LEAR CORP
Form 10-Q
April 25, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 29, 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	**13-3386776**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
21557 Telegraph Road, Southfield, MI	**48033**
(Address of principal executive offices)	**(Zip code)**

(248) 447-1500

(Registrant s telephone number, including area 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 x No ¨

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

Indicate by check mark 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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 x No ¨

As of April 21, 2014, the number of shares outstanding of the registrant s common stock was 81,309,055 shares.

Table of Contents

LEAR CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED MARCH 29, 2014

INDEX

Table of Contents

LEAR CORPORATION

PART I FINANCIAL INFORMATION

ITEM 1 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

	March 29, 2014 (1)	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 919.4	$ 1,137.7
Accounts receivable	3,027.8	2,278.3
Inventories	872.0	818.7
Other	741.8	687.8
Total current assets	5,561.0	4,922.5
LONG-TERM ASSETS:		
Property, plant and equipment, net	1,635.3	1,587.2
Goodwill	755.6	757.2
Other	1,046.3	1,064.0
Total long-term assets	3,437.2	3,408.4
Total assets	$ 8,998.2	$ 8,330.9
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable and drafts	$ 2,882.0	$ 2,438.7
Accrued liabilities	1,287.4	1,140.4
Total current liabilities	4,169.4	3,579.1
LONG-TERM LIABILITIES:		
Long-term debt	1,068.6	1,057.1
Other	517.7	545.2
Total long-term liabilities	1,586.3	1,602.3
EQUITY:		
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; 88,085,381 and 88,062,341 shares issued as of March 29, 2014 and December 31, 2013, respectively	0.9	0.9

Additional paid-in capital, including warrants to purchase common stock	1,634.4	1,652.9
Common stock held in treasury, 6,792,028 and 7,311,037 shares as of March 29, 2014 and December 31, 2013, respectively, at cost	(343.0)	(362.1)
Retained earnings	2,025.1	1,920.3
Accumulated other comprehensive loss	(175.1)	(166.1)
Lear Corporation stockholders equity	3,142.3	3,045.9
Noncontrolling interests	100.2	103.6
Equity	3,242.5	3,149.5
Total liabilities and equity	$ 8,998.2	$ 8,330.9

(1) Unaudited.

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

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited; in millions, except per share data)

	Three Months Ended March 29, 2014	Three Months Ended March 30, 2013
Net sales	$ 4,359.8	$ 3,947.1
Cost of sales	3,999.3	3,634.7
Selling, general and administrative expenses	136.7	129.6
Amortization of intangible assets	8.5	8.6
Interest expense	16.8	16.7
Other expense, net	29.2	10.7
Consolidated income before provision for income taxes and equity in net income of affiliates	169.3	146.8
Provision for income taxes	52.7	37.9
Equity in net income of affiliates	(12.0)	(8.0)
Consolidated net income	128.6	116.9
Less: Net income attributable to noncontrolling interests	6.6	8.4
Net income attributable to Lear	**$ 122.0**	**$ 108.5**
Basic net income per share attributable to Lear	**$ 1.50**	**$ 1.14**
Diluted net income per share attributable to Lear	**$ 1.47**	**$ 1.13**
Average common shares outstanding	**81,075,811**	**94,816,752**
Average diluted shares outstanding	**82,761,597**	**95,871,104**
Consolidated comprehensive income (Note 12)	$ 117.8	$ 94.7
Less: Comprehensive income attributable to noncontrolling interests	4.8	8.8
Comprehensive income attributable to Lear	$ 113.0	$ 85.9

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

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Three Months Ended	
	March 29, 2014	March 30, 2013
Cash Flows from Operating Activities:		
Consolidated net income	$ 128.6	$ 116.9
Adjustments to reconcile consolidated net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	74.5	66.4
Net change in recoverable customer engineering, development and tooling	8.3	20.0
Net change in working capital items (see below)	(286.8)	(159.6)
Other, net	21.2	20.1
Net cash provided by (used in) operating activities	(54.2)	63.8
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(96.4)	(98.7)
Insurance proceeds		7.1
Other, net	(14.0)	51.3
Net cash used in investing activities	(110.4)	(40.3)
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		(200.1)
Dividends paid to Lear Corporation stockholders	(17.5)	(16.2)
Dividends paid to noncontrolling interests	(5.8)	(3.9)
Other, net	(21.1)	(5.1)
Net cash provided by (used in) financing activities	(50.3)	189.2
Effect of foreign currency translation	(3.4)	(13.6)
Net Change in Cash and Cash Equivalents	(218.3)	199.1
Cash and Cash Equivalents as of Beginning of Period	1,137.7	1,402.2
Cash and Cash Equivalents as of End of Period	$ 919.4	$ 1,601.3

