \$1 billion and extended the term of the program to December 31, 2017. In the first quarter of 2015, the Company paid \$112.4 million in aggregate for repurchases of its common stock (1,030,261 shares at an average purchase price of \$109.09 per share, excluding commissions). As of the date of this Report, the Company has a remaining repurchase authorization of \$887.6 million under its ongoing common stock share repurchase program. The Company may implement these share repurchases through a variety of methods, including, but not limited to, open market purchases, accelerated stock repurchase programs and structured repurchase transactions. The extent to which the Company will repurchase its outstanding common stock and the timing of such repurchases will depend upon its financial condition, prevailing market conditions, alternative uses of capital and other factors. In addition, the Company's Credit Agreement places certain limitations on the Company's ability to repurchase its common stock.

Since the first quarter of 2011, the Company's Board of Directors has authorized \$2.9 billion in share repurchases under its common stock share repurchase program. As of the date of this Report, the Company has paid \$2.0 billion in aggregate for repurchases of its outstanding common stock, at an average price of \$63.49 per share excluding commissions and related fees, since the first quarter of 2011.

In addition to shares repurchased under the Company's common stock share repurchase program described above, the Company classified shares withheld from the settlement of the Company's restricted stock unit and performance share awards to cover minimum tax withholding requirements as common stock held in treasury in the accompanying condensed consolidated balance sheets as of March 28, 2015 and December 31, 2014.

Quarterly Dividend

In the first quarters of 2015 and 2014, the Company's Board of Directors declared quarterly cash dividends of \$0.25 and \$0.20 per share of common stock, respectively. In the first quarter of 2015, declared dividends totaled \$20.3 million, and dividends paid totaled \$22.0 million. In the first quarter of 2014, declared dividends totaled \$17.2 million and dividends paid totaled \$17.5 million. Dividends payable on common shares to be distributed under the Company's stock-based compensation program and common shares contemplated as part of the Company's emergence from Chapter 11 bankruptcy proceedings will be paid when such common shares are distributed.

Noncontrolling Interests

In the first quarter of 2014, the Company acquired noncontrolling interests in certain of its consolidated subsidiaries.

(14) Legal and Other Contingencies

As of March 28, 2015 and December 31, 2014, the Company had recorded reserves for pending legal disputes, including commercial disputes and other matters, of \$11.8 million and \$11.9 million, respectively. Such reserves reflect amounts recognized in accordance with GAAP and typically exclude the cost of legal representation. Product liability and warranty reserves are recorded separately from legal reserves, as described below.

Beginning on October 5, 2011, several plaintiffs filed putative class action complaints in several United States federal district courts against the Company and several other global suppliers of automotive wire harnesses alleging violations of federal and state antitrust and related laws. Plaintiffs purport to be direct and indirect purchasers of automotive wire harnesses supplied by the Company and/or the other defendants during the relevant period. The complaints allege that the defendants conspired to fix prices at which automotive wire harnesses were sold and that this had an anticompetitive effect upon interstate commerce in the United States. The complaints further allege that defendants fraudulently concealed their alleged conspiracy. The plaintiffs in these proceedings seek injunctive relief and recovery of an unspecified amount of damages, as well as costs and expenses relating to the proceedings, including attorneys' fees. On February 7, 2012, the Judicial Panel on Multidistrict Litigation entered an order transferring and coordinating

the various civil actions (the "Consolidated Cases"), for pretrial purposes, into one proceeding in the United States District Court for the Eastern District of Michigan (the "District Court"). Beginning in early 2012, putative class action complaints were filed in the Superior Courts of Justice in Ontario, Quebec and British Columbia against the Company and several other global suppliers of automotive wire harnesses alleging violations of Canadian laws related to competition (the "Canadian Cases"). The allegations and requests for relief in the Canadian Cases are substantially similar to those in the Consolidated Cases.

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

In order to avoid the costs and distraction of continuing to litigate the Consolidated Cases and the Canadian Cases, the Company entered into settlement agreements with the plaintiffs in the Consolidated Cases on May 5, 2014 (the "U.S. Settlement Agreements") and with the plaintiffs in the Canadian Cases on November 11, 2014 (the "Canadian Settlement Agreement" and together with the U.S. Settlement Agreements, the "Settlement Agreements"), under which the class plaintiffs in both the Consolidated Cases and the Canadian Cases will release the Company from all claims, demands, actions, suits and causes of action. The Settlement Agreements contain no admission by the Company of any wrongdoing, and the Company maintains that it violated no laws in connection with these matters. Because the conduct alleged by the class plaintiffs overwhelmingly relates to periods prior to the Company's emergence from bankruptcy proceedings in 2009, the U.S. Settlement Agreements provide that the aggregate settlement amount of \$8.75 million will consist of \$370,263 in cash contributed by the Company with the remainder paid in outstanding common stock and warrants of the Company held in the bankruptcy reserve established under the Company's plan of reorganization. Likewise, the Canadian Settlement Agreement provides that the aggregate settlement amount of CDN\$563,500 will consist of CDN\$23,845 in cash contributed by the Company with the remainder paid from the proceeds of the sale of outstanding common stock and warrants of the Company held in the bankruptcy reserve established under the Company's plan of reorganization.

The U.S. Settlement Agreements were approved by the United States Bankruptcy Court for the Southern District of New York on May 27, 2014, and preliminarily approved, on the record in open court, by the District Court on July 1, 2014. The U.S. Settlement Agreements between the Company and the class of direct purchasers received the final approval of the District Court on December 3, 2014. The U.S. Settlement Agreements between the Company and the classes of indirect purchasers remain subject to the final approval of the District Court, which will be decided following the provision of notice to purported class members and hearings, with respect to each class, to confirm the fairness of the settlement. The Canadian Settlement Agreement was approved by courts in the provinces of Ontario on March 12, British Columbia on March 23 and Quebec on April 20, 2015.

On November 21, 2014, a plaintiff filed a putative class action complaint in the District Court against the Company and several other global suppliers of wire harnesses alleging violations of federal and state antitrust and related laws regarding the sales of wire harnesses for medium and heavy duty trucks, buses, commercial vehicles and equipment. Plaintiffs purport to be truck and equipment dealers (the "Truck and Equipments Dealers") who are indirect purchasers of wire harnesses supplied by the Company and/or the other defendants during the relevant period. The allegations and requests for relief in the complaint are otherwise substantially similar to those in the Consolidated Cases. The plaintiffs agreed to dismiss the Company, without prejudice, from the Truck and Equipments Dealers' lawsuit on April 23, 2015.

**Commercial Disputes**

The Company is involved from time to time in legal proceedings and claims, including, without limitation, commercial or contractual disputes with its customers, suppliers and competitors. These disputes vary in nature and are usually resolved by negotiations between the parties.

**Product Liability and Warranty Matters**

In the event that use of the Company's products results in, or is alleged to result in, bodily injury and/or property damage or other losses, the Company may be subject to product liability lawsuits and other claims. Such lawsuits generally seek compensatory damages, punitive damages and attorneys' fees and costs. In addition, if any of the Company's products are, or are alleged to be, defective, the Company may be required or requested by its customers to participate in a recall or other corrective action involving such products. Certain of the Company's customers have asserted claims against the Company for costs related to recalls or other corrective actions involving its products. The Company can provide no assurances that it will not experience material claims in the future or that it will not incur significant costs to defend such claims.

To a lesser extent, the Company is a party to agreements with certain of its customers, whereby these customers may pursue claims against the Company for contribution of all or a portion of the amounts sought in connection with product liability and warranty claims.

In certain instances, allegedly defective products may be supplied by Tier 2 suppliers. The Company may seek recovery from its suppliers of materials or services included within the Company's products that are associated with product liability and warranty claims. The Company carries insurance for certain legal matters, including product liability claims, but such coverage may be limited. The Company does not maintain insurance for product warranty or recall matters. Future dispositions with respect to the Company's product liability claims that were subject to compromise under the Chapter 11 bankruptcy proceedings will be satisfied out of a common stock and warrant reserve established for that purpose.



Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The Company records product warranty reserves when liability is probable and related amounts are reasonably estimable.

A summary of the changes in reserves for product liability and warranty claims for the three months ended March 28, 2015, is shown below (in millions):

Balance as of January 1, 2015	\$28.9	
Expense, net (including changes in estimates)	1.8	
Settlements	(1.8	)
Foreign currency translation and other	(1.3	)
Balance as of March 28, 2015	\$27.6	

**Environmental Matters**

The Company is subject to local, state, federal and foreign laws, regulations and ordinances which govern activities or operations that may have adverse environmental effects and which impose liability for clean-up costs resulting from past spills, disposals or other releases of hazardous wastes and environmental compliance. The Company's policy is to comply with all applicable environmental laws and to maintain an environmental management program based on ISO 14001 to ensure compliance with this standard. However, the Company currently is, has been and in the future may become the subject of formal or informal enforcement actions or procedures.

The Company has been named as a potentially responsible party at several third-party landfill sites and is engaged in the cleanup of hazardous waste at certain sites owned, leased or operated by the Company, including several properties acquired in its 1999 acquisition of UT Automotive, Inc. ("UT Automotive"). Certain present and former properties of UT Automotive are subject to environmental liabilities which may be significant. The Company obtained agreements and indemnities with respect to certain environmental liabilities from United Technologies Corporation ("UTC") in connection with the Company's acquisition of UT Automotive. UTC manages and directly funds these environmental liabilities pursuant to its agreements and indemnities with the Company.

As of March 28, 2015 and December 31, 2014, the Company had recorded environmental reserves of \$8.5 million and \$4.8 million, respectively. The Company does not believe that the environmental liabilities associated with its current and former properties will have a material adverse impact on its business, financial condition, results of operations or cash flows; however, no assurances can be given in this regard.

**Other Matters**

The Company is involved from time to time in various other legal proceedings and claims, including, without limitation, intellectual property matters, tax claims and employment matters. Although the outcome of any legal matter cannot be predicted with certainty, the Company does not believe that any of the other legal proceedings or claims in which the Company is currently involved, either individually or in the aggregate, will have a material adverse impact on its business, financial condition, results of operations or cash flows. However, no assurances can be given in this regard.

Although the Company records reserves for legal disputes, product liability and warranty claims and environmental and other matters in accordance with GAAP, the ultimate outcomes of these matters are inherently uncertain. Actual results may differ significantly from current estimates.

