

LEAR CORP  
Form 10-Q  
October 24, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 27, 2014.

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities and Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

As of October 22, 2014, the number of shares outstanding of the registrant's common stock was 79,255,325 shares.

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LEAR CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 27, 2014

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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, 2013.

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.

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## LEAR CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

	September 27, 2014 <sup>(1)</sup>	December 31, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$872.7	\$1,137.7
Accounts receivable	2,843.0	2,278.3
Inventories	899.1	818.7
Other	718.2	687.8
Total current assets	5,333.0	4,922.5
<b>LONG-TERM ASSETS:</b>		
Property, plant and equipment, net	1,614.4	1,587.2
Goodwill	740.2	757.2
Other	1,003.6	1,064.0
Total long-term assets	3,358.2	3,408.4
Total assets	\$8,691.2	\$8,330.9
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and drafts	\$2,614.6	\$2,438.7
Accrued liabilities	1,336.3	1,140.4
Total current liabilities	3,950.9	3,579.1
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt	1,068.7	1,057.1
Other	515.8	545.2
Total long-term liabilities	1,584.5	1,602.3
<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; 88,169,235 and 88,062,341 shares issued as of September 27, 2014 and December 31, 2013, respectively	0.9	0.9
Additional paid-in capital, including warrants to purchase common stock	1,613.2	1,652.9
Common stock held in treasury, 8,920,774 and 7,311,037 shares as of September 27, 2014 and December 31, 2013, respectively, at cost	(544.9)	(362.1)
Retained earnings	2,280.2	1,920.3
Accumulated other comprehensive loss	(267.5)	(166.1)
Lear Corporation stockholders' equity	3,081.9	3,045.9
Noncontrolling interests	73.9	103.6
Equity	3,155.8	3,149.5
Total liabilities and equity	\$8,691.2	\$8,330.9

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

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



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## LEAR CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited; in millions, except per share data)

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net sales	\$4,232.7	\$3,917.7	\$13,177.6	\$11,977.9
Cost of sales	3,871.5	3,587.5	12,076.8	10,997.6
Selling, general and administrative expenses	128.1	128.6	402.8	386.1
Amortization of intangible assets	8.6	8.6	25.4	25.8
Interest expense	15.7	17.5	47.1	51.6
Other expense, net	11.1	16.8	57.1	37.8
Consolidated income before provision for income taxes and equity in net income of affiliates	197.7	158.7	568.4	479.0
Provision for income taxes	57.6	51.2	163.1	130.2
Equity in net income of affiliates	(7.8	) (9.2	) (29.0	) (27.1
Consolidated net income	147.9	116.7	434.3	375.9
Less: Net income attributable to noncontrolling interests	7.8	3.9	23.7	17.3
Net income attributable to Lear	\$140.1	\$112.8	\$410.6	\$358.6
Basic net income per share attributable to Lear	\$1.75	\$1.40	\$5.09	\$4.14
Diluted net income per share attributable to Lear	\$1.72	\$1.38	\$5.01	\$4.09
Average common shares outstanding	79,974,811	80,674,338	80,652,376	86,609,304
Average diluted shares outstanding	81,403,225	81,754,163	82,027,127	87,650,438
Consolidated comprehensive income (Note 13)	\$50.9	\$148.3	\$332.2	\$356.7
Less: Comprehensive income attributable to noncontrolling interests	9.2	4.1	23.0	18.2
Comprehensive income attributable to Lear	\$41.7	\$144.2	\$309.2	\$338.5

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

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## LEAR CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Nine Months Ended	
	September 27, 2014	September 28, 2013
Cash Flows from Operating Activities:		
Consolidated net income	\$434.3	\$375.9
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	232.6	208.3
Net change in recoverable customer engineering, development and tooling	(4.4)	(17.2)
Net change in working capital items (see below)	(321.7)	(157.7)
Other, net	70.9	20.3
Net cash provided by operating activities	411.7	429.6
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(280.8)	(329.2)
Insurance proceeds	—	7.1
Other, net	(9.0)	40.7
Net cash used in investing activities	(289.8)	(281.4)
Cash Flows from Financing Activities:		
Proceeds from the issuance of senior notes	325.0	500.0
Repurchase of senior notes	(327.1)	(72.1)
Payment of debt issuance and other financing costs	(3.8)	(13.4)
Repurchase of common stock	(259.4)	(1,000.1)
Dividends paid to Lear Corporation stockholders	(49.6)	(44.8)
Dividends paid to noncontrolling interests	(17.5)	(33.4)
Other, net	(39.2)	(9.7)
Net cash used in financing activities	(371.6)	(673.5)
Effect of foreign currency translation	(15.3)	7.1
Net Change in Cash and Cash Equivalents	(265.0)	(518.2)
Cash and Cash Equivalents as of Beginning of Period	1,137.7	1,402.2
Cash and Cash Equivalents as of End of Period	\$872.7	\$884.0
Changes in Working Capital Items:		
Accounts receivable	\$(652.7)	\$(567.3)
Inventories	(111.9)	(121.8)
Accounts payable	259.1	320.1
Accrued liabilities and other	183.8	211.3
Net change in working capital items	\$(321.7)	\$(157.7)
Supplementary Disclosure:		
Cash paid for interest	\$68.6	\$63.3
Cash paid for income taxes, net of refunds received	\$133.1	\$121.4

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



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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 September 27, 2014.

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 August 27, 2014, the Company signed a definitive agreement to acquire Everett Smith Group Ltd., the parent of Eagle Ottawa, LLC (“Eagle Ottawa”), a supplier of leather for the automotive industry. Eagle Ottawa is a privately-held company based in Auburn Hills, Michigan. The transaction has a value of approximately \$850 million on a cash and debt free basis. The closing of the transaction is expected to occur in the first quarter of 2015 and is subject to customary conditions, including regulatory approval.

(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 nine months of 2014, the Company recorded charges of \$86.6 million in connection with its restructuring actions. These charges consist of \$71.4 million recorded as cost of sales, \$14.2 million recorded as selling, general and administrative expenses and \$1.0 million recorded as other expense. The restructuring charges consist of employee termination benefits of \$72.9 million, asset impairment charges of \$0.1 million and contract termination costs of \$0.3 million, as well as other related costs of \$13.3 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 \$0.1 million in excess of related estimated fair values. The Company expects to incur approximately \$34 million of additional restructuring costs related to activities initiated as of September 27, 2014, 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.

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## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

A summary of 2014 activity is shown below (in millions):

	Accrual as of January 1, 2014	2014 Charges	Utilization		Accrual as of September 27, 2014
			Cash	Non-cash	
Employee termination benefits	\$38.7	\$72.9	\$(71.0)	) \$—	\$ 40.6
Asset impairment charges	—	0.1	—	(0.1)	) —
Contract termination costs	5.6	0.3	(0.8)	) —	5.1
Other related costs	—	13.3	(13.3)	) —	—
Total	\$44.3	\$86.6	\$(85.1)	) \$(0.1)	) \$ 45.7

## (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):

	September 27, 2014	December 31, 2013
Raw materials	\$694.2	\$633.5
Work-in-process	50.5	45.8
Finished goods	154.4	139.4
Inventories	\$899.1	\$818.7

## (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 nine months of 2014 and 2013, the Company capitalized \$143.0 million and \$139.8 million, respectively, of pre-production E&D costs for which reimbursement is contractually guaranteed by the customer. During the first nine months of 2014 and 2013, the Company also capitalized \$118.2 million and \$164.3 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 nine months of 2014 and 2013, the Company collected \$247.2 million and \$296.5 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):

	September 27, 2014	December 31, 2013
Current	\$138.2	\$134.2
Long-term	47.9	52.9
Recoverable customer E&D and tooling	\$186.1	\$187.1

## (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.

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## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

	September 27, 2014	December 31, 2013
Land	\$ 111.4	\$ 113.4
Buildings and improvements	538.6	532.0
Machinery and equipment	1,835.0	1,645.0
Construction in progress	141.9	155.2
Total property, plant and equipment	2,626.9	2,445.6
Less – accumulated depreciation	(1,012.5 )	(858.4 )
Property, plant and equipment, net	\$ 1,614.4	\$ 1,587.2

Depreciation expense was \$71.3 million and \$64.4 million for the three months ended September 27, 2014 and September 28, 2013, respectively, and \$207.2 million and \$182.5 million for the nine months ended September 27, 2014 and September 28, 2013, respectively.

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 September 27, 2014. 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 nine months of 2014 and 2013, the Company recognized fixed asset impairment charges of \$0.1 million and \$4.6 million, respectively, in conjunction with its restructuring actions (Note 3, “Restructuring”), as well as additional fixed asset impairment charges of \$0.9 million in the three and nine months ended September 27, 2014.

Investments in Affiliates

In the first quarter of 2013, the Company completed the sale of its 22.88% ownership interest in International Automotive Components Group North America, LLC for net proceeds of \$49.6 million. The Company did not recognize a significant gain or loss related to this transaction.

(7) Goodwill

A summary of the changes in the carrying amount of goodwill, all of which relates to the seating segment, for the nine months ended September 27, 2014, is shown below (in millions):

Balance as of January 1, 2014	\$ 757.2
Foreign currency translation and other	(17.0 )
Balance as of September 27, 2014	\$ 740.2

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 September 27, 2014. The Company will, however, continue to assess the impact of significant events or circumstances on its recorded goodwill.

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## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## (8) Debt

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

	September 27, 2014		December 31, 2013	
	Long-Term Debt	Weighted Average Interest Rate	Long-Term Debt	Weighted Average Interest Rate
7.875% Senior Notes due 2018	\$—	—	\$278.8	8.00%
8.125% Senior Notes due 2020	243.7	8.25%	278.3	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%	—	—
Long-term debt	\$1,068.7		\$1,057.1	

## Senior Notes

As of September 27, 2014, the Company's long-term debt consists of \$245 million in aggregate principal amount of senior unsecured notes due 2020 at a stated coupon rate of 8.125% (the "2020 Notes"), \$500 million in aggregate principal amount of senior unsecured notes due 2023 at a stated coupon rate of 4.75% (the "2023 Notes") and \$325 million in aggregate principal amount of senior unsecured notes due 2024 at a stated coupon rate of 5.375% (the "2024 Notes," and together with the 2020 Notes and 2023 Notes, the "Notes").