Changes in Working Capital Items:		
Accounts receivable	$ (754.5)	$ (432.4)
Inventories	(52.6)	(76.3)
Accounts payable	449.2	288.2
Accrued liabilities and other	71.1	60.9
Net change in working capital items	$ (286.8)	$ (159.6)
Supplementary Disclosure:		
Cash paid for interest	$ 35.6	$ 26.5
Cash paid for income taxes, net of refunds received	$ 40.2	$ 28.4

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

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

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

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

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

Certain amounts in the prior period s financial statements have been reclassified to conform to the presentation used in the quarter ended March 29, 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) Restructuring

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

In the first quarter of 2014, the Company recorded charges of $24.3 million in connection with its restructuring actions. These charges consist of $18.2 million recorded as cost of sales and $6.1 million recorded as selling, general and administrative expenses. The restructuring charges consist of employee termination benefits of $22.9 million and other related costs of $1.4 million. Employee termination benefits were recorded based on existing union and employee contracts, statutory requirements, completed negotiations and Company policy. The Company expects to incur approximately $80.6 million of additional restructuring costs related to activities initiated as of March 29, 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.

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

	Accrual as of January 1, 2014	2014 Charges	Utilization Cash	Utilization Non-cash	Accrual as of March 29, 2014
Employee termination benefits	$ 38.7	$ 22.9	$ (20.1)	$	$ 41.5
Contract termination costs	5.6				5.6
Other related costs		1.4	(1.4)		
Total	$ 44.3	$ 24.3	$ (21.5)	$	$ 47.1

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(3) 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):

	March 29, 2014	December 31, 2013
Raw materials	$ 679.6	$ 633.5
Work-in-process	47.5	45.8
Finished goods	144.9	139.4
Inventories	$ 872.0	$ 818.7

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

The Company incurs pre-production engineering and development (E&D) and tooling costs related to the products produced for its customers under long-term supply agreements. The Company expenses all pre-production E&D costs for which reimbursement is not contractually guaranteed by the customer. In addition, the Company expenses all pre-production tooling costs related to customer-owned tools for which reimbursement is not contractually guaranteed by the customer or for which the Company does not have a non-cancelable right to use the tooling. During the first quarters of 2014 and 2013, the Company capitalized $42.3 million and $50.3 million, respectively, of pre-production E&D costs for which reimbursement is contractually guaranteed by the customer. During the first quarters of 2014 and 2013, the Company also capitalized $66.3 million and $47.0 million, respectively, of pre-production tooling costs related to customer-owned tools for which reimbursement is contractually guaranteed by the customer or for which the Company has a non-cancelable right to use the tooling. These amounts are included in other current and long-term assets in the accompanying condensed consolidated balance sheets. During the first quarters of 2014 and 2013, the Company collected $103.2 million and $105.4 million, respectively, of cash related to E&D and tooling costs.

The classification of recoverable customer E&D and tooling costs related to long-term supply agreements is shown below (in millions):

	March 29, 2014	December 31, 2013
Current	$ 130.9	$ 134.2

Long-term	47.6	52.9
Recoverable customer E&D and tooling	$ 178.5	$ 187.1

(5) Long-Term Assets

Property, Plant and Equipment

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

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

	March 29, 2014	December 31, 2013
Land	$ 112.8	$ 113.4
Buildings and improvements	541.5	532.0
Machinery and equipment	1,736.6	1,645.0
Construction in progress	162.7	155.2
Total property, plant and equipment	2,553.6	2,445.6
Less accumulated depreciation	(918.3)	(858.4)
Property, plant and equipment, net	$ 1,635.3	$ 1,587.2

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Depreciation expense was $66.0 million and $57.8 million for the three months ended March 29, 2014 and March 30, 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 March 29, 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 quarter of 2013, the Company recognized fixed asset impairment charges of $4.0 million in conjunction with its restructuring actions.

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.

(6) Goodwill

A summary of the changes in the carrying amount of goodwill, all of which relates to the seating segment, for the three months ended March 29, 2014, is shown below (in millions):

Balance as of January 1, 2014	$ 757.2
Foreign currency translation and other	(1.6)
Balance as of March 29, 2014	$ 755.6

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

The Company does not believe that there were any indicators that would have resulted in goodwill impairment charges as of March 29, 2014. The Company will, however, continue to assess the impact of significant events or circumstances on its recorded goodwill.