**(15) Segment Reporting**

The Company has two reportable operating segments: seating, which includes seats and related components, such as seat structures and mechanisms, seat covers and surface materials such as fabric and leather, seat foam and headrests, and electrical, which includes electrical distribution systems for both traditional powertrain vehicles, as well as high-power for hybrid and electric vehicles. Key components of the Company's electrical business include wiring harnesses, terminals and connectors, junction boxes, battery chargers, electronic control modules and wireless control devices. The other category includes unallocated costs related to corporate headquarters, regional headquarters and the

elimination of intercompany activities, none of which meets the requirements for being classified as an operating segment.

The Company evaluates the performance of its operating segments based primarily on (i) revenues from external customers, (ii) pretax income before equity in net income of affiliates, interest expense and other expense, ("segment earnings") and (iii) cash flows, being defined as segment earnings less capital expenditures plus depreciation and amortization. A summary of

Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

revenues from external customers and other financial information by reportable operating segment is shown below (in millions):

	Three Months Ended March 28, 2015			Consolidated
	Seating	Electrical	Other	
Revenues from external customers	\$3,485.0	\$1,036.4	\$—	\$4,521.4
Segment earnings <sup>(1)</sup>	196.1	137.0	(72.4)	) 260.7
Depreciation and amortization	58.3	24.1	2.1	84.5
Capital expenditures	71.5	25.3	2.0	98.8
Total assets	6,314.6	1,689.8	1,614.0	9,618.4
	Three Months Ended March 29, 2014			Consolidated
	Seating	Electrical	Other	
Revenues from external customers	\$3,225.9	\$1,133.9	\$—	\$4,359.8
Segment earnings <sup>(1)</sup>	152.2	138.3	(75.2)	) 215.3
Depreciation and amortization	47.6	25.0	1.9	74.5
Capital expenditures	73.9	21.6	0.9	96.4
Total assets	5,417.5	1,808.7	1,772.0	8,998.2

<sup>(1)</sup> See definition above.

For the three months ended March 28, 2015, segment earnings include restructuring charges of \$6.3 million, \$0.9 million and \$0.1 million in the seating and electrical segments and in the other category, respectively. For the three months ended March 29, 2014, segment earnings include restructuring charges of \$21.4 million, \$1.0 million and \$1.9 million in the seating and electrical segments and in the other category, respectively. See Note 3, "Restructuring." A reconciliation of segment earnings to consolidated income before provision for income taxes and equity in net income of affiliates is shown below (in millions):

	Three Months Ended	
	March 28, 2015	March 29, 2014
Segment earnings	\$260.7	\$215.3
Interest expense	24.4	16.8
Other expense, net	30.0	29.2
Consolidated income before provision for income taxes and equity in net income of affiliates	\$206.3	\$169.3

## (16) Financial Instruments

## Debt Instruments

The carrying values of the Company's debt instruments vary from their fair values. The fair values were determined by reference to the quoted market prices of these securities (Level 2 input based on the GAAP fair value hierarchy). As of March 28, 2015, the aggregate carrying value of the Company's Notes and Term Loan Facility was \$1,975.0 million, as compared to an estimated aggregate fair value of \$2,007.2 million. As of December 31, 2014, the aggregate carrying value of the Company's Notes was \$1,718.7 million, as compared to an estimated aggregate fair value of \$1,749.3 million.

## Accounts Receivable Factoring

In the fourth quarter of 2014, one of the Company's European subsidiaries entered into an uncommitted factoring agreement, which provides for aggregate purchases of specified customer accounts of up to €200 million. As of March 28, 2015, there were no factored receivables outstanding. The Company cannot provide any assurances that this factoring facility will be available or utilized in the future.



Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## Derivative Instruments and Hedging Activities

The Company has used derivative financial instruments, including forwards, futures, options, swaps and other derivative contracts to reduce the effects of fluctuations in foreign exchange rates, interest rates and commodity prices and the resulting variability of the Company's operating results. The Company is not a party to leveraged derivatives. The Company's derivative financial instruments are subject to master netting arrangements that provide for the net settlement of contracts, by counterparty, in the event of default or termination. On the date that a derivative contract is entered into, the Company designates the derivative as either (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or of an unrecognized firm commitment (a fair value hedge), (2) a hedge of the exposure of a forecasted transaction or of the variability in the cash flows of a recognized asset or liability (a cash flow hedge) or (3) a hedge of a net investment in a foreign operation (a net investment hedge).

## Foreign Exchange

The Company uses forwards, swaps and other derivative contracts to reduce the effects of fluctuations in foreign exchange rates on known foreign currency exposures. Gains and losses on the derivative instruments are intended to offset gains and losses on the hedged transaction in an effort to reduce exposure to fluctuations in foreign exchange rates. The principal currencies hedged by the Company include the Mexican peso, various European currencies, the Canadian dollar, the Thai baht and the Chinese renminbi. As of March 28, 2015 and December 31, 2014, contracts designated as cash flow hedges with \$1,155.7 million and \$1,160.9 million, respectively, of notional amount were outstanding with maturities of less than twenty-one months. As of March 28, 2015 and December 31, 2014, the fair value of these contracts was approximately (\$29.6) million and (\$37.7) million, respectively. As of March 28, 2015 and December 31, 2014, other foreign currency derivative contracts that did not qualify for hedge accounting with \$499.6 million and \$170.1 million, respectively, of notional amount were outstanding. These foreign currency derivative contracts consist principally of hedges of cash transactions of up to nine months, hedges of intercompany loans and hedges of certain other balance sheet exposures. As of March 28, 2015 and December 31, 2014, the fair value of these contracts was approximately (\$2.3) million and \$1.1 million, respectively.

The fair value of outstanding foreign currency derivative contracts and the related classification in the accompanying condensed consolidated balance sheets as of March 28, 2015 and December 31, 2014, are shown below (in millions):

	March 28, 2015	December 31, 2014
Contracts qualifying for hedge accounting:		
Other current assets	\$21.6	\$6.8
Other long-term assets	0.8	0.1
Other current liabilities	(41.5	) (38.5
Other long-term liabilities	(10.5	) (6.1
	(29.6	) (37.7
Contracts not qualifying for hedge accounting:		
Other current assets	3.9	2.1
Other current liabilities	(6.2	) (1.0
	(2.3	) 1.1
	\$(31.9	) \$(36.6

Pretax amounts related to foreign currency derivative contracts that were recognized in and reclassified from accumulated other comprehensive loss are shown below (in millions):

	Three Months Ended	
	March 28, 2015	March 29, 2014
Contracts qualifying for hedge accounting:		

Edgar Filing: LEAR CORP - Form 10-Q

Gains recognized in accumulated other comprehensive loss	\$3.4	\$3.2	
Losses (gains) reclassified from accumulated other comprehensive loss	4.7	(1.0	)
Comprehensive income	\$8.1	\$2.2	

21

---

Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the three months ended March 28, 2015 and March 29, 2014, net sales includes gains of \$0.4 million reclassified from accumulated other comprehensive loss related to foreign currency derivative contracts. For the three months ended March 28, 2015 and March 29, 2014, cost of sales includes losses of \$5.1 million and gains of \$0.6 million, respectively, reclassified from accumulated other comprehensive loss related to foreign currency derivative contracts.

**Interest Rate**

Historically, the Company used interest rate swap and other derivative contracts to manage its exposure to fluctuations in interest rates. As of March 28, 2015 and December 31, 2014, there were no interest rate contracts outstanding. The Company will continue to evaluate, and may use, derivative financial instruments, including forwards, futures, options, swaps and other derivative contracts to manage its exposures to fluctuations in interest rates in the future.

**Commodity Prices**

Historically, the Company used commodity swap and other derivative contracts to reduce its exposure to fluctuations in certain commodity prices. These derivative instruments were utilized to hedge forecasted inventory purchases, and to the extent that they met hedge accounting criteria, they were accounted for as cash flow hedges. Commodity swap contracts that were not accounted for as cash flow hedges were marked to market with changes in fair value recognized immediately in the accompanying condensed consolidated statements of comprehensive income. As of March 28, 2015 and December 31, 2014, there were no commodity swap contracts outstanding.

As of March 28, 2015 and December 31, 2014, pretax net losses of approximately \$29.6 million and \$37.7 million, respectively, related to the Company's derivative instruments and hedging activities were recorded in accumulated other comprehensive loss. During the next twelve month period, the Company expects to reclassify into earnings net losses of approximately \$19.9 million recorded in accumulated other comprehensive loss as of March 28, 2015. Such losses will be reclassified at the time that the underlying hedged transactions are realized. During the three months ended March 28, 2015 and March 29, 2014, amounts recognized in the accompanying condensed consolidated statements of comprehensive income related to changes in the fair value of cash flow and fair value hedges excluded from the Company's effectiveness assessments and the ineffective portion of changes in the fair value of cash flow and fair value hedges were not material.

**Fair Value Measurements**

GAAP provides that fair value is an exit price, defined as a market-based measurement that represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value measurements are based on one or more of the following three valuation techniques:

- Market:** This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- Income:** This approach uses valuation techniques to convert future amounts to a single present value amount based on current market expectations.
- Cost:** This approach is based on the amount that would be required to replace the service capacity of an asset (replacement cost).

Further, GAAP prioritizes the inputs and assumptions used in the valuation techniques described above into a three-tier fair value hierarchy as follows:

- Level 1:** Observable inputs, such as quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2:** Inputs, other than quoted market prices included in Level 1, that are observable either directly or indirectly for the asset or liability.  
Unobservable inputs that reflect the entity's own assumptions about the exit price of the asset or liability.
- Level 3:** Unobservable inputs may be used if there is little or no market data for the asset or liability at the measurement date.

The Company discloses fair value measurements and the related valuation techniques and fair value hierarchy level for its assets and liabilities that are measured or disclosed at fair value.



Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## Items Measured at Fair Value on a Recurring Basis

Fair value measurements and the related valuation techniques and fair value hierarchy level for the Company's assets and liabilities measured at fair value on a recurring basis as of March 28, 2015 and December 31, 2014, are shown below (in millions):

		March 28, 2015				
	Frequency	Asset (Liability)	Valuation Technique	Level 1	Level 2	Level 3
Foreign currency derivative contracts, net	Recurring	\$(31.9 )	Market/Income	\$—	\$(31.9 )	\$—
		December 31, 2014				
	Frequency	Asset (Liability)	Valuation Technique	Level 1	Level 2	Level 3
Foreign currency derivative contracts, net	Recurring	\$(36.6 )	Market/Income	\$—	\$(36.6 )	\$—

The Company determines the fair value of its derivative contracts using quoted market prices to calculate the forward values and then discounts such forward values to the present value. The discount rates used are based on quoted bank deposit or swap interest rates. If a derivative contract is in a net liability position, the Company adjusts these discount rates, if required, by an estimate of the credit spread that would be applied by market participants purchasing these contracts from the Company's counterparties. To estimate this credit spread, the Company uses significant assumptions and factors other than quoted market rates, which would result in the classification of its derivative liabilities within Level 3 of the fair value hierarchy. As of March 28, 2015 and December 31, 2014, there were no derivative contracts that were classified within Level 3 of the fair value hierarchy. In addition, there were no transfers in or out of Level 3 of the fair value hierarchy during the first quarter of 2015.