The 2020 Notes were issued on March 26, 2010, at 99.164% of par, resulting in a yield to maturity of 8.25%, and interest is payable on March 15 and September 15 of each year. The 2020 Notes mature on March 15, 2020. The 2023 Notes were issued on January 17, 2013, and interest is payable on January 15 and July 15 of each year. The 2023 Notes were offered and sold in a private transaction to qualified institutional buyers under Rule 144A and, outside of the United States, pursuant to Regulation S of the Securities Act of 1933, as amended (the "Securities Act"). In accordance with the registration rights agreement entered into at the time of the issuance of the 2023 Notes, the Company completed an exchange offer to exchange the 2023 Notes for substantially identical notes registered under the Securities Act in the second quarter of 2014. The 2023 Notes mature on January 15, 2023.

The 2024 Notes were issued on March 11, 2014, and 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 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 of 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 \$327.1 million and recognized losses of \$17.5 million on the extinguishment of debt in the first quarter of 2014.

The Company may redeem all or part of the 2024 Notes, at its option, at any time on or after March 15, 2019, at the redemption prices set forth below, plus accrued and unpaid interest to the redemption date.

Twelve-Month Period Commencing March 15,	2024 Notes
2019	102.688%
2020	101.792%
2021	100.896%
2022 and thereafter	100.0%

Prior to March 15, 2017, the Company may redeem up to 35% of the aggregate principal amount of the 2024 Notes, in an amount not to exceed the amount of net cash proceeds of one or more equity offerings, at a redemption price equal to 105.375% of the aggregate principal amount thereof, plus accrued and unpaid interest to the redemption date, provided that at least 65% of the original aggregate principal amount of the 2024 Notes remains outstanding after the redemption and any such redemption is made 90 days after the closing of such equity offering. Prior to March 15, 2019, the Company may redeem the 2024 Notes, in whole or in part, at a redemption price equal to 100% of the aggregate principal amount thereof, plus a “make-whole” premium as of, and accrued and unpaid interest to, the redemption date.



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LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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."

The indenture governing the 2020 Notes contains restrictive covenants that, among other things, limit the ability of the Company and its subsidiaries to: (i) incur additional debt, (ii) pay dividends and make other restricted payments, (iii) create or permit certain liens, (iv) issue or sell capital stock of the Company's restricted subsidiaries, (v) use the proceeds from sales of assets and subsidiary stock, (vi) create or permit restrictions on the ability of the Company's restricted subsidiaries to pay dividends or make other distributions to the Company, (vii) enter into transactions with affiliates, (viii) enter into sale and leaseback transactions and (ix) consolidate or merge or sell all or substantially all of the Company's assets. The foregoing limitations are subject to exceptions as set forth in the 2020 Notes. In addition, if in the future the 2020 Notes have an investment grade credit rating from both Moody's Investors Service and Standard & Poor's Ratings Services and no default has occurred and is continuing, certain of these covenants will, thereafter, no longer apply to the 2020 Notes for so long as the 2020 Notes have an investment grade credit rating by both rating agencies. The indenture governing the 2020 Notes also contains customary events of default.

Subject to certain exceptions, the indenture governing the 2023 Notes and 2024 Notes contains restrictive covenants that, among other things, limit the ability of the Company to: (i) create or permit certain liens, (ii) enter into sale and leaseback transactions and (iii) consolidate or merge or sell all or substantially all of the Company's assets. These indentures also provide for customary events of default.

As of September 27, 2014, the Company was in compliance with all covenants under the indentures governing the Notes.

2013 Redemption of Senior Notes

In the first quarter of 2013, the Company redeemed 10% of the original aggregate principal amount of each of the 2018 Notes and 2020 Notes (\$70 million, in aggregate) at the stated redemption price, plus accrued and unpaid interest to the redemption date. In connection with this transaction, the Company paid \$72.1 million and recognized a loss of \$3.6 million on the partial extinguishment of debt in the first quarter of 2013.

Revolving Credit Facility

The Company's amended and restated credit agreement, which matures on January 30, 2018, provides for a \$1.0 billion revolving credit facility. As of September 27, 2014 and December 31, 2013, there were no borrowings outstanding under the revolving credit facility.

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 (1.5% as of September 27, 2014), 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 September 27, 2014), 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.

The Company's obligations under the revolving credit facility 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 revolving credit facility 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 September 27, 2014, the Company was in compliance with all covenants under the agreement governing the revolving credit facility.

For further information on the Notes and the revolving credit facility, 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, 2013.

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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## (9) Pension and Other Postretirement Benefit Plans

## Net Periodic Pension and Other Postretirement Benefit Cost

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

	Three Months Ended				Nine Months Ended			
	September 27, 2014		September 28, 2013		September 27, 2014		September 28, 2013	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Service cost	\$0.9	\$2.2	\$0.8	\$2.4	\$2.7	\$6.5	\$2.2	\$7.4
Interest cost	7.2	5.1	6.5	5.1	21.4	15.4	19.6	15.5
Expected return on plan assets	(9.6 )	(6.9 )	(8.1 )	(6.2 )	(28.6 )	(20.4 )	(24.3 )	(18.9 )
Amortization of actuarial (gain) loss	(0.1 )	0.4	1.0	1.6	(0.2 )	1.0	3.1	4.8
Settlement loss	—	—	—	—	0.1	—	—	—
Net periodic benefit cost	\$(1.6 )	\$0.8	\$0.2	\$2.9	\$(4.6 )	\$2.5	\$0.6	\$8.8

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

	Three Months Ended				Nine Months Ended			
	September 27, 2014		September 28, 2013		September 27, 2014		September 28, 2013	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Service cost	\$—	\$0.3	\$—	\$0.3	\$0.1	\$0.7	\$0.1	\$0.8
Interest cost	1.0	0.5	0.9	0.7	3.0	1.5	2.7	2.3
Amortization of actuarial (gain) loss	(0.1 )	(0.1 )	—	0.1	(0.5 )	—	(0.1 )	0.3
Amortization of prior service credit	—	(0.1 )	—	(0.1 )	—	(0.3 )	—	(0.3 )
Special termination benefits	—	0.2	—	0.1	—	0.4	—	0.3
Net periodic benefit cost	\$0.9	\$0.8	\$0.9	\$1.1	\$2.6	\$2.3	\$2.7	\$3.4

## Contributions

Employer contributions to the Company's domestic and foreign pension plans for the nine months ended September 27, 2014, were \$12.9 million. The Company expects contributions to its domestic and foreign pension plans of approximately \$20 million in 2014. 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 nine months ended September 27, 2014, were \$12.5 million. The Company expects total contributions of approximately \$16 million to this program in 2014.



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## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## (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		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Other expense	\$16.4	\$17.3	\$63.0	\$38.8
Other income	(5.3)	(0.5)	(5.9)	(1.0)
Other expense, net	\$11.1	\$16.8	\$57.1	\$37.8

For the nine months ended September 27, 2014 and September 28, 2013, other expense includes losses on the extinguishment of debt of \$17.5 million and \$3.6 million, respectively. See Note 8, "Debt."

For the three and nine months ended September 27, 2014, other expense includes net foreign currency transaction losses of \$10.7 million and \$22.7 million, respectively. For the three and nine months ended September 28, 2013, other expense includes net foreign currency transaction losses of \$10.2 million and \$16.7 million, respectively.

For the three and nine months ended September 27, 2014, other income includes net gains related to transactions with affiliates of \$5.2 million and \$4.1 million, respectively.

## (11) Income Taxes

The provision for income taxes was \$57.6 million for the third quarter of 2014, representing an effective tax rate of 29.1% on pretax income before equity in net income of affiliates of \$197.7 million, as compared to \$51.2 million for the third quarter of 2013, representing an effective tax rate of 32.3% on pretax income before equity in net income of affiliates of \$158.7 million. The provision for income taxes was \$163.1 million for the nine months ended September 27, 2014, representing an effective tax rate of 28.7% on pretax income before equity in net income of affiliates of \$568.4 million, as compared to \$130.2 million for the nine months ended September 28, 2013, representing an effective tax rate of 27.2% on pretax income before equity in net income of affiliates of \$479.0 million.

In the first nine months of 2014 and 2013, 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 nine months of 2014, the Company recognized tax benefits of \$26.8 million related to debt redemption costs, restructuring charges and various other items and tax benefits of \$13.4 million primarily related to reductions in tax reserves due to tax audit settlements and the release of valuation allowances with respect to the deferred tax assets of certain foreign subsidiaries. In the first nine months of 2013, the Company recognized net tax benefits of \$22.1 million related to restructuring charges, the retroactive reinstatement of the U.S. research and development tax credit and various other items and net tax benefits of \$21.7 million primarily related to net changes in valuation allowances with respect to the deferred tax assets of certain foreign subsidiaries. Excluding these items, the effective tax rate in the first nine months of 2014 and 2013 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.

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,

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## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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, 2013.

## (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		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net income attributable to Lear	\$ 140.1	\$ 112.8	\$ 410.6	\$ 358.6
Average common shares outstanding	79,974,811	80,674,338	80,652,376	86,609,304
Dilutive effect of common stock equivalents	1,428,414	1,079,825	1,374,751	1,041,134
Average diluted shares outstanding	81,403,225	81,754,163	82,027,127	87,650,438
Basic net income per share attributable to Lear	\$ 1.75	\$ 1.40	\$ 5.09	\$ 4.14
Diluted net income per share attributable to Lear	\$ 1.72	\$ 1.38	\$ 5.01	\$ 4.09

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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## (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.