(7) Debt

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

	March 29, 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	243.6	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	$ 1,068.6		$ 1,057.1	

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Senior Notes

As of March 29, 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 expects to launch and complete 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.

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 17, 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.

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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 March 29, 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 March 29, 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 March 29, 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 March 29, 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 annually.

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 17, 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 March 29, 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.

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(8) 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			
	March 29, 2014		March 30, 2013	
	U.S.	Foreign	U.S.	Foreign
Service cost	$ 0.9	$ 2.2	$ 0.7	$ 2.5
Interest cost	7.1	5.1	6.6	5.3
Expected return on plan assets	(9.5)	(6.7)	(8.1)	(6.4)
Amortization of actuarial (gain) loss	(0.1)	0.3	1.0	1.6
Settlement loss	0.1			
Net periodic benefit (credit) cost	$ (1.5)	$ 0.9	$ 0.2	$ 3.0

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

	Three Months Ended			
	March 29, 2014		March 30, 2013	
	U.S.	Foreign	U.S.	Foreign
Service cost	$ 0.1	$ 0.2	$	$ 0.3
Interest cost	1.0	0.5	0.9	0.8
Amortization of actuarial (gain) loss	(0.2)			0.1
Amortization of prior service credit		(0.1)		(0.1)
Special termination benefits		0.2		
Net periodic benefit cost	$ 0.9	$ 0.8	$ 0.9	$ 1.1

Contributions

Employer contributions to the Company s domestic and foreign pension plans for the three months ended March 29, 2014, were $3.8 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 three months ended March 29, 2014, were $1.9 million. The Company expects total contributions of approximately $16 million to this program in 2014.

(9) 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):

	March 29, 2014	March 30, 2013
Other expense	$ 29.8	$ 11.3
Other income	(0.6)	(0.6)
Other expense, net	$ 29.2	$ 10.7

For the three months ended March 29, 2014 and March 30, 2013, other expense includes losses of $17.5 million and $3.6 million, respectively, on the extinguishment of debt. See Note 7, Debt.

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the three months ended March 29, 2014, other expense includes net foreign currency transaction losses of $6.5 million.

(10) Income Taxes

The provision for income taxes was $52.7 million for the first quarter of 2014, representing an effective tax rate of 31.1% on pretax income before equity in net income of affiliates of $169.3 million, as compared to $37.9 million for the first quarter of 2013, representing an effective tax rate of 25.8% on pretax income before equity in net income of affiliates of $146.8 million.

In the first 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 the Company s restructuring charges and other expenses, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. In the first quarter of 2014, the Company recognized tax benefits of $9.9 million related to debt redemption costs, restructuring charges and various other items and tax benefits of $5.5 million related to reductions in tax reserves due to tax audit settlements. In the first quarter of 2013, the Company recognized tax benefits of $8.2 million primarily related to restructuring charges and various other items and tax benefits of $6.3 million primarily related to the retroactive reinstatement of the U.S. research and development tax credit. Excluding these items, the effective tax rate in the first 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.

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

For further information, see Note 7, Income Taxes, to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

(11) 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.

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

	Three Months Ended	
	March 29, 2014	March 30, 2013
Net income attributable to Lear	$ 122.0	$ 108.5
Average common shares outstanding	81,075,811	94,816,752
Dilutive effect of common stock equivalents	1,685,786	1,054,352
Average diluted shares outstanding	82,761,597	95,871,104
Basic net income per share attributable to Lear	$ 1.50	$ 1.14
Diluted net income per share attributable to Lear	$ 1.47	$ 1.13

(12) 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 months ended March 29, 2014 and March 30, 2013, are shown below (in millions):

	Three Months Ended March 29, 2014			Three Months Ended March 30, 2013		
	Equity	Lear Corporation Stockholders	Non-controlling Interests	Equity	Lear Corporation Stockholders	Non-controlling Interests