## Items Measured at Fair Value on a Non-Recurring Basis

The Company measures certain assets and liabilities at fair value on a non-recurring basis, which are not included in the table above. As these non-recurring fair value measurements are generally determined using unobservable inputs, these fair value measurements are classified within Level 3 of the fair value hierarchy. As a result of the acquisition of Eagle Ottawa in 2015, Level 3 fair value estimates related to property, plant and equipment of \$141.4 million, intangible assets of \$211.3 million and contingent consideration of \$20.1 million were recorded in the accompanying condensed consolidated balance sheet as of March 28, 2015 (see Note 2 "Acquisition"). Fair value estimates of property, plant and equipment were based on independent appraisals, giving consideration to the highest and best use of the assets. Key assumptions used in the appraisals were based on a combination of market and cost approaches, as appropriate. Fair value estimates of customer-based intangible assets were based on the present value of future earnings attributable to the asset group after recognition of required returns to other contributory assets. Fair value estimates of contingent consideration were based on an income approach. As of December 31, 2014, there were no significant assets or liabilities measured at fair value on a non-recurring basis.

For further information on assets measured at fair value on a non-recurring basis, see Note 2, "Acquisition," and Note 3, "Restructuring."

## (17) Accounting Pronouncements

## Discontinued Operations

The FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which amends ASC 205, "Presentation of Financial Statements," and ASC 360, "Property, Plant and

Equipment." This ASU changes the criteria for determining which disposals can be presented as a discontinued operation and modifies existing disclosure requirements. The provisions of this update were effective as of January 1, 2015, and the effects of adoption were not significant.

#### Revenue Recognition

The FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which amends existing revenue recognition guidance and requires additional financial statement disclosures. The provisions of this update are effective as of

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

January 1, 2017; however, in April 2015, the FASB proposed a one year deferral of the effective date. The standard may be applied through a full retrospective or a modified retrospective approach. The Company is currently evaluating the impact of this update.

Going Concern

The FASB issued ASU 2014-15, "Presentation of Financial Statements — Going Concern," which will require management to make a going concern assessment for 24 months after the financial statement date. Previously, this assessment was made by the external auditors. The provisions of this update are effective as of December 31, 2016, and are not expected to significantly impact the Company.

Extraordinary Items

The FASB issued ASU 2015-01, "Income Statement — Extraordinary and Unusual Items," which eliminates the concept of extraordinary items. The provisions of this update are effective as of January 1, 2016, and are not expected to significantly impact the Company.

Simplifying the Presentation of Debt Issuance Costs

The FASB issued ASU 2015-03, "Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," which requires debt issuance costs to be recorded as a direct reduction of the debt liability on the balance sheet rather than as an asset. The provisions of this update are effective as of January 1, 2016, and are not expected to significantly impact the Company.

Consolidation

The FASB issued ASU 2015-02, "Amendments to the Consolidation Analysis," which provides guidance related to the application of both the variable interest and voting interest consolidation models. The provisions of this update are effective as of January 1, 2016. The Company is currently evaluating the impact of this update.

Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## (18) Supplemental Guarantor Condensed Consolidating Financial Statements

	March 28, 2015				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$199.8	\$0.1	\$548.3	\$—	\$748.2
Accounts receivable	67.4	649.5	2,453.6	—	3,170.5
Inventories	2.8	352.9	630.1	—	985.8
Intercompany accounts	71.0	178.9	—	(249.9)	) —
Other	184.3	74.1	479.5	—	737.9
Total current assets	525.3	1,255.5	4,111.5	(249.9)	) 5,642.4
<b>LONG-TERM ASSETS:</b>					
Property, plant and equipment, net	106.5	335.7	1,272.4	—	1,714.6
Goodwill	23.5	401.0	633.4	—	1,057.9
Investments in subsidiaries	3,047.4	1,463.7	—	(4,511.1)	) —
Intercompany loans receivable	1,079.6	170.3	186.5	(1,436.4)	) —
Other	583.1	67.5	603.1	(50.2)	) 1,203.5
Total long-term assets	4,840.1	2,438.2	2,695.4	(5,997.7)	) 3,976.0
Total assets	\$5,365.4	\$3,693.7	\$6,806.9	\$(6,247.6)	) \$9,618.4
<b>LIABILITIES AND EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable and drafts	\$97.0	\$742.0	\$1,922.3	\$—	\$2,761.3
Accrued liabilities	123.9	237.3	926.8	—	1,288.0
Intercompany accounts	—	—	249.9	(249.9)	) —
Current portion of long-term debt	9.4	—	1.2	—	10.6
Total current liabilities	230.3	979.3	3,100.2	(249.9)	) 4,059.9
<b>LONG-TERM LIABILITIES:</b>					
Long-term debt	1,965.6	—	6.8	—	1,972.4
Intercompany loans payable	180.6	632.6	623.2	(1,436.4)	) —
Other	176.8	208.1	359.6	(50.2)	) 694.3
Total long-term liabilities	2,323.0	840.7	989.6	(1,486.6)	) 2,666.7
<b>EQUITY:</b>					
Lear Corporation stockholders' equity	2,812.1	1,873.7	2,637.4	(4,511.1)	) 2,812.1
Noncontrolling interests	—	—	79.7	—	79.7
Equity	2,812.1	1,873.7	2,717.1	(4,511.1)	) 2,891.8
Total liabilities and equity	\$5,365.4	\$3,693.7	\$6,806.9	\$(6,247.6)	) \$9,618.4



Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## (18) Supplemental Guarantor Condensed Consolidating Financial Statements (continued)

	December 31, 2014				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(In millions)				
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$377.8	\$—	\$716.3	\$—	\$1,094.1
Accounts receivable	53.9	459.0	1,958.8	—	2,471.7
Inventories	1.8	348.1	503.8	—	853.7
Intercompany accounts	49.6	40.7	—	(90.3)	) —
Other	416.9	76.2	467.0	—	960.1
Total current assets	900.0	924.0	3,645.9	(90.3)	) 5,379.6
<b>LONG-TERM ASSETS:</b>					
Property, plant and equipment, net	106.4	334.5	1,183.8	—	1,624.7
Goodwill	23.5	401.0	301.7	—	726.2
Investments in subsidiaries	2,010.6	1,815.7	—	(3,826.3)	) —
Intercompany loans receivable	1,268.1	168.6	212.6	(1,649.3)	) —
Other	928.8	65.9	475.2	(50.2)	) 1,419.7
Total long-term assets	4,337.4	2,785.7	2,173.3	(5,525.8)	) 3,770.6
Total assets	\$5,237.4	\$3,709.7	\$5,819.2	\$(5,616.1)	) \$9,150.2
<b>LIABILITIES AND EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable and drafts	\$91.1	\$687.7	\$1,746.5	\$—	\$2,525.3
Accrued liabilities	138.1	203.9	846.8	—	1,188.8
Intercompany accounts	—	—	90.3	(90.3)	) —
Current portion of long-term debt	243.7	—	—	—	243.7
Total current liabilities	472.9	891.6	2,683.6	(90.3)	) 3,957.8
<b>LONG-TERM LIABILITIES:</b>					
Long-term debt	1,475.0	—	—	—	1,475.0
Intercompany loans payable	138.9	698.8	811.6	(1,649.3)	) —
Other	191.8	198.0	348.5	(50.2)	) 688.1
Total long-term liabilities	1,805.7	896.8	1,160.1	(1,699.5)	) 2,163.1
<b>EQUITY:</b>					
Lear Corporation stockholders' equity	2,958.8	1,921.3	1,905.0	(3,826.3)	) 2,958.8
Noncontrolling interests	—	—	70.5	—	70.5
Equity	2,958.8	1,921.3	1,975.5	(3,826.3)	) 3,029.3
Total liabilities and equity	\$5,237.4	\$3,709.7	\$5,819.2	\$(5,616.1)	) \$9,150.2

Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## (18) Supplemental Guarantor Condensed Consolidating Financial Statements (continued)

	For the Three Months Ended March 28, 2015				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net sales	\$96.8	\$1,828.9	\$3,886.6	\$(1,290.9)	) \$4,521.4
Cost of sales	148.3	1,664.6	3,573.7	(1,290.9)	) 4,095.7
Selling, general and administrative expenses	61.2	10.5	80.0	—	151.7
Intercompany operating (income) expense, net	(147.9)	) 70.4	77.5	—	—
Amortization of intangible assets	0.4	1.2	11.7	—	13.3
Interest expense	20.8	6.2	(2.6)	) —	24.4
Other expense, net	14.2	(2.1)	) 17.9	—	30.0
Consolidated income before income taxes and equity in net income of affiliates and subsidiaries	(0.2)	) 78.1	128.4	—	206.3
Provision for income taxes	2.8	32.9	27.2	—	62.9
Equity in net income of affiliates	(0.3)	) (0.7)	) (12.3)	) —	(13.3)
Equity in net income of subsidiaries	(150.0)	) (65.4)	) —	215.4	—
Consolidated net income	147.3	111.3	113.5	(215.4)	) 156.7
Less: Net income attributable to noncontrolling interests	—	—	9.4	—	9.4
Net income attributable to Lear	\$147.3	\$111.3	\$104.1	\$(215.4)	) \$147.3
Consolidated comprehensive income	\$19.5	\$94.6	\$(8.7)	) \$(76.6)	) \$28.8
Less: Comprehensive income attributable to noncontrolling interests	—	—	9.3	—	9.3
Comprehensive income attributable to Lear	\$19.5	\$94.6	\$(18.0)	) \$(76.6)	) \$19.5
	For the Three Months Ended March 29, 2014				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net sales	\$103.1	\$1,634.6	\$3,791.1	\$(1,169.0)	) \$4,359.8
Cost of sales	153.3	1,484.0	3,531.0	(1,169.0)	) 3,999.3
Selling, general and administrative expenses	62.6	5.3	68.8	—	136.7
Intercompany operating (income) expense, net	(129.2)	) 69.7	59.5	—	—
Amortization of intangible assets	0.4	1.2	6.9	—	8.5
Interest expense	13.5	4.8	(1.5)	) —	16.8
Other expense, net	17.3	(0.3)	) 12.2	—	29.2