A summary of comprehensive income and reconciliations of equity, Lear Corporation stockholders' equity and noncontrolling interests for the three and nine months ended September 27, 2014, are shown below (in millions):

	Three Months Ended September 27, 2014			Nine Months Ended September 27, 2014		
	Equity	Lear Corporation Stockholders' Equity	Non- controlling Interests	Equity	Lear Corporation Stockholders' Equity	Non- controlling Interests
Beginning equity balance	\$3,221.2	\$ 3,145.8	\$75.4	\$3,149.5	\$ 3,045.9	\$ 103.6
Stock-based compensation transactions	14.6	14.6	—	31.2	31.2	—
Repurchase of common stock	(103.4 )	(103.4 )	—	(259.4 )	(259.4 )	—
Dividends declared to Lear Corporation stockholders	(16.8 )	(16.8 )	—	(50.7 )	(50.7 )	—
Dividends paid to noncontrolling interests	(10.7 )	—	(10.7 )	(17.5 )	—	(17.5 )
Acquisitions of noncontrolling interests	—	—	—	(18.0 )	5.7	(23.7 )
Sale of controlling interest	—	—	—	(11.5 )	—	(11.5 )
Comprehensive income:	—	—	—	—	—	—
Net income	147.9	140.1	7.8	434.3	410.6	23.7
Other comprehensive income (loss), net of tax:						
Defined benefit plan adjustments	—	—	—	0.1	0.1	—
Derivative instruments and hedging activities	(8.0 )	(8.0 )	—	(3.3 )	(3.3 )	—
Foreign currency translation adjustments	(89.0 )	(90.4 )	1.4	(98.9 )	(98.2 )	(0.7 )
Other comprehensive income (loss)	(97.0 )	(98.4 )	1.4	(102.1 )	(101.4 )	(0.7 )
Comprehensive income	50.9	41.7	9.2	332.2	309.2	23.0
Ending equity balance	\$3,155.8	\$ 3,081.9	\$73.9	\$3,155.8	\$ 3,081.9	\$73.9



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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

A summary of changes, net of tax, in accumulated other comprehensive loss for the three and nine months ended September 27, 2014, is shown below (in millions):

	Three Months Ended September 27, 2014	Nine Months Ended September 27, 2014	
Defined benefit plan adjustments:			
Balance at beginning of period	\$(104.4	) \$(104.5	)
Reclassification adjustments	—	0.1	
Balance at end of period	\$(104.4	) \$(104.4	)
Derivative instruments and hedging activities:			
Balance at beginning of period	\$(0.6	) \$(5.3	)
Reclassification adjustments	(2.3	) (5.6	)
Other comprehensive income (loss) recognized during the period	(5.7	) 2.3	
Balance at end of period	\$(8.6	) \$(8.6	)
Foreign currency translation adjustments:			
Balance at beginning of period	\$(64.1	) \$(56.3	)
Other comprehensive loss recognized during the period	(90.4	) (98.2	)
Balance at end of period	\$(154.5	) \$(154.5	)

Other comprehensive loss related to the Company's defined benefit plans includes pretax reclassification adjustments of \$0.1 million for the nine months ended September 27, 2014. 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 (\$3.2) million and (\$7.7) million for the three and nine months ended September 27, 2014, respectively. See Note 16, "Financial Instruments."

For the three and nine months ended September 27, 2014, foreign currency translation adjustments are related primarily to the weakening of the Euro relative to the U.S. dollar.

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## 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 and nine months ended September 28, 2013, are shown below (in millions):

	Three Months Ended September 28, 2013			Nine Months Ended September 28, 2013		
	Equity	Lear Corporation Stockholders' Equity	Non-controlling Interests	Equity	Lear Corporation Stockholders' Equity	Non-controlling Interests
Beginning equity balance	\$2,790.3	\$ 2,669.3	\$ 121.0	\$3,612.2	\$ 3,487.1	\$ 125.1
Stock-based compensation transactions	14.2	14.2	—	36.0	36.0	—
Repurchase of common stock	—	—	—	(1,000.1 )	(1,000.1 )	—
Dividends declared to Lear Corporation stockholders	(14.2 )	(14.2 )	—	(44.8 )	(44.8 )	—
Dividends paid to noncontrolling interests	(18.6 )	—	(18.6 )	(33.4 )	—	(33.4 )
Acquisition of noncontrolling interests	—	—	—	(6.6 )	(3.2 )	(3.4 )
Comprehensive income:						
Net income	116.7	112.8	3.9	375.9	358.6	17.3
Other comprehensive income (loss), net of tax:						
Defined benefit plan adjustments	1.8	1.8	—	5.5	5.5	—
Derivative instruments and hedging activities	(5.3 )	(5.3 )	—	(14.1 )	(14.1 )	—
Foreign currency translation adjustments	35.1	34.9	0.2	(10.6 )	(11.5 )	0.9
Other comprehensive income (loss)	31.6	31.4	0.2	(19.2 )	(20.1 )	0.9
Comprehensive income	148.3	144.2	4.1	356.7	338.5	18.2
Ending equity balance	\$2,920.0	\$ 2,813.5	\$ 106.5	\$2,920.0	\$ 2,813.5	\$ 106.5

A summary of changes, net of tax, in accumulated other comprehensive loss for the three and nine months ended September 28, 2013, is shown below (in millions):

	Three Months Ended September 28, 2013	Nine Months Ended September 28, 2013
Defined benefit plan adjustments:		
Balance at beginning of period	\$(246.2 )	\$(249.9 )
Reclassification adjustments	1.8	5.5
Balance at end of period	\$(244.4 )	\$(244.4 )
Derivative instruments and hedging activities:		
Balance at beginning of period	\$(6.1 )	\$2.7
Reclassification adjustments	(5.7 )	(19.2 )
Other comprehensive income recognized during the period	0.4	5.1
Balance at end of period	\$(11.4 )	\$(11.4 )
Foreign currency translation adjustments:		
Balance at beginning of period	\$(100.0 )	\$(53.6 )
Other comprehensive income (loss) recognized during the period	34.9	(11.5 )



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For the three and nine months ended September 28, 2013, foreign currency translation adjustments are related primarily to the strengthening of the Euro relative to the U.S. dollar.

Lear Corporation Stockholders' Equity

Common Stock Share Repurchase Program

On April 25, 2013, the Company entered into an accelerated stock repurchase ("ASR") agreement with a third-party financial institution to repurchase \$800 million of the Company's common stock. In the second quarter of 2013, the Company paid \$800 million to the financial institution, using cash on-hand, and received an initial delivery of 11,862,836 shares. This initial share delivery represented 80% of the ASR transaction's value at the then-current price of \$53.95 per share. These shares have been included in common stock held in treasury as of the applicable delivery date. The ultimate number of shares repurchased and the final price paid per share under the ASR transaction was determined based on the daily volume weighted average price of the Company's common stock during the term of the ASR agreement, less an agreed upon discount. On March 31, 2014, the ASR agreement ended, and the initial delivery of 11,862,836 shares under the ASR transaction exceeded the ultimate number of shares repurchased by 658,903 shares. Under the terms of the ASR agreement, the Company had the contractual right to deliver either shares or cash equal to the value of those shares to the financial institution. The Company elected to settle the ASR transaction in cash and as a result, paid \$55.5 million in the second quarter of 2014. Inclusive of the settlement, 11,862,836 shares were repurchased under the ASR transaction for \$855.5 million, or an average price of \$72.11 per share.

In the first nine months of 2014, the Company paid \$259.4 million in aggregate for repurchases of its common stock, including \$203.9 million of open market repurchases (2,181,095 shares at an average purchase price of \$93.47 per share, excluding commissions) and \$55.5 million to settle the ASR transaction. The Company has a remaining repurchase authorization of \$490.6 million under its ongoing common stock share repurchase program, which will expire in April 2016. The Company may implement these share repurchases through a variety of methods, including 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 amended and restated credit facility and the indenture governing the 2020 Notes place certain limitations on the Company's ability to repurchase its common shares.

As of the date of this Report, the Company has paid \$1.8 billion in aggregate for repurchases of its outstanding common stock, at an average price of \$60.21 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 September 27, 2014 and December 31, 2013.

Quarterly Dividend

In the first nine months of 2014 and 2013, the Company's Board of Directors declared quarterly cash dividends of \$0.20 and \$0.17 per share of common stock, respectively. In the first nine months of 2014, dividends declared totaled \$50.7 million, and dividends paid totaled \$49.6 million. In the first nine months of 2013, dividends declared and paid

totaled \$44.8 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 nine months of 2014 and 2013, the Company acquired noncontrolling interests in certain of its consolidated subsidiaries. In the second quarter of 2014, the Company sold its controlling interest in a less than wholly owned consolidated subsidiary. There was no significant gain or loss recognized in connection with this transaction.

#### (14) Legal and Other Contingencies

As of September 27, 2014 and December 31, 2013, the Company had recorded reserves for pending legal disputes, including commercial disputes and other matters, of \$10.2 million and \$17.5 million, respectively. Such reserves reflect amounts

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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.

On October 5, 2011, a plaintiff filed a putative class action complaint in the United States District Court for the Eastern District of Michigan 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").

In order to avoid the costs and distraction of continuing to litigate the Consolidated Cases, on May 5, 2014, the Company entered into settlement agreements (the "Settlement Agreements") under which the class plaintiffs will release the Company from all claims, demands, actions, suits and causes of action in the Consolidated Cases. The Settlement Agreements contain no admission by the Company of any wrongdoing, and the Company maintains that it violated no laws in connection with this matter. Because the conduct alleged by the class plaintiffs overwhelmingly relates to periods prior to the Company's emergence from bankruptcy in 2009, the 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.

The 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 Settlement Agreements 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.

On February 20, 2014, the City of Richmond, California filed a putative class action lawsuit in the District Court on behalf of itself and other "Public Entities," comprising states, state subdivisions, agencies and instrumentalities and local government subdivisions and agencies, and amended their complaint on October 3, 2014 (the "Public Entities Complaint"). The allegations in the Public Entities Complaint are substantially similar to those in the Consolidated Cases. The Public Entities dismissed the Company, without prejudice, from the Public Entities' lawsuit on October 9, 2014.

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 Complaints"). The allegations in the Canadian Complaints are substantially similar to those in the Consolidated Cases. The ultimate outcome of this litigation, and consequently, an estimate of the possible loss, if any, related to the Canadian Complaints cannot reasonably be determined at this time. However, the Company believes the plaintiffs' allegations against it are without merit and intends to continue to vigorously defend itself in these proceedings.

#### 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, the Company is a party to warranty-sharing and other agreements with certain of its customers related to its products. 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. 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. In addition, if any of the Company's products are, or are alleged to be, defective, the

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## LEAR CORPORATION AND SUBSIDIARIES

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(Continued)

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.

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.

The Company records product warranty reserves based on its individual customer agreements. Product warranty reserves are recorded for known warranty issues when liability for such issues is probable and related amounts are reasonably estimable.

A summary of the changes in reserves for product liability and warranty claims for the nine months ended September 27, 2014, is shown below (in millions):

Balance as of January 1, 2014	\$28.3	
Expense, net (including changes in estimates)	5.2	
Settlements	(6.7)	)
Foreign currency translation and other	(0.5)	)
Balance as of September 27, 2014	\$26.3	

**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 September 27, 2014 and December 31, 2013, the Company had recorded environmental reserves of \$4.8 million and \$5.0 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 these 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.