		Equity			Equity	
Beginning equity balance	$ 3,149.5	$ 3,045.9	$ 103.6	$ 3,612.2	$ 3,487.1	$ 125.1
Stock-based compensation transactions	0.3	0.3		7.4	7.4	
Repurchase of common stock				(200.1)	(200.1)	
Dividends declared to Lear Corporation stockholders	(17.2)	(17.2)		(16.5)	(16.5)	
Dividends paid to noncontrolling interests	(5.8)		(5.8)	(3.9)		(3.9)
Acquisition of noncontrolling interests	(2.1)	0.3	(2.4)	(8.0)	(3.2)	(4.8)
Comprehensive income:						
Net income	128.6	122.0	6.6	116.9	108.5	8.4
Other comprehensive income (loss), net of tax:						
Defined benefit plan adjustments				1.9	1.9	
Derivative instruments and hedging activities	1.9	1.9		7.3	7.3	
Foreign currency translation adjustments	(12.7)	(10.9)	(1.8)	(31.4)	(31.8)	0.4
Other comprehensive income (loss)	(10.8)	(9.0)	(1.8)	(22.2)	(22.6)	0.4
Comprehensive income	117.8	113.0	4.8	94.7	85.9	8.8
Ending equity balance	$ 3,242.5	$ 3,142.3	$ 100.2	$ 3,485.8	$ 3,360.6	$ 125.2

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

A summary of changes in accumulated other comprehensive income (loss), net of tax is shown below (in millions):

	Three Months Ended	
	March 29, 2014	March 30, 2013
Defined benefit plan adjustments:		
Balance at beginning of period	$ (104.5)	$ (249.9)
Reclassification adjustments		1.9
Balance at end of period	$ (104.5)	$ (248.0)
Derivative instruments and hedging activities:		
Balance at beginning of period	$ (5.3)	$ 2.7
Reclassification adjustments	(0.7)	(5.9)
Other comprehensive income recognized during the period	2.6	13.2
Balance at end of period	$ (3.4)	$ 10.0
Foreign currency translation adjustments:		
Balance at beginning of period	$ (56.3)	$ (53.6)
Other comprehensive loss recognized during the period	(10.9)	(31.8)
Balance at end of period	$ (67.2)	$ (85.4)

Other comprehensive income (loss) related to the Company s defined benefit plans includes pretax reclassification adjustments of $2.6 million for the three months ended March 30, 2013. See Note 8, Pension and Other Postretirement Benefit Plans. Other comprehensive income (loss) related to the Company s derivative instruments and hedging activities includes pretax reclassification adjustments of ($1.0) million and ($8.2) million for the three months ended March 29, 2014 and March 30, 2013, respectively. See Note 15, Financial Instruments.

Foreign currency translation adjustments relate primarily to the Chinese renminbi and the Brazilian real for the three months ended March 29, 2014, and to the Euro for the three months ended March 30, 2013.

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 its 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.

Inclusive of the settlement of the ASR transaction, the Company has a remaining repurchase authorization of $694.5 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.

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

As of the date of this Report, the Company has paid $1.6 billion in aggregate (inclusive of the settlement of the ASR transaction) for repurchases of its outstanding common stock, excluding commissions and related fees, since the first quarter of 2011.

In addition to shares repurchased under the Company s common stock share repurchase program described above, the Company classified shares withheld from the settlement of the Company s restricted stock unit and performance share awards to cover minimum tax withholding requirements as common stock held in treasury in the accompanying condensed consolidated balance sheets as of March 29, 2014 and December 31, 2013.

Quarterly Dividend

In the first three 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 three months of 2014, declared dividends totaled $17.2 million, and dividends paid totaled $17.5 million. In the first three months of 2013, declared dividends totaled $16.5 million, and dividends paid totaled $16.2 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 quarters of 2014 and 2013, the Company acquired noncontrolling interests in certain of its consolidated subsidiaries.

(13) Legal and Other Contingencies

As of March 29, 2014 and December 31, 2013, the Company had recorded reserves for pending legal disputes, including commercial disputes and other matters, of $19.4 million and $17.5 million, respectively. Such reserves reflect amounts recognized in accordance with GAAP and typically exclude the cost of legal representation. Product liability and warranty reserves are recorded separately from legal reserves, as described below.

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. Since that time, a number of other plaintiffs have filed substantially similar class action complaints against the Company and these and other suppliers and individuals in a number of different federal district courts, and it is possible that additional similar lawsuits may be filed in the future. 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, for pretrial purposes, into one proceeding in the United States District Court for the Eastern District of Michigan. On May 14, 2012, three purported classes of plaintiffs direct purchasers of automotive wire harnesses; automotive dealers that indirectly purchased automotive wire harnesses or vehicles containing such harnesses; and indirect purchasers that purchased or leased vehicles containing automotive wire harnesses (or purchased replacement automotive wire harnesses for their vehicles) filed consolidated amended complaints in the consolidated proceeding. With respect to the Company, the consolidated amended complaints are substantially similar to the individual complaints that had been filed in the various jurisdictions. On July 13, 2012, the Company filed a motion to have these actions dismissed. On June 6, 2013, the District Court entered an order denying the Company s motion to dismiss and, on September 6, 2013, denied the Company s motion to certify the June 6, 2013 order for interlocutory appeal. On February 20, 2014, another plaintiff the City of Richmond, California filed a putative class action in the United States District Court for the Eastern District of Michigan on behalf of itself and other Public Entities comprising states, state subdivisions, agencies and instrumentalities and local government subdivisions and agencies that assert substantially the same claims as the indirect purchasers.