Edgar Filing: LEAR CORP - Form 10-Q

Consolidated income before income taxes and equity in net income of affiliates and subsidiaries	(14.8	) 69.9	114.2	—	169.3	
Provision for income taxes	(6.6	) 30.2	29.1	—	52.7	
Equity in net income of affiliates	0.1	(0.5	) (11.6	) —	(12.0	)
Equity in net income of subsidiaries	(130.3	) (52.0	) —	182.3	—	
Consolidated net income	122.0	92.2	96.7	(182.3	) 128.6	
Less: Net income attributable to noncontrolling interests	—	—	6.6	—	6.6	
Net income attributable to Lear	\$122.0	\$92.2	\$90.1	\$(182.3	) \$122.0	
Consolidated comprehensive income	\$113.0	\$93.3	\$84.4	\$(172.9	) \$117.8	
Less: Comprehensive income attributable to noncontrolling interests	—	—	4.8	—	4.8	
Comprehensive income attributable to Lear	\$113.0	\$93.3	\$79.6	\$(172.9	) \$113.0	

27

---



Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## (18) Supplemental Guarantor Condensed Consolidating Financial Statements (continued)

	For the Three Months Ended March 28, 2015				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net Cash Used in Operating Activities	\$9.2	\$(179.4)	) \$178.6	\$(75.0)	) \$(66.6)
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(3.7)	) (22.5)	) (72.6)	) —	) (98.8)
Acquisition of Eagle Ottawa, net of cash acquired and use of \$350 million restricted cash (see non-cash investing activities below) (Note 2)	(493.5)	) —	) 20.2	) —	) (473.3)
Intercompany transactions	(42.0)	) (1.7)	) 26.1	) 17.6	) —
Other, net	(2.3)	) —	) 10.2	) —	) 7.9
Net cash used in investing activities	(541.5)	) (24.2)	) (16.1)	) 17.6	) (564.2)
Cash Flows from Financing Activities:					
Credit agreement borrowings	500.0	) —	) —	) —	) 500.0
Repurchase of senior notes, net of use of \$250 million restricted cash in 2015 (see non-cash financing activities below) (Note 8)	(5.0)	) —	) —	) —	) (5.0)
Repurchase of common stock	(112.4)	) —	) —	) —	) (112.4)
Dividends paid to Lear Corporation stockholders	(22.0)	) —	) —	) —	) (22.0)
Dividends paid to noncontrolling interests	—	) —	) (0.1)	) —	) (0.1)
Intercompany transactions	41.7	) 203.7	) (302.8)	) 57.4	) —
Other, net	(48.0)	) —	) 2.0	) —	) (46.0)
Net cash used in financing activities	354.3	) 203.7	) (300.9)	) 57.4	) 314.5
Effect of foreign currency translation	—	) —	) (29.6)	) —	) (29.6)
Net Change in Cash and Cash Equivalents	(178.0)	) 0.1	) (168.0)	) —	) (345.9)
Cash and Cash Equivalents as of Beginning of Period	377.8	) —	) 716.3	) —	) 1,094.1
Cash and Cash Equivalents as of End of Period	\$199.8	) \$0.1	) \$548.3	) \$—	) \$748.2
Non-cash Investing Activities:					
Cash restricted for use — acquisition of Eagle Ottawa	\$(350.0)	) \$—	) \$—	) \$—	) \$(350.0)

## Non-cash Financing Activities:

Cash restricted for use — repurchase of senior notes	\$(250.0 )	\$—	\$—	\$—	\$(250.0 )
--	------------	-----	-----	-----	------------

28

---

Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## (18) Supplemental Guarantor Condensed Consolidating Financial Statements (continued)

	For the Three Months Ended March 29, 2014				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net Cash Used in Operating Activities	\$17.0	\$(125.9)	) \$59.9	\$(5.2)	) \$(54.2)
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(1.5)	) (21.4)	) (73.5)	) —	) (96.4)
Intercompany transactions	(179.1)	) (12.4)	) (78.3)	) 269.8	) —
Other, net	0.2	4.4	(18.6)	) —	) (14.0)
Net cash used in investing activities	(180.4)	) (29.4)	) (170.4)	) 269.8	) (110.4)
Cash Flows from Financing Activities:					
Proceeds from the issuance of senior notes	325.0	—	—	—	325.0
Repurchase of senior notes	(327.1)	) —	—	—	) (327.1)
Payment of debt issuance and other financing costs	(3.8)	) —	—	—	) (3.8)
Dividends paid to Lear Corporation stockholders	(17.5)	) —	—	—	) (17.5)
Dividends paid to noncontrolling interests	—	—	(5.8)	) —	) (5.8)
Intercompany transactions	82.9	155.3	26.4	(264.6)	) —
Other, net	(18.9)	) —	(2.2)	) —	) (21.1)
Net cash used in financing activities	40.6	155.3	18.4	(264.6)	) (50.3)
Effect of foreign currency translation	—	—	(3.4)	) —	) (3.4)
Net Change in Cash and Cash Equivalents	(122.8)	) —	) (95.5)	) —	) (218.3)
Cash and Cash Equivalents as of Beginning of Period	343.5	0.1	794.1	—	1,137.7
Cash and Cash Equivalents as of End of Period	\$220.7	\$0.1	\$698.6	\$—	\$919.4

Basis of Presentation — Certain of the Company's domestic 100% owned subsidiaries (the "Guarantors") have jointly and severally unconditionally guaranteed, on a senior unsecured basis, the performance and the full and punctual payment when due, whether at stated maturity, by acceleration or otherwise, of the Company's obligations under its Credit Agreement and the indentures governing the Notes, including the Company's obligations to pay principal, premium, if any, and interest with respect to the Notes. The Notes consist of \$500 million in aggregate principal amount of 4.75% senior unsecured notes due 2023, \$325 million in aggregate principal amount of 5.375% senior unsecured notes due 2024 and \$650 million in aggregate principal amount of 5.25% senior unsecured notes due 2025. The Guarantors include Guilford Mills, Inc., Lear Corporation EEDS and Interiors, Lear Mexican Seating Corporation and Lear Operations Corporation. In lieu of providing separate financial statements for the Guarantors, the Company has included the supplemental guarantor condensed consolidating financial statements above. These financial statements reflect the Guarantors listed above for all periods presented. Management does not believe that separate

financial statements of the Guarantors are material to investors. Therefore, separate financial statements and other disclosures concerning the Guarantors are not presented.

The 2014 supplemental guarantor condensed consolidating financial statements have been restated to reflect certain changes to the equity investments of the Guarantors.

Distributions — There are no significant restrictions on the ability of the Guarantors to make distributions to the Company.

Selling, General and Administrative Expenses — Corporate and division selling, general and administrative expenses are allocated to the operating subsidiaries based on various factors, which estimate usage of particular corporate and division functions, and in certain instances, other relevant factors, such as the revenues or the number of employees of the Company's subsidiaries. During the three months ended March 28, 2015 and March 29, 2014, \$30.8 million and \$30.6 million, respectively, of selling, general and administrative expenses were allocated from Lear.

Table of Contents

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## (18) Supplemental Guarantor Condensed Consolidating Financial Statements (continued)

Long-Term Debt of Lear and the Guarantors — A summary of long-term debt of Lear and the Guarantors on a combined basis is shown below (in millions):

	March 28, 2015	December 31, 2014
Credit agreement — Term Loan Facility	\$500.0	\$—
Senior notes	1,475.0	1,718.7
	1,975.0	1,718.7
Less — Current portion	(9.4	) (243.7
Long-term debt	\$1,965.6	\$1,475.0

30

Table of Contents

LEAR CORPORATION

ITEM 2 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE OVERVIEW

We are a leading Tier 1 supplier to the global automotive industry. Our business spans all major automotive markets, and we supply seating and electrical distribution systems and related components to virtually every major automotive manufacturer in the world.

Our seating business consists of the design, development, engineering, just-in-time assembly and delivery of complete seat systems, as well as the design, development, engineering and manufacture of all major seat components, including seat structures and mechanisms, seat covers and surface materials such as fabric and leather, seat foam and headrests. Our electrical business consists of the design, development, engineering and manufacture of complete electrical distribution systems that route electrical signals and manage electrical power within a vehicle. Key components of our electrical business include wiring harnesses, terminals and connectors, junction boxes, battery chargers, electronic control modules and wireless control devices.

Our core capabilities are shared across component categories in both of our businesses, including high-precision manufacturing and assembly with short lead times, management of complex supply chains, global engineering and program management skills and a unique customer-focused culture. Our seating and electrical businesses both utilize proprietary, industry-specific processes and standards, leverage common low-cost engineering centers and share support from certain operating functions, such as logistics, supply chain management, quality and health and safety, as well as all major administrative functions. Major automotive manufacturers are the primary customers of both our seating and electrical businesses. As a result, both businesses benefit from synergies in cross-selling their respective products and managing global customer relationships.

We are focused on profitably growing and improving the competitiveness of both our seating and electrical businesses. Our strategy is to deliver superior long-term shareholder value by investing in our business to grow and improve our competitive position, while maintaining a strong and flexible balance sheet and returning cash to our shareholders. Specific elements of this strategy have been the restructuring of our manufacturing and engineering footprint to improve our competitive position, the expansion of our component capabilities through organic investment and acquisitions, growth in new and emerging markets and support of our customers' growth and global platform initiatives and the increased diversification of our business with a more balanced regional, customer and vehicle segment mix. These core elements will remain critical in combination with our strategic initiatives to increase value in both of our business segments.

Industry Overview

Our sales are driven by the number of vehicles produced by the automotive manufacturers, which is ultimately dependent on consumer demand for automotive vehicles, and our content per vehicle. Automotive sales and production can be affected by the age of the vehicle fleet and related scrappage rates, labor relations issues, fuel prices, regulatory requirements, government initiatives, trade agreements, the availability and cost of credit, the availability of critical components needed to complete the production of vehicles, restructuring actions of our customers and suppliers, facility closures, increased competition, changing consumer attitudes toward vehicle ownership and usage and other factors. Our operating results are also significantly impacted by the overall commercial success of the vehicle platforms for which we supply particular products, as well as the profitability of the products that we supply for these platforms. The loss of business with respect to any vehicle model for which we are a significant supplier, or a decrease in the production levels of any such models, could adversely affect our operating results. In addition, larger cars and light trucks, as well as vehicle platforms that offer more features and functionality, such as luxury, sport utility and crossover vehicles, typically have more content and, therefore, tend to have a more significant impact on our operating results.