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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## Insurance Recoveries

The Company has incurred losses and incremental costs related to the destruction of assets caused by a fire at one of its European production facilities in the third quarter of 2011. During the fourth quarter of 2012, the Company reached a settlement for the recovery of such costs under applicable insurance policies. In connection with this event, the Company incurred losses and incremental costs of \$7.3 million in the nine months ended September 28, 2013. In addition, the Company received cash proceeds of \$10.0 million, of which \$2.9 million has been reflected in cash flows from operating activities and \$7.1 million has been reflected in cash flows from investing activities, in the first nine months of 2013. For further information on cumulative losses and incremental costs incurred and recoveries received in connection with this event, see Note 11, "Commitments and Contingencies," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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

	Three Months Ended September 27, 2014			
	Seating	Electrical	Other	Consolidated
Revenues from external customers	\$3,188.4	\$1,044.3	\$—	\$4,232.7
Segment earnings <sup>(1)</sup>	154.9	136.7	(67.1)	) 224.5
Depreciation and amortization	50.8	27.1	2.0	79.9
Capital expenditures	63.3	24.8	3.6	91.7
Total assets	5,223.9	1,702.9	1,764.4	8,691.2
	Three Months Ended September 28, 2013			
	Seating	Electrical	Other	Consolidated
Revenues from external customers	\$2,891.7	\$1,026.0	\$—	\$3,917.7
Segment earnings <sup>(1)</sup>	142.8	111.6	(61.4)	) 193.0
Depreciation and amortization	46.7	24.1	2.1	72.9
Capital expenditures	67.3	33.9	1.6	102.8
Total assets	4,862.5	1,728.9	1,872.8	8,464.2
	Nine Months Ended September 27, 2014			
	Seating	Electrical	Other	Consolidated
Revenues from external customers	\$9,857.9	\$3,319.7	\$—	\$13,177.6
Segment earnings <sup>(1)</sup>	471.3	413.3	(212.0)	) 672.6
Depreciation and amortization	148.7	78.0	5.9	232.6
Capital expenditures	192.8	82.2	5.8	280.8

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Total assets	5,223.9	1,702.9	1,764.4	8,691.2
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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

	Nine Months Ended September 28, 2013			
	Seating	Electrical	Other	Consolidated
Revenues from external customers	\$8,872.6	\$3,105.3	\$—	\$11,977.9
Segment earnings <sup>(1)</sup>	450.7	295.5	(177.8	) 568.4
Depreciation and amortization	133.4	69.2	5.7	208.3
Capital expenditures	214.8	107.4	7.0	329.2
Total assets	4,862.5	1,728.9	1,872.8	8,464.2

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

For the three months ended September 27, 2014, segment earnings include restructuring charges of \$17.0 million, \$2.5 million and \$1.5 million in the seating and electrical segments and in the other category, respectively. For the nine months ended September 27, 2014, segment earnings include restructuring charges of \$68.8 million, \$7.3 million and \$10.5 million in the seating and electrical segments and in the other category, respectively. For the three months ended September 28, 2013, segment earnings include restructuring charges of \$10.9 million, \$0.6 million and \$0.2 million in the seating and electrical segments and in the other category, respectively. For the nine months ended September 28, 2013, segment earnings include restructuring charges of \$29.8 million, \$7.8 million and \$5.3 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		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Segment earnings	\$224.5	\$193.0	\$672.6	\$568.4
Interest expense	15.7	17.5	47.1	51.6
Other expense, net	11.1	16.8	57.1	37.8
Consolidated income before provision for income taxes and equity in net income of affiliates	\$197.7	\$158.7	\$568.4	\$479.0

**(16) Financial 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 September 27, 2014, the aggregate carrying value of the Company's Notes was \$1,068.7 million, as compared to an estimated aggregate fair value of \$1,087.5 million. As of December 31, 2013, the aggregate carrying value of the Notes was \$1,057.1 million, as compared to an estimated aggregate fair value of \$1,077.1 million.

**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 Brazilian

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## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

real. As of September 27, 2014 and December 31, 2013, contracts designated as cash flow hedges with \$729.5 million and \$917.4 million, respectively, of notional amount were outstanding with maturities of less than eighteen months. As of September 27, 2014 and December 31, 2013, the fair value of these contracts was approximately \$2.6 million and \$6.5 million, respectively. As of September 27, 2014 and December 31, 2013, other foreign currency derivative contracts that did not qualify for hedge accounting with \$144.5 million and \$149.2 million, respectively, of notional amount were outstanding. These foreign currency derivative contracts consist principally of hedges of cash transactions of up to twelve months, hedges of intercompany loans and hedges of certain other balance sheet exposures. As of September 27, 2014 and December 31, 2013, the fair value of these contracts was approximately \$1.8 million and (\$0.1) million, respectively.

The fair value of outstanding foreign currency derivative contracts and the related classification in the accompanying condensed consolidated balance sheets as of September 27, 2014 and December 31, 2013, are shown below (in millions):

	September 27, 2014	December 31, 2013
Contracts qualifying for hedge accounting:		
Other current assets	\$9.6	\$12.4
Other long-term assets	0.7	0.7
Other current liabilities	(6.6	) (6.5
Other long-term liabilities	(1.1	) (0.1
	2.6	6.5
Contracts not qualifying for hedge accounting:		
Other current assets	2.3	0.4
Other current liabilities	(0.5	) (0.5
	1.8	(0.1
	\$4.4	\$6.4

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		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Contracts qualifying for hedge accounting:				
Gains (losses) recognized in accumulated other comprehensive loss	\$(7.7	) \$1.0	\$2.8	\$7.4
Gains reclassified from accumulated other comprehensive loss	(3.2	) (8.3	) (7.7	) (27.1
Comprehensive loss	\$(10.9	) \$(7.3	) \$(4.9	) \$(19.7

For the three and nine months ended September 27, 2014, net sales includes gains of \$0.1 million and \$0.7 million, respectively, reclassified from accumulated other comprehensive loss related to foreign currency derivative contracts. For the three and nine months ended September 27, 2014, cost of sales includes gains of \$3.1 million and \$7.0 million, respectively, reclassified from accumulated other comprehensive loss related to foreign currency derivative contracts. For the three and nine months ended September 28, 2013, net sales includes gains of \$1.3 million and \$2.7 million, respectively, reclassified from accumulated other comprehensive loss related to foreign currency derivative contracts.

For the three and nine months ended September 28, 2013, cost of sales includes gains of \$7.0 million and \$24.4 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 September 27, 2014 and December 31, 2013, 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.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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 September 27, 2014 and December 31, 2013, there were no commodity swap contracts outstanding.

As of September 27, 2014 and December 31, 2013, pretax net gains of approximately \$2.6 million and \$6.5 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 gains of approximately \$3.0 million recorded in accumulated other comprehensive loss as of September 27, 2014. Such gains will be reclassified at the time that the underlying hedged transactions are realized. During the three and nine months ended September 27, 2014 and September 28, 2013, 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.

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 September 27, 2014 and December 31, 2013, are shown



below (in millions):

	September 27, 2014					
	Frequency	Asset (Liability)	Valuation Technique	Level 1	Level 2	Level 3
Foreign currency derivative contracts, net	Recurring	\$4.4	Market/Income	\$—	\$4.4	\$—

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## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

	December 31, 2013					
	Frequency	Asset (Liability)	Valuation Technique	Level 1	Level 2	Level 3
Foreign currency derivative contracts, net	Recurring	\$6.4	Market/Income	\$—	\$6.4	\$—

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 September 27, 2014 and December 31, 2013, 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 nine months of 2014.

**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 of September 27, 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 3, "Restructuring."

**(17) Accounting Pronouncements****Cumulative Translation Adjustments**

The Financial Accounting Standards Board ("FASB") issued ASU 2013-05, "Parent's Accounting for Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity," which amends ASC 830, "Foreign Currency Matters." This ASU clarifies the accounting for cumulative translation adjustments when an entity ceases to have a controlling financial interest in a foreign subsidiary. The provisions of this update were effective as of January 1, 2014, and the effects of adoption were not significant.

**Presentation of Unrecognized Tax Benefits**

The FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," which amends ASC 740, "Income Taxes." This ASU requires that a liability related to an unrecognized tax benefit be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if certain criteria are met. The provisions of this update were effective as of January 1, 2014, and are reflected in the accompanying condensed consolidated balance sheet as of September 27, 2014. The effects of adoption were not significant.

**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 are effective as of January 1, 2015. The Company is currently evaluating the impact of this update.

#### 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 January 1, 2017, and may be applied through a full retrospective or a modified retrospective approach. The Company is currently evaluating the impact of this update.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 January 1, 2017 and are not expected to significantly impact the Company.

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## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## (18) Supplemental Guarantor Condensed Consolidating Financial Statements

	September 27, 2014				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$291.7	\$0.1	\$580.9	\$—	\$872.7
Accounts receivable	70.1	635.0	2,137.9	—	2,843.0
Inventories	2.8	343.5	552.8	—	899.1
Other	158.1	64.9	495.2	—	718.2
Total current assets	522.7	1,043.5	3,766.8	—	5,333.0
<b>LONG-TERM ASSETS:</b>					
Property, plant and equipment, net	94.7	321.7	1,198.0	—	1,614.4
Goodwill	23.5	401.0	315.7	—	740.2
Investments in subsidiaries	1,840.2	1,891.2	—	(3,731.4)	) —
Intercompany accounts, net	1,394.2	—	—	(1,394.2)	) —
Other	596.7	56.4	350.5	—	1,003.6
Total long-term assets	3,949.3	2,670.3	1,864.2	(5,125.6)	) 3,358.2
Total assets	\$4,472.0	\$3,713.8	\$5,631.0	\$(5,125.6)	) \$8,691.2
<b>LIABILITIES AND EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable and drafts	\$93.8	\$742.2	\$1,778.6	\$—	\$2,614.6
Accrued liabilities	110.1	205.4	1,020.8	—	1,336.3
Total current liabilities	203.9	947.6	2,799.4	—	3,950.9
<b>LONG-TERM LIABILITIES:</b>					
Long-term debt	1,068.7	—	—	—	1,068.7
Intercompany accounts, net	—	762.2	632.0	(1,394.2)	) —
Other	117.5	142.1	256.2	—	515.8
Total long-term liabilities	1,186.2	904.3	888.2	(1,394.2)	) 1,584.5
<b>EQUITY:</b>					
Lear Corporation stockholders' equity	3,081.9	1,861.9	1,869.5	(3,731.4)	) 3,081.9
Noncontrolling interests	—	—	73.9	—	73.9
Equity	3,081.9	1,861.9	1,943.4	(3,731.4)	) 3,155.8
Total liabilities and equity	\$4,472.0	\$3,713.8	\$5,631.0	\$(5,125.6)	) \$8,691.2