Key trends affecting our business include forecasted global growth in automotive vehicle demand over the next several years, automotive manufacturers' increasing utilization of global vehicle platforms and directed component sourcing, increasing demand for connectivity and comfort and convenience features in vehicles, increasing demand for

safety features and systems and stricter fuel economy and emission standards. We believe that our broad customer base and strong financial resources will allow us to capitalize on global growth in automotive vehicle production, while our low-cost engineering and global manufacturing capabilities will provide us with the ability to support our customers' continued move to global vehicle platforms.

In the first quarter of 2015, global automotive industry production volumes improved, up 2% from a year ago levels to 22.1 million units. North American industry production increased 2% from a year ago levels to 4.3 million units. European and African industry production increased 3% from a year ago levels to 5.5 million units, but industry production in this region remains below historical levels. Asian industry production increased 2% from a year ago levels to 11.1 million units. South American industry production decreased 15% from a year ago levels to 0.8 million units.

Table of Contents

## LEAR CORPORATION

Sales in North America accounted for approximately 42% and sales in Europe and Africa accounted for approximately 38% of our net sales in the first quarter of 2015. Our ability to reduce the risks inherent in certain concentrations of business, and thereby maintain our financial performance in the future, will depend, in part, on our ability to continue to diversify our sales on a customer, product, platform and geographic basis to reflect the market overall.

Our customers typically require us to reduce our prices over the life of a vehicle model and, at the same time, assume significant responsibility for the design, development and engineering of our products. Our financial performance is largely dependent on our ability to achieve product cost reductions through product design enhancement and supply chain management, as well as manufacturing efficiencies and restructuring actions. We also seek to enhance our financial performance by investing in product development, design capabilities and new product initiatives that respond to the needs of our customers and consumers. We continually evaluate operational and strategic alternatives to align our business with the changing needs of our customers and improve our business structure by investing in vertical integration opportunities.

Our material cost as a percentage of net sales was 67.5% in the first quarter of 2015, as compared to 67.7% in the first quarter of 2014. Raw material, energy and commodity costs can be volatile. We have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, such as the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments, financial hedges for certain commodities and the selective expansion of low-cost country sourcing and engineering, as well as value engineering and product benchmarking. However, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. Certain of these strategies also may limit our opportunities in a declining commodity environment. In addition, the availability of raw materials, commodities and product components fluctuates from time to time due to factors outside of our control. If these costs increase or availability is restricted, it could have an adverse impact on our operating results in the foreseeable future. See "— Forward-Looking Statements" below and Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2014.

**Financial Measures**

In evaluating our financial condition and operating performance, we focus primarily on earnings, operating margins, cash flows and return on invested capital. In addition to maintaining and expanding our business with our existing customers in our more established markets, our expansion plans are focused primarily on emerging markets. Asia, in particular, continues to present significant growth opportunities, as major global automotive manufacturers implement production expansion plans and local automotive manufacturers aggressively expand their operations to meet increasing demand in this region. We currently have fifteen joint ventures with operations in Asia, as well as an additional joint venture in North America dedicated to serving Asian automotive manufacturers. We also have aggressively pursued this strategy by selectively increasing our vertical integration capabilities globally, as well as expanding our component manufacturing capacity in Asia, Brazil, Eastern Europe, Mexico and Northern Africa. Furthermore, we have expanded our low-cost engineering capabilities in India and the Philippines.

Our success in generating cash flow will depend, in part, on our ability to manage working capital effectively. Working capital can be significantly impacted by the timing of cash flows from sales and purchases. Historically, we generally have been successful in aligning our vendor payment terms with our customer payment terms. However, our ability to continue to do so may be impacted by adverse automotive industry conditions, changes to our customers' payment terms, changes in government regulations and the financial results of our suppliers, as well as our financial results. In addition, our cash flow is impacted by our ability to manage our inventory and capital spending effectively. We utilize return on invested capital as a measure of the efficiency with which our assets generate earnings. Improvements in our return on invested capital will depend on our ability to maintain an appropriate asset base for our business and to increase productivity and operating efficiency.

**Acquisition**

On January 5, 2015, we completed the acquisition of Everett Smith Group Ltd., the parent of Eagle Ottawa, LLC ("Eagle Ottawa"), the world's leading provider of leather for the automotive industry, for approximately \$843 million, consisting of cash paid of approximately \$823 million, net of cash acquired, and contingent consideration of



approximately \$20 million. Amounts payable to Eagle Ottawa of approximately \$46 million for purchases of raw materials were also settled as of the acquisition date. Eagle Ottawa has a reputation for superior quality, product innovation and craftsmanship with annual sales of approximately \$1 billion, including annual sales to Lear of approximately \$200 million, and operations in North America, Asia, Europe and South America. This acquisition will further strengthen our global seating business, enhance our position as the industry leader in luxury and performance automotive seating and complement our existing capabilities in the design and manufacturing of seat covers. In conjunction with this acquisition, we incurred transaction costs of approximately \$8 million related to advisory services. The integration of Eagle Ottawa is proceeding as planned.

Table of Contents

LEAR CORPORATION

Operational Restructuring

In the first quarter of 2015, we incurred pretax restructuring costs of approximately \$7 million and related manufacturing inefficiency charges of approximately \$1 million. Any future restructuring actions will depend upon market conditions, customer actions and other factors.

For further information, see Note 3, "Restructuring," to the condensed consolidated financial statements included in this Report.

Financing Transactions

Senior Notes

In November 2014, we issued \$650 million in aggregate principal amount of 5.25% senior unsecured notes due 2025 (the "2025 Notes"). In January 2015, we used \$350 million of the net proceeds from the offering, along with \$500 million in borrowings under the Term Loan Facility (see "— Credit Agreement" below), to finance the acquisition of Eagle Ottawa. In March 2015, we paid \$255 million, including \$250 million of the net proceeds from the offering, to redeem the remaining outstanding aggregate principal amount of our 8.125% senior unsecured notes due 2020 (the "2020 Notes"). In connection with this transaction, we recognized a loss of approximately \$14 million on the extinguishment of debt.

In March 2014, we refinanced certain of our outstanding indebtedness to lower our borrowing costs and extend our debt maturity profile. In March 2014, we issued \$325 million in aggregate principal amount of 5.375% senior unsecured notes due 2024 (the "2024 Notes") and paid an aggregate of \$327 million to redeem the remaining outstanding aggregate principal amount of our 7.875% senior unsecured notes due 2018 (the "2018 Notes") and 10% of the original aggregate principal amount at maturity of the 2020 Notes. In connection with these transactions, we recognized losses of approximately \$18 million on the extinguishment of debt.

For further information, see "— Liquidity and Capital Resources — Capitalization — Senior Notes" and Note 8, "Debt," to the condensed consolidated financial statements included in this Report.

Credit Agreement

In November 2014, we amended and restated our senior secured credit agreement (the "Credit Agreement") to, among other things, increase the borrowing capacity of our Revolving Credit Facility from \$1.0 billion to \$1.25 billion, extend the maturity from January 30, 2018 to November 14, 2019, and establish a \$500 million delayed-draw term loan facility (the "Term Loan Facility"). In January 2015, we borrowed \$500 million under the Term Loan Facility to finance, in part, the acquisition of Eagle Ottawa. For further information, see "— Liquidity and Capital Resources — Capitalization — Credit Agreement" and Note 8, "Debt," to the condensed consolidated financial statements included in this Report.

Share Repurchase Program and Quarterly Cash Dividend

Since the first quarter of 2011, our Board of Directors has authorized \$2.9 billion in share repurchases under our common stock share repurchase program. In the first quarter of 2015, we completed \$112 million of share repurchases and have a remaining repurchase authorization of \$888 million, which will expire in December 2017.

In the first quarter of 2015, our Board of Directors declared a quarterly cash dividend of \$0.25 per share of common stock, reflecting a 25% increase in our quarterly dividend.

For further information regarding our common stock share repurchase program and our quarterly dividends, see "— Liquidity and Capital Resources — Capitalization" and Note 13, "Comprehensive Income and Equity," to the condensed consolidated financial statements included in this Report.

Other Matters

In the first quarter of 2015, we recognized tax benefits of \$14 million related to acquisition costs, debt redemption costs, restructuring charges and various other items.

In the first quarter of 2014, we recognized net tax benefits of \$15 million related to debt redemption costs, restructuring charges, reductions in tax reserves due to tax audit settlements and various other items.

Table of Contents

## LEAR CORPORATION

As discussed above, our results for the three months ended March 28, 2015 and March 29, 2014, reflect the following items (in millions):

	Three Months Ended	
	March 28, 2015	March 29, 2014
Costs related to restructuring actions, including manufacturing inefficiencies of \$1 million in the three months ended March 28, 2015 and March 29, 2014	\$8	\$25
Acquisition and other related costs	8	—
Acquisition-related inventory fair value adjustment	16	—
Losses on extinguishment of debt	14	18
Tax benefits, net	(14	) (15

For further information regarding these items, see Note 2, "Acquisition," Note 3, "Restructuring," Note 8, "Debt," and Note 11, "Income Taxes," to the condensed consolidated financial statements included in this Report.

This Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," includes forward-looking statements that are subject to risks and uncertainties. For further information regarding other factors that have had, or may have in the future, a significant impact on our business, financial condition or results of operations, see "— Forward-Looking Statements" below and Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2014.

Table of Contents

## LEAR CORPORATION

## RESULTS OF OPERATIONS

A summary of our operating results in millions of dollars and as a percentage of net sales is shown below:

	Three Months Ended							
	March 28, 2015			March 29, 2014				
Net sales								
Seating	\$3,485.0	77.1	%	\$3,225.9	74.0	%		
Electrical	1,036.4	22.9		1,133.9	26.0			
Net sales	4,521.4	100.0		4,359.8	100.0			
Cost of sales	4,095.7	90.6		3,999.3	91.7			
Gross profit	425.7	9.4		360.5	8.3			
Selling, general and administrative expenses	151.7	3.4		136.7	3.1			
Amortization of intangible assets	13.3	0.3		8.5	0.2			
Interest expense	24.4	0.5		16.8	0.4			
Other expense, net	30.0	0.7		29.2	0.7			
Provision for income taxes	62.9	1.3		52.7	1.2			
Equity in net income of affiliates	(13.3	)	(0.3	)	(12.0	)	(0.3	)
Net income attributable to noncontrolling interests	9.4	0.2		6.6	0.2			
Net income attributable to Lear	\$147.3	3.3	%	\$122.0	2.8	%		

Three Months Ended March 28, 2015 vs. Three Months Ended March 29, 2014

Net sales in the first quarter of 2015 were \$4.5 billion, as compared to \$4.4 billion in the first quarter of 2014, an increase of \$162 million or 4%. Improved production volumes on key Lear platforms primarily in Europe and North America, the acquisition of Eagle Ottawa and new business primarily in Europe and North America positively impacted net sales by \$239 million, \$193 million and \$157 million, respectively. These increases were partially offset by net foreign exchange rate fluctuations, primarily related to the Euro and the Brazilian real, which negatively impacted net sales by \$369 million.