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## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

	December 31, 2013				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(In millions)				
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$343.5	\$0.1	\$794.1	\$—	\$1,137.7
Accounts receivable	41.2	349.7	1,887.4	—	2,278.3
Inventories	4.8	297.9	516.0	—	818.7
Other	147.7	77.3	462.8	—	687.8
Total current assets	537.2	725.0	3,660.3	—	4,922.5
<b>LONG-TERM ASSETS:</b>					
Property, plant and equipment, net	95.5	316.0	1,175.7	—	1,587.2
Goodwill	23.5	401.0	332.7	—	757.2
Investments in subsidiaries	1,802.4	1,878.5	—	(3,680.9 )	—
Intercompany accounts, net	1,373.1	—	—	(1,373.1 )	—
Other	591.5	71.5	401.0	—	1,064.0
Total long-term assets	3,886.0	2,667.0	1,909.4	(5,054.0 )	3,408.4
Total assets	\$4,423.2	\$3,392.0	\$5,569.7	\$(5,054.0 )	\$8,330.9
<b>LIABILITIES AND EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable and drafts	\$73.8	\$582.4	\$1,782.5	\$—	\$2,438.7
Accrued liabilities	127.9	156.1	856.4	—	1,140.4
Total current liabilities	201.7	738.5	2,638.9	—	3,579.1
<b>LONG-TERM LIABILITIES:</b>					
Long-term debt	1,057.1	—	—	—	1,057.1
Intercompany accounts, net	—	515.2	857.9	(1,373.1 )	—
Other	118.5	143.0	283.7	—	545.2
Total long-term liabilities	1,175.6	658.2	1,141.6	(1,373.1 )	1,602.3
<b>EQUITY:</b>					
Lear Corporation stockholders' equity	3,045.9	1,995.3	1,685.6	(3,680.9 )	3,045.9
Noncontrolling interests	—	—	103.6	—	103.6
Equity	3,045.9	1,995.3	1,789.2	(3,680.9 )	3,149.5
Total liabilities and equity	\$4,423.2	\$3,392.0	\$5,569.7	\$(5,054.0 )	\$8,330.9

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## 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 September 27, 2014				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net sales	\$120.5	\$1,802.7	\$3,503.3	\$(1,193.8 )	\$4,232.7
Cost of sales	147.8	1,660.7	3,256.8	(1,193.8 )	3,871.5
Selling, general and administrative expenses	35.0	26.9	66.2	—	128.1
Intercompany operating (income) expense, net	(52.5 )	42.6	9.9	—	—
Amortization of intangible assets	0.5	1.2	6.9	—	8.6
Interest expense	10.6	6.6	(1.5 )	—	15.7
Other expense, net	0.9	0.4	9.8	—	11.1
Consolidated income before income taxes and equity in net income of affiliates and subsidiaries	(21.8 )	64.3	155.2	—	197.7
Provision for income taxes	(8.1 )	27.0	38.7	—	57.6
Equity in net income of affiliates	0.1	(0.5 )	(7.4 )	—	(7.8 )
Equity in net income of subsidiaries	(153.9 )	(84.8 )	—	238.7	—
Consolidated net income	140.1	122.6	123.9	(238.7 )	147.9
Less: Net income attributable to noncontrolling interests	—	—	7.8	—	7.8
Net income attributable to Lear	\$140.1	\$122.6	\$116.1	\$(238.7 )	\$140.1
Consolidated comprehensive income	\$41.7	\$113.9	\$35.5	\$(140.2 )	\$50.9
Less: Comprehensive income attributable to noncontrolling interests	—	—	9.2	—	9.2
Comprehensive income attributable to Lear	\$41.7	\$113.9	\$26.3	\$(140.2 )	\$41.7
	For the Three Months Ended September 28, 2013				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net sales	\$105.2	\$1,557.8	\$3,351.6	\$(1,096.9 )	\$3,917.7
Cost of sales	132.6	1,411.2	3,140.6	(1,096.9 )	3,587.5
Selling, general and administrative expenses	43.0	17.3	68.3	—	128.6
Intercompany operating (income) expense, net	(45.5 )	33.6	11.9	—	—
Amortization of intangible assets	0.5	1.2	6.9	—	8.6
Interest expense	11.9	6.0	(0.4 )	—	17.5
Other expense, net	0.6	0.2	16.0	—	16.8
Consolidated income before income taxes and equity in net income of affiliates and subsidiaries	(37.9 )	88.3	108.3	—	158.7

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Provision for income taxes	(11.2	) 31.7	30.7	—	51.2	
Equity in net income of affiliates	(0.1	) (0.3	) (8.8	) —	(9.2	)
Equity in net income of subsidiaries	(139.4	) (37.0	) —	176.4	—	
Consolidated net income	112.8	93.9	86.4	(176.4	) 116.7	
Less: Net income attributable to noncontrolling interests	—	—	3.9	—	3.9	
Net income attributable to Lear	\$112.8	\$93.9	\$82.5	\$(176.4	) \$112.8	
Consolidated comprehensive income	\$144.2	\$88.9	\$122.8	\$(207.6	) \$148.3	
Less: Comprehensive income attributable to noncontrolling interests	—	—	4.1	—	4.1	
Comprehensive income attributable to Lear	\$144.2	\$88.9	\$118.7	\$(207.6	) \$144.2	



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## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

	For the Nine Months Ended September 27, 2014				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net sales	\$351.3	\$5,252.5	\$11,189.0	\$(3,615.2 )	\$13,177.6
Cost of sales	443.2	4,842.8	10,406.0	(3,615.2 )	12,076.8
Selling, general and administrative expenses	125.9	71.4	205.5	—	402.8
Intercompany operating (income) expense, net	(241.0 )	122.2	118.8	—	—
Amortization of intangible assets	1.3	3.6	20.5	—	25.4
Interest expense	34.8	17.8	(5.5 )	—	47.1
Other expense, net	20.8	0.8	35.5	—	57.1
Consolidated income before income taxes and equity in net income of affiliates and subsidiaries	(33.7 )	193.9	408.2	—	568.4
Provision for income taxes	(13.4 )	80.1	96.4	—	163.1
Equity in net income of affiliates	0.7	(1.0 )	(28.7 )	—	(29.0 )
Equity in net income of subsidiaries	(431.6 )	(217.8 )	—	649.4	—
Consolidated net income	410.6	332.6	340.5	(649.4 )	434.3
Less: Net income attributable to noncontrolling interests	—	—	23.7	—	23.7
Net income attributable to Lear	\$410.6	\$332.6	\$316.8	\$(649.4 )	\$410.6
Consolidated comprehensive income	\$309.2	\$328.9	\$241.9	\$(547.8 )	\$332.2
Less: Comprehensive income attributable to noncontrolling interests	—	—	23.0	—	23.0
Comprehensive income attributable to Lear	\$309.2	\$328.9	\$218.9	\$(547.8 )	\$309.2
	For the Nine Months Ended September 28, 2013				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net sales	\$352.4	\$4,701.3	\$10,326.7	\$(3,402.5 )	\$11,977.9
Cost of sales	429.9	4,277.4	9,692.8	(3,402.5 )	10,997.6
Selling, general and administrative expenses	121.7	49.2	215.2	—	386.1
Intercompany operating (income) expense, net	(169.9 )	98.0	71.9	—	—
Amortization of intangible assets	1.3	3.6	20.9	—	25.8
Interest expense	36.0	18.1	(2.5 )	—	51.6
Other expense, net	6.8	1.0	30.0	—	37.8
Consolidated income before income taxes and equity in net income of affiliates and subsidiaries	(73.4 )	254.0	298.4	—	479.0

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Provision for income taxes	(23.6	) 92.3	61.5	—	130.2	
Equity in net income of affiliates	(0.8	) (0.4	) (25.9	) —	(27.1	)
Equity in net income of subsidiaries	(407.6	) (122.9	) —	530.5	—	
Consolidated net income	358.6	285.0	262.8	(530.5	) 375.9	
Less: Net income attributable to noncontrolling interests	—	—	17.3	—	17.3	
Net income attributable to Lear	\$358.6	\$285.0	\$245.5	\$(530.5	) \$358.6	
Consolidated comprehensive income	\$338.5	\$273.0	\$254.7	\$(509.5	) \$356.7	
Less: Comprehensive income attributable to noncontrolling interests	—	—	18.2	—	18.2	
Comprehensive income attributable to Lear	\$338.5	\$273.0	\$236.5	\$(509.5	) \$338.5	

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## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

	For the Nine Months Ended September 27, 2014				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net cash provided by operating activities	\$28.4	\$44.6	\$338.7	\$—	\$411.7
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(10.0	) (57.2	) (213.6	) —	(280.8 )
Other, net	(5.9	) 15.3	(18.4	) —	(9.0 )
Net cash used in investing activities	(15.9	) (41.9	) (232.0	) —	(289.8 )
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 )
Repurchase of common stock	(259.4	) —	—	—	(259.4 )
Dividends paid to Lear Corporation stockholders	(49.6	) —	—	—	(49.6 )
Dividends paid to noncontrolling interests	—	—	(17.5	) —	(17.5 )
Other	(21.7	) —	(17.5	) —	(39.2 )
Change in intercompany accounts	272.3	(2.7	) (269.6	) —	—
Net cash used in financing activities	(64.3	) (2.7	) (304.6	) —	(371.6 )
Effect of foreign currency translation	—	—	(15.3	) —	(15.3 )
Net Change in Cash and Cash Equivalents	(51.8	) —	(213.2	) —	(265.0 )
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	\$291.7	\$0.1	\$580.9	\$—	\$872.7
	For the Nine Months Ended September 28, 2013				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net cash provided by operating activities	\$0.8	\$161.6	\$267.2	\$—	\$429.6
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(13.4	) (83.7	) (232.1	) —	(329.2 )
Insurance proceeds	—	—	7.1	—	7.1
Other, net	44.1	0.1	(3.5	) —	40.7
Net cash used in investing activities	30.7	(83.6	) (228.5	) —	(281.4 )
Cash Flows from Financing Activities:					
Proceeds from the issuance of senior notes	500.0	—	—	—	500.0
Repurchase of senior notes	(72.1	) —	—	—	(72.1 )
Payment of debt issuance and other financing costs	(13.4	) —	—	—	(13.4 )

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Repurchase of common stock	(1,000.1	) —	—	—	(1,000.1	)
Dividends paid to Lear Corporation stockholders	(44.8	) —	—	—	(44.8	)
Dividends paid to noncontrolling interests	—	—	(33.4	) —	(33.4	)
Other	(6.3	) —	(3.4	) —	(9.7	)
Change in intercompany accounts	334.6	(78.0	) (256.6	) —	—	
Net cash used in financing activities	(302.1	) (78.0	) (293.4	) —	(673.5	)
Effect of foreign currency translation	—	—	7.1	—	7.1	
Net Change in Cash and Cash Equivalents	(270.6	) —	(247.6	) —	(518.2	)
Cash and Cash Equivalents as of Beginning of Period	481.4	0.1	920.7	—	1,402.2	
Cash and Cash Equivalents as of End of Period	\$210.8	\$0.1	\$673.1	\$—	\$884.0	

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## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

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 revolving credit facility 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 \$245 million in aggregate principal amount at maturity of 8.125% senior unsecured notes due 2020, \$500 million in aggregate principal amount of 4.75% senior unsecured notes due 2023 and \$325 million in aggregate principal amount of 5.375% senior unsecured notes due 2024. 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 2013 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 September 27, 2014 and September 28, 2013, \$30.7 million and \$31.7 million, respectively, of selling, general and administrative expenses were allocated from Lear. During the nine months ended September 27, 2014 and September 28, 2013, \$90.5 million and \$93.3 million, respectively, of selling, general and administrative expenses were allocated from Lear.