(in millions)

	Cost of Sales
First quarter 2014	\$3,999
Material cost	100
Labor and other	(8
Depreciation	5

First quarter 2015

\$4,096

Cost of sales in the first quarter of 2015 was \$4.1 billion, as compared to \$4.0 billion in the first quarter of 2014. Improved production volumes on key Lear platforms primarily in Europe and North America, the acquisition of Eagle Ottawa and new business primarily in Europe and North America resulted in an increase in cost of sales of \$495 million. These increases were partially offset by the impact of net foreign exchange rate fluctuations, primarily related to the Euro and the Brazilian real, which reduced cost of sales by \$345 million. Favorable operating performance and the benefit of operational restructuring actions also reduced cost of sales.

Gross profit and gross margin were \$426 million and 9.4% of net sales in the first quarter of 2015, as compared to \$361 million and 8.3% in the first quarter of 2014. The acquisition of Eagle Ottawa, new business and improved production volumes on key Lear platforms positively impacted gross profit by \$94 million. The impact of favorable operating performance and the benefit of operational restructuring actions of \$55 million was more than offset by selling price reductions and net foreign exchange rate fluctuations of \$82 million. These factors had a corresponding impact on gross margin.

Selling, general and administrative expenses, including engineering and development expenses, were \$152 million in the first quarter of 2015, as compared to \$137 million in the first quarter of 2014, reflecting the acquisition of Eagle Ottawa. As a percentage of net sales, selling, general and administrative expenses were 3.4% in the first quarter of

2015, as compared to 3.1% in the first quarter of 2014, reflecting the acquisition of Eagle Ottawa including transaction costs of approximately \$8 million related to advisory services.

35

---

Table of Contents

## LEAR CORPORATION

Amortization of intangible assets was \$13 million in the first quarter of 2015, as compared to \$9 million in the first quarter of 2014, reflecting the amortization of intangible assets related to the acquisition of Eagle Ottawa.

Interest expense was \$24 million in the first quarter of 2015, as compared to \$17 million in the first quarter of 2014, primarily related to debt incurred to finance the acquisition of Eagle Ottawa.

Other expense, net, which includes non-income related taxes, foreign exchange gains and losses, gains and losses related to certain derivative instruments and hedging activities, gains and losses on the extinguishment of debt, gains and losses on the disposal of fixed assets and other miscellaneous income and expense, was \$30 million in the first quarter of 2015, as compared to \$29 million in the first quarter of 2014. In the first quarter of 2015, we recognized a loss of \$14 million related to the redemption of the remaining outstanding aggregate principal amount of our senior notes due 2020. In the first quarter of 2014, we recognized losses of \$18 million related to the redemption of the remaining outstanding aggregate principal amount of our senior notes due 2018 and 10% of the original aggregate principal amount of our senior notes due 2020. Foreign exchange losses increased \$3 million between quarters.

In the first quarter of 2015, the provision for income taxes was \$63 million, representing an effective tax rate of 30.5% on pretax income before equity in net income of affiliates of \$206 million. In the first quarter of 2014, the provision for income taxes was \$53 million, representing an effective tax rate of 31.1% on pretax income before equity in net income of affiliates of \$169 million, for the reasons described below.

In the first quarters of 2015 and 2014, the provision for income taxes was impacted by the level and mix of earnings among tax jurisdictions. The provision was also impacted by a portion of our restructuring charges and other expenses, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. In the first quarter of 2015, we recognized net tax benefits of \$14 million primarily related to acquisition costs, debt redemption costs, restructuring charges and various other items. In the first quarter of 2014, we recognized tax benefits of \$10 million related to debt redemption costs, restructuring charges and various other items and tax benefits of \$5 million related to reductions in tax reserves due to tax audit settlements. Excluding these items, the effective tax rate in the first quarters of 2015 and 2014 approximated the U.S. federal statutory income tax rate of 35% adjusted for income taxes on foreign earnings, losses and remittances, valuation allowances, tax credits, income tax incentives and other permanent items.

Equity in net income of affiliates was \$13 million for the first quarter of 2015, as compared to \$12 million for the first quarter of 2014.

Net income attributable to Lear in the first quarter of 2015 was \$147 million, or \$1.86 per diluted share, as compared to \$122 million, or \$1.47 per diluted share, in the first quarter of 2014. Net income and diluted net income per share increased for the reasons described above. In addition, diluted net income per share was impacted by the decrease in average shares outstanding during the first quarter of 2015.

**Reportable Operating Segments**

We have two reportable operating segments: seating, which includes seats and related components, such as seat structures and mechanisms, seat covers and surface materials such as fabric and leather, seat foam and headrests, and electrical, which includes electrical distribution systems for both traditional powertrain vehicles, as well as high-power for hybrid and electric vehicles. Key components of our electrical business include wiring harnesses, terminals and connectors, junction boxes, battery chargers, electronic control modules and wireless control devices. The financial information presented below is for our two reportable operating segments and our other category for the periods presented. The other category includes unallocated costs related to corporate headquarters, regional headquarters and the elimination of intercompany activities, none of which meets the requirements for being classified as an operating segment. Corporate and regional headquarters costs include various support functions, such as information technology, corporate finance, legal, executive administration and human resources. Financial measures regarding each segment's pretax income before equity in net income of affiliates, interest expense and other expense ("segment earnings") and segment earnings divided by net sales ("margin") are not measures of performance under accounting principles generally accepted in the United States ("GAAP"). Segment earnings and the related margin are used by management to evaluate the performance of our reportable operating segments. Segment earnings should not be considered in isolation or as a substitute for net income attributable to Lear, net cash provided by operating

activities or other income statement or cash flow statement data prepared in accordance with GAAP or as measures of profitability or liquidity. In addition, segment earnings, as we determine it, may not be comparable to related or similarly titled measures reported by other companies. For a reconciliation of consolidated segment earnings to consolidated income before provision for income taxes and equity in net income of affiliates, see Note 15, "Segment Reporting," to the condensed consolidated financial statements included in this Report.

Table of Contents

## LEAR CORPORATION

## Seating

A summary of the financial measures for our seating segment is shown below (dollar amounts in millions):

	Three months ended			
	March 28, 2015	March 29, 2014		
Net sales	\$3,485.0	\$3,225.9		
Segment earnings <sup>(1)</sup>	196.1	152.2		
Margin	5.6	% 4.7		%

(1) See definition above.

Seating net sales were \$3.5 billion for the first quarter of 2015, as compared to \$3.2 billion for the first quarter of 2014, an increase of \$259 million or 8%. Improved production volumes on key Lear platforms, the acquisition of Eagle Ottawa and new business positively impacted net sales by \$233 million, \$193 million and \$108 million, respectively. These increases were partially offset by net foreign exchange rate fluctuations which negatively impacted net sales by \$249 million. Segment earnings, including restructuring costs, and the related margin on net sales were \$196 million and 5.6% in the first quarter of 2015, as compared to \$152 million and 4.7% in the first quarter of 2014. New business, improved production volumes on key Lear platforms and the acquisition of Eagle Ottawa positively impacted segment earnings by \$58 million. The impact of favorable operating performance and the benefit of operational restructuring actions of \$25 million was more than offset by selling price reductions and net foreign exchange fluctuations.

## Electrical

A summary of financial measures for our electrical segment is shown below (dollar amounts in millions):

	Three months ended			
	March 28, 2015	March 29, 2014		
Net sales	\$1,036.4	\$1,133.9		
Segment earnings <sup>(1)</sup>	137.0	138.3		
Margin	13.2	% 12.2		%

(1) See definition above.

Electrical net sales were \$1.0 billion for the first quarter of 2015, as compared to \$1.1 billion for the first quarter of 2014, a decrease of \$(98) million or (9)%. Net foreign exchange rate fluctuations negatively impacted net sales by \$120 million. This decrease was partially offset by new business which positively impacted net sales by \$49 million. Segment earnings, including restructuring costs, and the related margin on net sales were \$137 million and 13.2% in the first quarter of 2015, as compared to \$138 million and 12.2% in the first quarter of 2014. The impact of improved operating performance and new business of \$40 million was offset by selling price reductions and net foreign exchange rate fluctuations.

## Other

A summary of financial measures for our other category, which is not an operating segment, is shown below (dollar amounts in millions):

	Three months ended			
	March 28, 2015	March 29, 2014		
Net sales	\$—	\$—		
Segment earnings <sup>(1)</sup>	(72.4	) (75.2	)	)
Margin	N/A	N/A		

(1) See definition above.

Segment earnings related to our other category were (\$72) million in the first quarter of 2015, as compared to (\$75) million in the first quarter of 2014.





Table of Contents

## LEAR CORPORATION

## LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs are to fund general business requirements, including working capital requirements, capital expenditures, operational restructuring actions and debt service requirements. In addition, we expect to continue to pay quarterly dividends and repurchase shares of our common stock pursuant to our authorized common stock share repurchase program. Our principal sources of liquidity are cash flows from operating activities, borrowings under available credit facilities and our existing cash balance. A substantial portion of our operating income is generated by our subsidiaries. As a result, we are dependent on the earnings and cash flows of and the combination of dividends, royalties, intercompany loan repayments and other distributions and advances from our subsidiaries to provide the funds necessary to meet our obligations. As of March 28, 2015 and December 31, 2014, cash and cash equivalents of \$544 million and \$715 million, respectively, were held in foreign subsidiaries and can be repatriated, primarily through the repayment of intercompany loans, without creating additional income tax expense. There are no significant restrictions on the ability of our subsidiaries to pay dividends or make other distributions to Lear. For further information regarding potential dividends from our non-U.S. subsidiaries, see "— Adequacy of Liquidity Sources," below and Note 7, "Income Taxes," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014.

## Cash Flows

Net cash used in operating activities was \$67 million in the first quarter of 2015, as compared to \$54 million in the first quarter of 2014. Consolidated net income and depreciation and amortization were a source of cash of \$241 million and \$203 million in the first quarter of 2015 and 2014, respectively, resulting in an incremental increase in operating cash flow of \$38 million between periods. The net change in working capital items was a use of cash of \$344 million and \$287 million in the first quarter of 2015 and 2014, respectively, resulting in an incremental decrease in operating cash flow of \$57 million between periods. This decrease primarily reflects the timing of our fiscal quarter-end for the first quarter of 2015, as compared to the first quarter of 2014, as well as increased working capital to support our sales growth.

In the first quarter of 2015, increases in accounts receivable, inventories and accounts payable resulted in a use of cash of \$677 million, a use of cash of \$10 million and a source of cash of \$278 million, respectively, primarily reflecting the timing of our fiscal quarter-end for the first quarter of 2015, as well as increased working capital to support our sales growth. In the first quarter of 2015, changes in accrued liabilities and other resulted in a source of cash of \$64 million, primarily reflecting the timing of payment of accrued liabilities.

Net cash used in investing activities was \$564 million in the first quarter of 2015, as compared to \$110 million in the first quarter of 2014. This increase was primarily due to cash paid for the acquisition of Eagle Ottawa of \$473 million, net of cash acquired and a \$350 million use of restricted cash. Capital spending is estimated at \$500 million for the year 2015.

Net cash provided by financing activities was \$315 million in the first quarter of 2015, as compared to a net use of cash of \$50 million in the first quarter of 2014. In the first quarter of 2015, we borrowed \$500 million under our Term Loan Facility to finance, in part, the acquisition of Eagle Ottawa. In addition, we paid \$5 million to repurchase the remaining outstanding aggregate principal amount of our 2020 Notes, net of a \$250 million use of restricted cash. In addition, we paid \$112 million in aggregate for repurchases of our common stock. In the first quarter of 2014, we issued \$325 million in aggregate principal amount of 2024 Notes and paid \$327 million to redeem all of our outstanding 2018 Notes and a portion of our outstanding 2020 Notes.

For further information on our 2015 investing and financing transactions, including the use of restricted cash, see Note 2, "Acquisition," and Note 8, "Debt," to the condensed consolidated financial statements included in this Report.

## Capitalization

From time to time, we utilize uncommitted credit facilities to fund our capital expenditures and working capital requirements at certain of our foreign subsidiaries, in addition to cash provided by operating activities. As of March 28, 2015 and December 31, 2014, there were no short-term debt balances outstanding. The availability of uncommitted lines of credit may be affected by our financial performance, credit ratings and other factors.

## Senior Notes

As of March 28, 2015, our senior notes consist of \$500 million in aggregate principal amount of senior unsecured notes due 2023 at a stated coupon rate of 4.75% (the "2023 Notes"), \$325 million in aggregate principal amount of 2024 Notes at a stated coupon rate of 5.375% and \$650 million in aggregate principal amount of 2025 Notes at a stated coupon rate of 5.25% (collectively, the "Notes").

In November 2014, we issued the 2025 Notes, resulting in net proceeds of \$642 million. In January 2015, we used \$350 million of the net proceeds from the offering, along with \$500 million in borrowings under the Term Loan Facility (see "— Credit

Table of Contents

LEAR CORPORATION

Agreement" below), to finance the acquisition of Eagle Ottawa. In March 2015, we paid \$255 million, including \$250 million of the net proceeds from the offering, to redeem the remaining outstanding aggregate principal amount of the 2020 Notes. In connection with this transaction, we recognized a loss of approximately \$14 million on the extinguishment of debt. The remaining proceeds from the offering were used for general corporate purposes, including the payment of fees and expenses associated with the acquisition of Eagle Ottawa and related financing transactions. The 2024 Notes were issued on March 11, 2014. The net proceeds from the offering of \$321 million, together with our existing sources of liquidity, were used to redeem the remaining aggregate principal amount of our 2018 Notes (\$280 million) and to redeem 10% of the original aggregate principal amount of our 2020 Notes (\$35 million) at stated redemption prices, plus accrued and unpaid interest to the respective redemption dates. In connection with these transactions, we paid \$327 million and recognized losses of \$18 million on the extinguishment of debt in the first quarter of 2014.

For further information related to the Notes, including information on early redemption, covenants and events of default, see Note 8, "Debt," to the condensed consolidated financial statements included in this Report and Note 6, "Debt," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Credit Agreement

In November 2014, we amended and restated our Credit Agreement to, among other things, increase the borrowing capacity of the Revolving Credit Facility from \$1.0 billion to \$1.25 billion, extend the maturity from January 30, 2018 to November 14, 2019, and establish a \$500 million delayed-draw Term Loan Facility. In January 2015, we borrowed \$500 million under the Term Loan Facility to finance, in part, the acquisition of Eagle Ottawa. As of March 28, 2015 and December 31, 2014, there were no borrowings outstanding under the Revolving Credit Facility.

For further information related to the Revolving Credit Facility, including information on pricing, covenants and events of default, see Note 8, "Debt," to the condensed consolidated financial statements included in this Report and Note 6, "Debt," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Scheduled cash interest payments on the Notes and the Term Loan Facility are \$49 million in the last nine months of 2015.

As of March 28, 2015, we were in compliance with all covenants under the indentures governing the Notes and the Credit Agreement.

Accounts Receivable Factoring

In the fourth quarter of 2014, one of our European subsidiaries entered into an uncommitted factoring agreement, which provides for aggregate purchases of specified customer accounts of up to €200 million. As of March 28, 2015, there were no factored receivables outstanding. We cannot provide any assurances that this factoring facility will be available or utilized in the future.

Common Stock Share Repurchase Program

In February 2015, our Board of Directors authorized a \$661 million increase to our existing common stock share repurchase program to provide for aggregate repurchases of \$1 billion and extended the term of the program to December 31, 2017. In the first quarter of 2015, we paid \$112 million in aggregate for repurchases of our common stock (1,030,261 shares at an average purchase price of \$109.09 per share, excluding commissions). As of the date of this Report, we have a remaining repurchase authorization of \$888 million.

We may implement these share repurchases through a variety of methods, including, but not limited to, open market purchases, accelerated stock repurchase programs and structured repurchase transactions. The extent to which we will repurchase our outstanding common stock and the timing of such repurchases will depend upon our financial condition, prevailing market conditions, alternative uses of capital and other factors. In addition, our amended and restated credit facility and the indenture governing our 2020 Notes place certain limitations on our ability to repurchase our common shares. See "—Forward-Looking Statements."

Since the first quarter of 2011, our Board of Directors has authorized \$2.9 billion in share repurchases under our common stock share repurchase program. As of the date of this Report, we have paid \$2.0 billion in aggregate for

repurchases of our outstanding common stock, at an average price of \$63.49 per share excluding commissions and related fees, since the first quarter of 2011.

For further information regarding our common stock share repurchase program, see Note 13, "Comprehensive Income and Equity," to the condensed consolidated financial statements included in this Report.

Table of Contents

LEAR CORPORATION

Dividends

In the first quarter of 2015, our Board of Directors declared a quarterly cash dividend of \$0.25 per share of common stock, reflecting a 25% increase in our quarterly dividend.

We currently expect to pay quarterly cash dividends in the future, although such payments are at the discretion of our Board of Directors and will depend upon our financial condition, results of operations, capital requirements, alternative uses of capital and other factors that our Board of Directors may consider at its discretion. In addition, our Credit Agreement places certain limitations on the payment of cash dividends.

Adequacy of Liquidity Sources

As of March 28, 2015, we had approximately \$748 million of cash and cash equivalents on hand and \$1.25 billion in available borrowing capacity under our Revolving Credit Facility. Together with cash provided by operating activities, we believe that this will enable us to meet our liquidity needs to satisfy ordinary course business obligations. In addition, we expect to continue to pay quarterly dividends and repurchase shares of our common stock, pursuant to our authorized common stock share repurchase program (see "— Common Stock Share Repurchase Program," above). Our future financial results and our ability to continue to meet our liquidity needs are subject to, and will be affected by, cash flows from operations, including the impact of restructuring activities, automotive industry conditions, the financial condition of our customers and suppliers and other related factors. Additionally, an economic downturn or reduction in production levels could negatively impact our financial condition. For further discussion of the risks and uncertainties affecting our cash flows from operations and our overall liquidity, see "— Executive Overview" above, "— Forward-Looking Statements" below and Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2014.

Market Risk Sensitivity

In the normal course of business, we are exposed to market risks associated with fluctuations in foreign exchange rates, interest rates and commodity prices. We manage a portion of these risks through the use of derivative financial instruments in accordance with our policies. We enter into all hedging transactions for periods consistent with the underlying exposures. We do not enter into derivative instruments for trading purposes.

Foreign Exchange

Operating results may be impacted by our buying, selling and financing in currencies other than the functional currency of our operating companies ("transactional exposure"). We may mitigate a portion of this risk by entering into forward foreign exchange, futures and option contracts. The foreign exchange contracts are executed with banks that we believe are creditworthy. Gains and losses related to foreign exchange contracts are deferred where appropriate and included in the measurement of the foreign currency transaction subject to the hedge. Gains and losses incurred related to foreign exchange contracts are generally offset by the direct effects of currency movements on the underlying transactions.

Currently, our most significant foreign currency transactional exposures relate to the Mexican peso, various European currencies, the Chinese renminbi, the Thai baht, the Brazilian real and the Canadian dollar. We have performed a quantitative analysis of our overall currency rate exposure as of March 28, 2015 and December 31, 2014. As of March 28, 2015, the potential adverse earnings impact related to net transactional exposures from a hypothetical 10% strengthening of the U.S. dollar relative to all other currencies to which it is exposed for a twelve-month period is approximately \$23 million. The potential earnings benefit related to net transactional exposures from a similar strengthening of the Euro relative to all other currencies to which it is exposed for a twelve-month period is approximately \$7 million. As of December 31, 2014, the potential adverse earnings impact related to net transactional exposures from a hypothetical 10% strengthening of the U.S. dollar relative to all other currencies to which it is exposed for a twelve-month period is approximately \$16 million. The potential adverse earnings impact related to net transactional exposures from a similar strengthening of the Euro relative to all other currencies to which it is exposed for a twelve-month period is approximately \$1 million.