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):

	September 27, 2014	December 31, 2013
Senior notes	\$1,068.7	\$1,057.1

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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. 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, engineering, just-in-time assembly and delivery of complete seat systems, as well as the manufacture of all major seat components, including seat structures and mechanisms, seat covers, seat foam and headrests. Our electrical business consists of the design, engineering and manufacturing of complete electrical distribution systems that route electrical signals and manage electrical power within a vehicle 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, 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 management, health and safety and purchasing, 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.

Our strategy is to achieve profitable growth, balancing risk and returns. Key elements of this strategy include diversification of our sales globally and by customer and vehicle type, the continued expansion of our component capability in emerging and low-cost markets and the pursuit of complementary acquisitions to strengthen and grow both of our business segments, while maintaining a strong balance sheet with investment grade credit metrics and consistently returning cash to shareholders.

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. In addition, it is possible that our customers could elect to manufacture our products internally. 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.

In the first nine months of 2014, global automotive industry production volumes improved significantly, up 4% from a year ago levels to 63.7 million units. North American industry production increased 5% from a year ago levels to

12.8 million units. European and African industry production increased 4% from a year ago levels to 15.4 million units, although industry production in this region remains below historical levels. Asian industry production increased 5% from a year ago levels to 31.9 million units. South American industry production decreased 18% from a year ago levels to 2.7 million units.

Sales in Europe and Africa accounted for approximately 40% and sales in North America accounted for approximately 38% of our net sales in the first nine months of 2014. 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.

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Our material cost as a percentage of net sales was 67.7% in the first nine months of 2014, as compared to 67.1% in the first nine months of 2013. 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. 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, 2013, as supplemented and updated by Part II — Item 1A, “Risk Factors,” in our Quarterly Report on Form 10-Q for the quarter ended June 28, 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. As of September 27, 2014, we 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 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 August 27, 2014, we signed a definitive agreement to acquire Everett Smith Group Ltd., the parent of Eagle Ottawa, LLC (“Eagle Ottawa”), the world's leading supplier of automotive leather with annual sales of approximately \$1 billion. Eagle Ottawa is a privately-held company based in Auburn Hills, Michigan and has a reputation for superior quality, product innovation and craftsmanship. 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. The transaction has a value of approximately \$850 million on a cash and debt free basis. We expect to fund the acquisition through a combination of cash on hand and debt. The closing of the transaction is expected to occur in the first quarter of 2015 and is subject to customary conditions, including regulatory approval.



#### Operational Restructuring

In the first nine months of 2014, we incurred pretax restructuring costs of approximately \$87 million and related manufacturing inefficiency charges of approximately \$4 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 the first quarter of 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 \$327 million to redeem the remaining aggregate principal amount of our 7.875% senior unsecured notes due 2018 (the "2018 Notes") and 10% of the original aggregate principal amount of our 8.125% senior

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LEAR CORPORATION

unsecured notes due 2020 (the “2020 Notes”). In connection with these redemptions, we recognized losses of approximately \$18 million on the extinguishment of debt in the first quarter of 2014.

In January 2013, we issued \$500 million in aggregate principal amount of 4.75% senior unsecured notes due 2023 (the “2023 Notes”). In March 2013, we paid \$72 million to redeem 10% of the original aggregate principal amount of the 2018 Notes and 2020 Notes. In connection with this redemption, we recognized a loss of approximately \$4 million on the partial extinguishment of debt in the first quarter of 2013.

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.

Share Repurchase Program and Quarterly Cash Dividend

Since the first quarter of 2011, our Board of Directors has authorized \$2.25 billion in share repurchases under our common stock share repurchase program. On April 25, 2013, we entered into an accelerated stock repurchase (“ASR”) agreement to repurchase \$800 million of our common stock. On March 31, 2014, the ASR agreement ended, and on April 14, 2014, we paid approximately \$55 million to settle the transaction. Following the settlement of the ASR transaction, we completed \$204 million of share repurchases and have a remaining repurchase authorization of \$491 million as of the date of this Report, which will expire in April 2016.

In the first, second and third quarters of 2014, our Board of Directors declared a quarterly cash dividend of \$0.20 per share of common stock.

For further information regarding our common stock share repurchase program, the ASR 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 three and nine months ended September 27, 2014, we recognized tax benefits of \$5 million and \$27 million, respectively, related to debt redemption costs, restructuring charges and various other items and tax benefits of \$2 million and \$13 million, respectively, primarily related to reductions in tax reserves due to tax audit settlements and the release of valuation allowances with respect to the deferred tax assets of certain foreign subsidiaries.

In the nine months ended September 28, 2013, we incurred costs of \$3 million related to a proxy contest.

We incurred losses and incremental costs related to the destruction of assets caused by a fire at one of our European production facilities in the third quarter of 2011. During 2012, we reached a settlement for the recovery of such costs under applicable insurance policies. In the nine months ended September 28, 2013, we recognized losses and incremental costs of \$7 million.

In the three and nine months ended September 28, 2013, we recognized net tax benefits of \$2 million and \$22 million, respectively, related to restructuring charges, the retroactive reinstatement of the U.S. research and development tax credit and various other items and net tax benefits of \$6 million and \$22 million, respectively, primarily related to net changes in valuation allowances with respect to the deferred tax assets of certain foreign subsidiaries.

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## LEAR CORPORATION

As discussed above, our results for the three and nine months ended September 27, 2014 and September 28, 2013, reflect the following items (in millions):

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Costs related to restructuring actions, including manufacturing inefficiencies of \$1 million and \$4 million in the three and nine months ended September 27, 2014, respectively, and \$1 million and \$4 million in the three and nine months ended September 28, 2013, respectively	\$22	\$ 13	\$91	\$ 47
Costs related to proxy contest	—	—	—	3
Acquisition and other related costs	3	—	5	—
Losses and incremental costs related to the destruction of assets	—	—	—	7
Labor-related litigation claims	—	—	—	5
Losses on extinguishment of debt	—	—	18	4
Gain related to affiliate, net	(5	) —	(4	) —
Tax benefits, net	(7	) (8	) (40	) (44

For further information regarding these items, see Note 2, “Acquisition,” Note 3, “Restructuring,” Note 8, “Debt,” Note 10, “Other Expense, Net,” Note 11, “Income Taxes,” Note 13, “Comprehensive Income and Equity,” and Note 14, “Legal and Other Contingencies — Insurance Recoveries,” 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, 2013, as supplemented and updated by Part II — Item 1A, “Risk Factors,” in our Quarterly Report on Form 10-Q for the quarter ended June 28, 2014.

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## 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				Nine Months Ended											
	September 27, 2014		September 28, 2013		September 27, 2014		September 28, 2013									
Net sales																
Seating	\$3,188.4	75.3	%	\$2,891.7	73.8	%	\$9,857.9	74.8	%	\$8,872.6	74.1	%				
Electrical	1,044.3	24.7		1,026.0	26.2		3,319.7	25.2		3,105.3	25.9					
Net sales	4,232.7	100.0		3,917.7	100.0		13,177.6	100.0		11,977.9	100.0					
Cost of sales	3,871.5	91.5		3,587.5	91.6		12,076.8	91.6		10,997.6	91.8					
Gross profit	361.2	8.5		330.2	8.4		1,100.8	8.4		980.3	8.2					
Selling, general and administrative expenses	128.1	3.0		128.6	3.3		402.8	3.1		386.1	3.2					
Amortization of intangible assets	8.6	0.2		8.6	0.2		25.4	0.2		25.8	0.2					
Interest expense	15.7	0.4		17.5	0.4		47.1	0.4		51.6	0.4					
Other expense, net	11.1	0.3		16.8	0.4		57.1	0.4		37.8	0.3					
Provision for income taxes	57.6	1.3		51.2	1.3		163.1	1.2		130.2	1.1					
Equity in net income of affiliates	(7.8	)	(0.2	)	(9.2	)	(0.2	)	(29.0	)	(0.2	)	(27.1	)	(0.2	)
Net income attributable to noncontrolling interests	7.8	0.2		3.9	0.1		23.7	0.2		17.3	0.2					
Net income attributable to Lear	\$140.1	3.3	%	\$112.8	2.9	%	\$410.6	3.1	%	\$358.6	3.0	%				

## Three Months Ended September 27, 2014 vs. Three Months Ended September 28, 2013

Net sales in the third quarter of 2014 were \$4.2 billion, as compared to \$3.9 billion in the third quarter of 2013, an increase of \$315 million or 8%. New business and improved production volumes on key Lear platforms positively impacted net sales by \$221 million and \$125 million, respectively.

Cost of sales in the third quarter of 2014 were \$3.9 billion, as compared to \$3.6 billion in the third quarter of 2013. The increase is primarily due to the impact of new business and improved production volumes on key Lear platforms.

Gross profit and gross margin were \$361 million and 8.5% of net sales in the third quarter of 2014, as compared to \$330 million and 8.4% in the third quarter of 2013. Favorable operating performance and the benefit of operational restructuring actions positively impacted gross profit by \$69 million. Gross profit also benefited by \$31 million from the impact of new business and improved production volumes on key Lear platforms. These increases were partially offset by the impact of selling price reductions. These factors had a corresponding impact on gross margin.