As of March 28, 2015, foreign exchange contracts representing \$1.7 billion of notional amount were outstanding with maturities of less than twenty-one months. As of March 28, 2015, the fair value of these contracts was approximately (\$32) million. A 10% change in the value of the U.S. dollar relative to all other currencies to which it is exposed

would result in a \$50 million change in the aggregate fair value of these contracts. A 10% change in the value of the Euro relative to all other currencies to which it is exposed would result in a \$43 million change in the aggregate fair value of these contracts. As of December 31, 2014, foreign exchange contracts representing \$1.3 billion of notional amount were outstanding with maturities of less than twenty-four months. As of December 31, 2014, the fair value of these contracts was approximately (\$37) million. A 10% change in the value of the U.S. dollar relative to all other currencies to which it is exposed would result in a \$51 million change in the aggregate fair value of these contracts. A 10% change in the value of the Euro relative to all other currencies to which it is exposed would result in a \$34 million change in the aggregate fair value of these contracts.

Table of Contents

LEAR CORPORATION

There are certain shortcomings inherent in the sensitivity analysis presented. The analysis assumes that all currencies would uniformly strengthen or weaken relative to the U.S. dollar or Euro. In reality, some currencies may strengthen while others may weaken, causing the earnings impact to increase or decrease depending on the currency and the direction of the rate movement.

In addition to the transactional exposure described above, our operating results are impacted by the translation of our foreign operating income into U.S. dollars ("translational exposure"). In 2014, net sales outside of the United States accounted for 79% of our consolidated net sales, although certain non-U.S. sales are U.S. dollar denominated. We do not enter into foreign exchange contracts to mitigate our translational exposure.

Interest Rates

Historically, we used interest rate swap and other derivative contracts to manage our exposure to fluctuations in interest rates. As of March 28, 2015 and December 31, 2014, there were no interest rate contracts outstanding. We will continue to evaluate, and may use, derivative financial instruments, including forwards, futures, options, swaps and other derivative contracts to manage our exposures to fluctuations in interest rates in the future.

Commodity Prices

Raw material, energy and commodity costs can be volatile. We have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, such as the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments, financial hedges for certain commodities and the selective expansion of low-cost country sourcing and engineering, as well as value engineering and product benchmarking. However, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. Certain of these strategies also may limit our opportunities in a declining commodity environment. If these costs increase, it could have an adverse impact on our operating results in the foreseeable future. See "— Forward-Looking Statements" below and Item 1A, "Risk Factors — Increases in the costs and restrictions on the availability of raw materials, energy, commodities and product components could adversely affect our financial performance," in our Annual Report on Form 10-K for the year ended December 31, 2014.

We have commodity price risk with respect to purchases of certain raw materials, including steel, copper, diesel fuel, chemicals, resins and leather. Our main cost exposures relate to steel and copper. The majority of the steel used in our products is comprised of components that are integrated into a seat system, such as seat structures and mechanisms and mechanical components. Therefore, our exposure to steel prices is primarily indirect, through these purchased components. Approximately 90% of our copper purchases are subject to price index agreements with our customers. Historically, we used commodity swap and other derivative contracts to reduce our exposure to fluctuations in copper prices. As of March 28, 2015 and December 31, 2014, there were no commodity swap contracts outstanding. For further information related to the financial instruments described above, see Note 16, "Financial Instruments," to the condensed consolidated financial statements included in this Report.

OTHER MATTERS

Legal and Environmental Matters

We are involved from time to time in various legal proceedings and claims, including, without limitation, commercial and contractual disputes, product liability claims and environmental and other matters. As of March 28, 2015, we had recorded reserves for pending legal disputes, including commercial disputes and other matters, of \$12 million. In addition, as of March 28, 2015, we had recorded reserves for product liability claims and environmental matters of \$28 million and \$9 million, respectively. Although these reserves were determined in accordance with GAAP, the ultimate outcomes of these matters are inherently uncertain, and actual results may differ significantly from current estimates. For a description of risks related to various legal proceedings and claims, see Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2014. For a more complete description of our outstanding material legal proceedings, see Note 14, "Legal and Other Contingencies," to the condensed consolidated financial statements included in this Report.

Significant Accounting Policies and Critical Accounting Estimates



Certain of our accounting policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on our historical experience, the terms of existing contracts, our evaluation of trends in the industry, information provided by our customers and suppliers and information available from other outside sources, as appropriate. However, these estimates and assumptions are subject to an inherent degree of uncertainty. As a result, actual results in these areas may differ significantly from our estimates. For a discussion of

Table of Contents

LEAR CORPORATION

our significant accounting policies and critical accounting estimates, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Significant Accounting Policies and Critical Accounting Estimates," and Note 2, "Summary of Significant Accounting Policies," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no significant changes in our significant accounting policies or critical accounting estimates during the first quarter of 2015.

Recently Issued Accounting Pronouncements

For information on the impact of recently issued accounting pronouncements, see Note 17, "Accounting Pronouncements," to the condensed consolidated financial statements included in this Report.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. The words "will," "may," "designed to," "outlook," "believes," "should," "anticipates," "plans," "expects," "intends," "estimates," "forecasts" and similar expressions identify certain of these forward-looking statements. We also may provide forward-looking statements in oral statements or other written materials released to the public. All such forward-looking statements contained or incorporated in this Report or in any other public statements which address operating performance, events or developments that we expect or anticipate may occur in the future, including, without limitation, statements related to business opportunities, awarded sales contracts, sales backlog and ongoing commercial arrangements, or statements expressing views about future operating results, are forward-looking statements. Actual results may differ materially from any or all forward-looking statements made by us. Important factors, risks and uncertainties that may cause actual results to differ materially from anticipated results include, but are not limited to:

- general economic conditions in the markets in which we operate, including changes in interest rates or currency exchange rates;
- currency controls and the ability to economically hedge currencies;
- the financial condition and restructuring actions of our customers and suppliers;
- changes in actual industry vehicle production levels from our current estimates;
  - fluctuations in the production of vehicles or the loss of business with respect to, or the lack of commercial success of, a vehicle model for which we are a significant supplier;
- disruptions in the relationships with our suppliers;
  - labor disputes involving us or our significant customers or suppliers or that otherwise affect us;
- the outcome of customer negotiations and the impact of customer-imposed price reductions;
- the impact and timing of program launch costs and our management of new program launches;
- the costs, timing and success of restructuring actions;
- increases in our warranty, product liability or recall costs;
- risks associated with conducting business in foreign countries;
- the impact of regulations on our foreign operations;
- the operational and financial success of our joint ventures;
- competitive conditions impacting us and our key customers and suppliers;
- disruptions to our information technology systems, including those related to cybersecurity;
- the cost and availability of raw materials, energy, commodities and product components and our ability to mitigate such costs;
- the outcome of legal or regulatory proceedings to which we are or may become a party;
- the impact of pending legislation and regulations or changes in existing federal, state, local or foreign laws or regulations;
- unanticipated changes in cash flow, including our ability to align our vendor payment terms with those of our customers;
- limitations imposed by our existing indebtedness and our ability to access capital markets on commercially reasonable terms;

impairment charges initiated by adverse industry or market developments;

42

---

Table of Contents

LEAR CORPORATION

our ability to execute our strategic objectives;

changes in discount rates and the actual return on pension assets;

costs associated with compliance with environmental laws and regulations;

developments or assertions by or against us relating to intellectual property rights;

our ability to utilize our net operating loss, capital loss and tax credit carryforwards;

global sovereign fiscal matters and creditworthiness, including potential defaults and the related impacts on economic activity, including the possible effects on credit markets, currency values, monetary unions, international treaties and fiscal policies; and

other risks described in Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2014, and our other Securities and Exchange Commission ("SEC") filings.

The forward-looking statements in this Report are made as of the date hereof, and we do not assume any obligation to update, amend or clarify them to reflect events, new information or circumstances occurring after the date hereof.

ITEM 4 — CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

The Company has evaluated, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer along with the Company's Senior Vice President and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Report. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Based on the evaluation described above, the Company's President and Chief Executive Officer along with the Company's Senior Vice President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective to provide reasonable assurance that the desired control objectives were achieved as of the end of the period covered by this Report.

(b) Changes in Internal Controls over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter ended March 28, 2015, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. During the quarter ended March 28, 2015, the Company completed the acquisition of Eagle Ottawa and is currently integrating Eagle Ottawa into its operations, compliance programs and internal control processes. As permitted by SEC rules and regulations, the Company has excluded Eagle Ottawa from management's evaluation of internal controls over financial reporting as of March 28, 2015.

Table of Contents

## LEAR CORPORATION

## PART II — OTHER INFORMATION

## ITEM 1 — LEGAL PROCEEDINGS

We are involved from time to time in various legal proceedings and claims, including, without limitation, commercial or contractual disputes, product liability claims and environmental and other matters. For a description of risks related to various legal proceedings and claims, see Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2014. For a description of our outstanding material legal proceedings, see Note 14, "Legal and Other Contingencies," to the condensed consolidated financial statements included in this Report.

## ITEM 1A — RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

## ITEM 2 — UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

As discussed in Part I — Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capitalization — Common Stock Share Repurchase Program," and Note 13, "Comprehensive Income and Equity," to the condensed consolidated financial statements included in this Report, we have a remaining repurchase authorization of \$887.6 million under our ongoing common stock share repurchase program. A summary of the shares of our common stock repurchased during the quarter ended March 28, 2015, is shown below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in millions) <sup>(1)</sup>
January 1, 2015 to January 31, 2015	—	N/A	N/A	\$338.6
February 1, 2015 to February 28, 2015 (1)	292,736	\$109.92	292,736	967.8
March 1, 2015 to March 28, 2015	737,525	\$108.75	737,525	887.6
Total	1,030,261	\$109.09	1,030,261	\$887.6

In February 2015, our Board of Directors authorized a \$661 million increase to our existing common stock (1)repurchase program to provide for aggregate repurchases of \$1 billion and extended the term of the program to December 31, 2017.

## ITEM 6 — EXHIBITS

The exhibits listed on the "Index to Exhibits" on page 46 are filed with this Form 10-Q or incorporated by reference as set forth below.

Table of Contents

LEAR CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

LEAR CORPORATION

Dated: April 24, 2015

By: /s/ Matthew J. Simoncini  
Matthew J. Simoncini  
President and Chief Executive Officer

By: /s/ Jeffrey H. Vanneste  
Jeffrey H. Vanneste  
Senior Vice President and Chief Financial  
Officer

Table of Contents

LEAR CORPORATION

Index to Exhibits

Exhibit Number	Exhibit
* 31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
* 31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
* 32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
* 32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**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.
*	Filed herewith.
**	Submitted electronically with the Report.