Selling, general and administrative expenses, including engineering and development expenses, were \$128 million in the third quarter of 2014, as compared to \$129 million in the third quarter of 2013. As a percentage of net sales, selling, general and administrative expenses were 3.0% in the third quarter of 2014, as compared to 3.3% in the third quarter of 2013.

Amortization of intangible assets was \$9 million in the third quarters of 2014 and 2013.

Interest expense was \$16 million in the third quarter of 2014, as compared to \$18 million in the third quarter of 2013.

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 \$11 million in the third quarter of 2014, as compared to \$17 million in the third quarter of 2013. In the third quarter of 2014, we recognized a gain of \$5 million related to a transaction with an affiliate.

In the third quarter of 2014, the provision for income taxes was \$58 million, representing an effective tax rate of 29.1% on pretax income before equity in net income of affiliates of \$198 million. In the third quarter of 2013, the provision for income

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taxes was \$51 million, representing an effective tax rate of 32.3% on pretax income before equity in net income of affiliates of \$159 million, for the reasons described below.

In the third quarters of 2014 and 2013, 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 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 third quarter of 2014, we recognized tax benefits of \$5 million related to restructuring charges and various other items and tax benefits of \$2 million primarily related to the release of valuation allowances with respect to the deferred tax assets of certain foreign subsidiaries. In the third quarter of 2013, we recognized net tax benefits of \$2 million related to restructuring charges and various other items and net tax benefits of \$6 million related to net changes in valuation allowances with respect to the deferred tax assets of certain foreign subsidiaries. Excluding these items, the effective tax rate in the third quarters of 2014 and 2013 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.

Our current and future provision for income taxes is impacted by the initial recognition of and changes in valuation allowances in certain countries. We intend to maintain these allowances until it is more likely than not that the deferred tax assets will be realized. Our 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. We evaluate the realizability of our deferred tax assets on a quarterly basis. In completing this evaluation, we consider all available evidence in order to determine whether, based on the weight of the evidence, a valuation allowance for our 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 our 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, our 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. In determining the provision for income taxes for financial statement purposes, we make certain estimates and judgments, which affect our evaluation of the carrying value of our deferred tax assets, as well as our calculation of certain tax liabilities.

As of December 31, 2013, we had a valuation allowance related to tax loss and credit carryforwards and other deferred tax assets of approximately \$100 million in certain international jurisdictions. If we continue to experience sustained levels of profitability in these international jurisdictions, our assessment of the need for a full valuation allowance with respect to the deferred tax assets in those jurisdictions could change. It is possible that the valuation allowance could be reversed as early as the fourth quarter of 2014. A reduction in our valuation allowance could have a significant impact on tax expense and net income in the period in which the reduction occurs.

Equity in net income of affiliates was \$8 million for the third quarter of 2014, as compared to \$9 million for the third quarter of 2013.

Net income attributable to Lear in the third quarter of 2014 was \$140 million, or \$1.72 per diluted share, as compared to \$113 million, or \$1.38 per diluted share, in the third quarter of 2013. Net income and diluted net income per share increased for the reasons described above.

### Reportable Operating Segments

We have two reportable operating segments: seating, which includes seats and related components, such as seat structures and mechanisms, seat covers, 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, 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

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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.

## Seating

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

	Three months ended			
	September 27, 2014	September 28, 2013		
Net sales	\$3,188.4	\$2,891.7		
Segment earnings <sup>(1)</sup>	154.9	142.8		
Margin	4.9	% 4.9		%

(1) See definition above.

Seating net sales were \$3.2 billion for the third quarter of 2014, as compared to \$2.9 billion for the third quarter of 2013, an increase of \$297 million or 10%. New business and improved production volumes on key Lear platforms positively impacted net sales by \$303 million. Segment earnings, including restructuring costs, and the related margin on net sales were \$155 million and 4.9% in the third quarter of 2014, as compared to \$143 million and 4.9% in the third quarter of 2013. Segment earnings were positively impacted by \$56 million related to favorable operating performance and the benefit of operational restructuring actions, improved production volumes on key Lear platforms and new business. These items were partially offset by the impact of selling price reductions, as well as higher restructuring costs.

## Electrical

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

	Three months ended			
	September 27, 2014	September 28, 2013		
Net sales	\$1,044.3	\$1,026.0		
Segment earnings <sup>(1)</sup>	136.7	111.6		
Margin	13.1	% 10.9		%

(1) See definition above.

Electrical net sales were \$1.0 billion for the third quarters of 2014 and 2013, an increase of \$18 million or 2%. New business positively impacted net sales by \$57 million. This increase was partially offset by the impact of selling price reductions. Segment earnings, including restructuring costs, and the related margin on net sales were \$137 million and 13.1% in the third quarter of 2014, as compared to \$112 million and 10.9% in the third quarter of 2013. Segment earnings were favorably impacted by \$45 million as a result of improved operating performance. This increase was partially offset by the impact of selling price reductions.

## 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	
	September	September
	27, 2014	28, 2013
Net sales	\$—	\$—
Segment earnings <sup>(1)</sup>	(67.1	) (61.4
Margin	N/A	N/A

(1) See definition above.

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Segment earnings related to our other category were (\$67) million in the third quarter of 2014, as compared to (\$61) million in the third quarter of 2013, reflecting higher incentive compensation expenses related to performance as compared to our targets and \$3 million of costs related to the acquisition of Eagle Ottawa.

Nine Months Ended September 27, 2014 vs. Nine Months Ended September 28, 2013

Net sales in the first nine months of 2014 were \$13.2 billion, as compared to \$12.0 billion in the first nine months of 2013, an increase of \$1.2 billion or 10%. New business and improved production volumes on key Lear platforms positively impacted net sales by \$787 million and \$411 million, respectively.

Cost of sales in the first nine months of 2014 were \$12.1 billion, as compared to \$11.0 billion in the first nine months of 2013. The increase is primarily due to the impact of new business and improved production volumes on key Lear platforms.

Gross profit and gross margin were \$1.1 billion and 8.4% of net sales in the first nine months of 2014, as compared to \$980 million and 8.2% in the first nine months of 2013. Favorable operating performance and the benefit of operational restructuring actions positively impacted gross profit by \$224 million. Gross profit also benefited by \$148 million from the impact of new business and improved production volumes on key Lear platforms. Selling price reductions and the changeover of key Lear platforms in our seating business negatively impacted gross profit by \$232 million. These factors had a corresponding impact on gross margin.

Selling, general and administrative expenses, including engineering and development expenses, were \$403 million in the nine months ended September 27, 2014, as compared to \$386 million in the nine months ended September 28, 2013. As a percentage of net sales, selling, general and administrative expenses were 3.1% in the first nine months of 2014, as compared to 3.2% in the first nine months of 2013.

Amortization of intangible assets was \$25 million in the first nine months of 2014, as compared to \$26 million in the first nine months of 2013.

Interest expense was \$47 million in the first nine months of 2014, as compared to \$52 million in the first nine months of 2013.

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 \$57 million in the first nine months of 2014, as compared to \$38 million in the first nine months of 2013. In the first nine months of 2014, we recognized a gain of \$5 million related to a transaction with an affiliate and losses of \$18 million related to the redemption of the remaining aggregate principal amount of our 2018 Notes and 10% of the original aggregate principal amount of our 2020 Notes. In the first nine months of 2013, we recognized a loss of \$4 million related to the redemption of 10% of the original aggregate principal amount of our 2018 Notes and our 2020 Notes. Other expense, net was negatively impacted by a year over year increase in foreign exchange losses of \$7 million.

In the first nine months of 2014, the provision for income taxes was \$163 million, representing an effective tax rate of 28.7% on pretax income before equity in net income of affiliates of \$568 million. In the first nine months of 2013, the provision for income taxes was \$130 million, representing an effective tax rate of 27.2% on pretax income before equity in net income of affiliates of \$479 million, for the reasons described below.

In the first nine months of 2014 and 2013, 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 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 nine months of 2014, we recognized tax benefits of \$27 million related to debt redemption costs, restructuring charges and various other items and tax benefits of \$13 million primarily related to reductions in tax reserves due to tax audit settlements and the release of valuation allowances with respect to the deferred tax assets of certain foreign subsidiaries. In the first nine months of 2013, we recognized net tax benefits of \$22 million related to restructuring charges, the retroactive reinstatement of the U.S. research and development tax credit and various other items and net tax benefits of \$22 million primarily related to net changes in valuation allowances with respect to the deferred tax assets of certain foreign subsidiaries. Excluding these items, the effective tax rate in the first nine months of 2014 and 2013 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.

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For a description of our valuation allowances, see “Three Months Ended September 27, 2014 vs. Three Months Ended September 28, 2013,” above.

Equity in net income of affiliates was \$29 million for the first nine months of 2014, as compared to \$27 million for first nine months of 2013.

Net income attributable to Lear in the first nine months of 2014 was \$411 million, or \$5.01 per diluted share, as compared to \$359 million, or \$4.09 per diluted share, in the first nine months of 2013. 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 nine months of 2014.

## Reportable Operating Segments

For a description of our reportable operating segments, see “Three Months Ended September 27, 2014 vs. Three Months Ended September 28, 2013 — Reportable Operating Segments,” above.

## Seating

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

	Nine Months Ended		
	September 27, 2014	September 28, 2013	
Net sales	\$9,857.9	\$8,872.6	
Segment earnings <sup>(1)</sup>	471.3	450.7	
Margin	4.8	% 5.1	%

(1) See definition above.

Seating net sales were \$9.9 billion for the first nine months of 2014, as compared to \$8.9 billion for the first nine months of 2013, an increase of \$985 million or 11%. New business and improved production volumes on key Lear platforms positively impacted net sales by \$913 million. Segment earnings, including restructuring costs, and the related margin on net sales were \$471 million and 4.8% in the first nine months of 2014, as compared to \$451 million and 5.1% in the first nine months of 2013. Segment earnings were favorably impacted by \$209 million primarily as a result of favorable operating performance and the benefit of operational restructuring actions, improved production volumes on key Lear platforms and new business. These items were offset by \$156 million related to the changeover of key Lear platforms and selling price reductions and \$39 million related to higher restructuring costs.

## Electrical

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

	Nine Months Ended		
	September 27, 2014	September 28, 2013	
Net sales	\$3,319.7	\$3,105.3	
Segment earnings <sup>(1)</sup>	413.3	295.5	
Margin	12.4	% 9.5	%

(1) See definition above.

Electrical net sales were \$3.3 billion for the first nine months of 2014, as compared to \$3.1 billion for the first nine months of 2013, an increase of \$214 million or 7%. New business positively impacted net sales by \$277 million.

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Segment earnings, including restructuring costs, and the related margin on net sales were \$413 million and 12.4% in the first nine months of 2014, as compared to \$296 million and 9.5% in the first nine months of 2013. Segment earnings were favorably impacted by \$131 million as a result of improved operating performance. Selling price reductions of \$76 million were partially offset by new business of \$46 million.

### Other

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

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	Nine Months Ended	
	September 27, 2014	September 28, 2013
Net sales	\$—	\$—
Segment earnings <sup>(1)</sup>	(212.0	) (177.8
Margin	N/A	N/A

(1) See definition above.

Segment earnings related to our other category were (\$212) million in the first nine months of 2014, as compared to (\$178) million in the first nine months of 2013, reflecting higher incentive compensation expenses related to performance as compared to our targets, as well as infrastructure costs to support the growth of our business in emerging markets.

**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 September 27, 2014 and December 31, 2013, cash and cash equivalents of \$580 million and \$792 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, 2013.

**Cash Flows**

Net cash provided by operating activities was \$412 million in the first nine months of 2014, as compared to \$430 million in the first nine months of 2013. Consolidated net income and depreciation and amortization were a source of cash of \$667 million and \$584 million in the first nine months of 2014 and 2013, respectively, resulting in an incremental increase in operating cash flow of \$83 million between periods. The net change in working capital items was a use of cash of \$322 million and \$158 million in the first nine months of 2014 and 2013, respectively, resulting in an incremental decrease in operating cash flow of \$164 million between periods. This decrease primarily reflects the timing of our fiscal quarter-end for the third quarter of 2014, as compared to the third quarter of 2013, which impacted the collection of accounts receivable, and increased working capital to support our sales growth.

In the first nine months of 2014, increases in accounts receivable, inventories and accounts payable resulted in a use of cash of \$653 million, a use of cash of \$112 million and a source of cash of \$259 million, respectively, primarily reflecting the timing of our fiscal quarter-end for the third quarter of 2014, as well as increased working capital to support our sales growth. In the first nine months of 2014, changes in accrued liabilities and other resulted in a source of cash of \$184 million, primarily reflecting the timing of payment of accrued liabilities.

Net cash used in investing activities was \$290 million in the first nine months of 2014, as compared to \$281 million in the first nine months of 2013. In the first nine months of 2013, we sold our ownership interest in an equity affiliate for

\$50 million. In addition, capital spending decreased by \$48 million between periods. Capital spending in 2014 is estimated at \$450 million.

Net cash used in financing activities was \$372 million in the first nine months of 2014, as compared to \$674 million in the first nine months of 2013. In the first nine months of 2014, we issued \$325 million in aggregate principal amount of the 2024 Notes and paid \$327 million to redeem all of our outstanding 2018 Notes and a portion of our outstanding 2020 Notes. In addition, we paid \$259 million in aggregate for repurchases of our common stock, including \$204 million of open market repurchases and \$55 million to settle an ASR program. In the first nine months of 2013, we issued \$500 million in aggregate principal amount of the 2023 Notes and paid \$72 million to redeem a portion of our outstanding 2018 Notes and 2020 Notes. In addition, we paid \$1.0 billion in aggregate for repurchases of our common stock, including \$200 million of open market repurchases and \$800 million of repurchases through an ASR program.

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## 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 September 27, 2014 and December 31, 2013, 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 September 27, 2014, our long-term debt consists of \$245 million in aggregate principal amount of 2020 Notes at a stated coupon rate of 8.125%, \$500 million in aggregate principal amount of 2023 Notes at a stated coupon rate of 4.75% and \$325 million in aggregate principal amount of 2024 Notes at a stated coupon rate of 5.375% (collectively, the "Notes").

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, 2013.

## Revolving Credit Facility

Our \$1.0 billion revolving credit facility permits borrowings for general corporate and working capital purposes and the issuance of letters of credit. As of September 27, 2014, there were no borrowings outstanding under the revolving credit facility, and we were in compliance with all covenants under the agreement governing 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, 2013.

## Contractual Obligations

Our scheduled maturities of long-term debt and our scheduled interest payments on the Notes, described above in "— Senior Notes," as of September 27, 2014, are shown below (in millions):

	2014 <sup>(2)</sup>	2015	2016	2017	2018	Thereafter	Total
Long-term debt maturities <sup>(1)</sup>	\$—	\$—	\$—	\$—	\$—	\$1,070.0	\$1,070.0
Scheduled interest payments	—	61.1	61.1	61.1	61.1	232.8	477.2
Total	\$—	\$61.1	\$61.1	\$61.1	\$61.1	\$1,302.8	\$1,547.2

(1) Represents aggregate principal amounts at maturity.

(2) Represents interest payments for the fourth quarter of 2014.

## Common Stock Share Repurchase Program



On April 25, 2013, we entered into an ASR agreement to repurchase our common stock. In the second quarter of 2013, we paid \$800 million to a financial institution, using cash on-hand, and received an initial delivery of 11,862,836 shares. This initial share delivery represented 80% of the ASR transaction's value at the then-current price of \$53.95 per share. The ultimate number of shares repurchased and the final price paid per share under the ASR transaction was determined based on the daily volume weighted average price of our common stock during the term of the ASR agreement, less an agreed upon discount. On March 31, 2014, the ASR agreement ended, and the initial delivery of shares under the ASR transaction exceeded the ultimate number of shares repurchased by 658,903 shares. Under the terms of the ASR agreement, we had the contractual right to deliver either shares or cash equal to the value of those shares to the financial institution. We elected to settle the ASR transaction in cash and as a result, paid approximately \$55 million in the second quarter of 2014. Inclusive of the settlement, 11,862,836 shares were repurchased under the ASR transaction for approximately \$855 million, or an average price of \$72.11 per share.

In the first nine months of 2014, we paid \$259 million in aggregate for repurchases of our common stock, including \$204 million of open market repurchases (2,181,095 shares at an average purchase price of \$93.47 per share, excluding commissions) and \$55 million to settle the ASR transaction. We have a remaining repurchase authorization of \$491 million

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under our ongoing common stock share repurchase program, which will expire in April 2016. We may implement these share repurchases through a variety of methods, including 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.”

As of the date of this Report, we have paid \$1.8 billion in aggregate for repurchases of our outstanding common stock, excluding commissions and related fees, since the first quarter of 2011.

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

**Dividends**

A summary of 2014 dividend declarations is shown below:

Dividend Amount	Declaration Date	Record Date	Payment Date
\$0.20	February 7, 2014	February 28, 2014	March 20, 2014
\$0.20	May 15, 2014	June 6, 2014	June 25, 2014
\$0.20	August 14, 2014	September 5, 2014	September 24, 2014

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 amended and restated credit facility and the indenture governing our 2020 Notes place certain limitations on the payment of cash dividends.

**Adequacy of Liquidity Sources**

As of September 27, 2014, we had approximately \$873 million of cash and cash equivalents on hand and \$1.0 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, 2013, as supplemented and updated by Part II — Item 1A, “Risk Factors,” in this Report.

**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 forwards, swaps and other derivative 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 September 27, 2014 and December 31, 2013. As of September 27, 2014, the potential adverse earnings impact related to net transactional exposures from a hypothetical 10% strengthening of the U.S.

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dollar relative to all other currencies to which it is exposed for a twelve-month period is approximately \$31 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 \$16 million. As of December 31, 2013, 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 \$27 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 \$4 million.

As of September 27, 2014, foreign exchange contracts representing \$874 million of notional amount were outstanding with maturities of less than eighteen months. As of September 27, 2014, the fair value of these contracts was approximately \$4 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 \$31 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 \$26 million change in the aggregate fair value of these contracts. As of December 31, 2013, foreign exchange contracts representing \$1.1 billion of notional amount were outstanding with maturities of less than eighteen months. As of December 31, 2013, the fair value of these contracts was approximately \$6 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 \$27 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 \$37 million change in the aggregate fair value of these contracts.

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 2013, net sales outside of the United States accounted for 81% 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 September 27, 2014 and December 31, 2013, 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. 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, 2013.

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 86% 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 September 27, 2014 and December 31, 2013, 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.

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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 September 27, 2014, we had recorded reserves for pending legal disputes, including commercial disputes and other matters, of \$10 million. In addition, as of September 27, 2014, we had recorded reserves for product liability claims and environmental matters of \$26 million and \$5 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, 2013, as supplemented and updated by Part II — Item 1A, “Risk Factors,” in our Quarterly Report on Form 10-Q for the quarter ended June 28, 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 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, 2013. There have been no significant changes in our significant accounting policies or critical accounting estimates during the first nine months of 2014.

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,” “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;
- 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;

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LEAR CORPORATION

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;

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;

the impact of new regulations related to conflict minerals;

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, 2013, as supplemented and updated by Part II — Item 1A, "Risk Factors," in our Quarterly Report on Form 10-Q for the quarter ended June 28, 2014, and our other Securities and Exchange Commission 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 September 27, 2014, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.





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## PART II — OTHER INFORMATION

## ITEM 1 — LEGAL PROCEEDINGS

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. 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, 2013, as supplemented and updated by Part II — Item 1A, “Risk Factors,” in our Quarterly Report on Form 10-Q for the quarter ended June 28, 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, 2013, except as supplemented and updated by Part II — Item 1A, “Risk Factors,” in our Quarterly Report on Form 10-Q for the quarter ended June 28, 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, our accelerated stock repurchase (“ASR”) program ended in the second quarter of 2014. Inclusive of the ASR transaction, we have a remaining repurchase authorization of \$490.6 million under our ongoing common stock share repurchase program. A summary of the shares of our common stock repurchased during the quarter ended September 27, 2014, 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) (1)
June 29, 2014 to August 2, 2014	121,611	\$95.59	121,611	\$582.4
August 3, 2014 to August 30, 2014	84,000	94.77	84,000	574.4
August 31, 2014 to September 27, 2014	822,652	101.86	822,652	490.6
Total	1,028,263	\$100.54	1,028,263	\$490.6

(1) Reflects the two-year common stock share repurchase authorization of \$750 million, which commenced immediately following the completion of the ASR program referred to above.

(2) Remaining authorization as of the date of this Report and inclusive of the settlement of the ASR transaction.

## ITEM 6 — EXHIBITS

The exhibits listed on the “Index to Exhibits” on page 50 are filed with this Form 10-Q or incorporated by reference as set forth below.



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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: October 24, 2014

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

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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.