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 allegations in the complaints are substantially similar to those complaints that have been filed in the United States.

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

On November 17, 2011, the Company filed a motion with the United States Bankruptcy Court for the Southern District of New York seeking entry of an order enforcing the Company s 2009 Plan of Reorganization and directing dismissal of the pending class action complaints. The bankruptcy court heard oral argument on the motion and, on February 10, 2012, ruled that claims against the Company alleging violation of antitrust law are enjoined to the extent that they arose prior to the Company s emergence from Chapter 11 bankruptcy proceedings on November 9, 2009. The bankruptcy court further held that the District Court was the appropriate forum to address antitrust claims arising after the Company s emergence from Chapter 11 bankruptcy proceedings. The Company appealed the bankruptcy court s decision on this issue, and in November 2012, the appellate court ruled in favor of the Company and remanded for consideration by the bankruptcy court the possible effects of certain alleged antitrust claims arising after November 9, 2009. This issue was stayed by the bankruptcy court until a decision was entered with respect to the Company s motion to dismiss the underlying class action complaints in the United States District Court for the Eastern District of Michigan. Following the order entered by the District Court on June 6, 2013, denying the Company s motion to dismiss, the Company renewed its request that the bankruptcy court enjoin the antitrust class action plaintiffs, and any similarly situated potential plaintiffs, from seeking damages against the Company for the period prior to November 9, 2009. The bankruptcy court heard oral argument on this matter on September 10, 2013.

The ultimate outcome of this litigation, and consequently, an estimate of the possible loss, if any, related to this litigation, 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 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 three months ended March 29, 2014, is shown below (in millions):

Balance as of January 1, 2014	$ 28.3
Expense, net (including changes in estimates)	4.6
Settlements	(0.7)
Balance as of March 29, 2014	$ 32.2

17

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Environmental Matters

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

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

As of March 29, 2014 and December 31, 2013, the Company had recorded environmental reserves of $4.9 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.

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 $5.8 million and 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 quarter 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.

(14) 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.

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

	Three Months Ended March 29, 2014			
	Seating	**Electrical**	**Other**	**Consolidated**
Revenues from external customers	$ 3,225.9	$ 1,133.9	$	$ 4,359.8
Segment earnings [(1)]	152.2	138.3	(75.2)	215.3
Depreciation and amortization	47.6	25.0	1.9	74.5
Capital expenditures	73.9	21.6	0.9	96.4
Total assets	5,417.5	1,808.7	1,772.0	8,998.2

	Three Months Ended March 30, 2013			
	Seating	**Electrical**	**Other**	**Consolidated**
Revenues from external customers	$ 2,911.7	$ 1,035.4	$	$ 3,947.1
Segment earnings [(1)]	141.4	89.0	(56.2)	174.2
Depreciation and amortization	42.6	21.9	1.9	66.4
Capital expenditures	67.5	30.3	0.9	98.7
Total assets	4,744.1	1,565.0	2,515.1	8,824.2

(1) See definition above

For the three months ended March 29, 2014, segment earnings include restructuring charges of $21.4 million, $1.0 million and $1.9 million in the seating and electrical segments and in the other category, respectively. For the three months ended March 30, 2013, segment earnings include restructuring charges of $15.2 million, $0.7 million and $1.1 million in the seating and electrical segments and in the other category, respectively. See Note 2, Restructuring.

A reconciliation of segment earnings to consolidated income before provision for income taxes and equity in net income of affiliates is shown below (in millions):

	Three Months Ended	
	March 29, 2014	**March 30, 2013**
Segment earnings	$ 215.3	$ 174.2

Interest expense	16.8	16.7
Other expense, net	29.2	10.7
Consolidated income before provision for income taxes and equity in net income of affiliates	$ 169.3	$ 146.8

(15) 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 March 29, 2014, the aggregate carrying value of the Company s Notes was $1,068.6 million, as compared to an estimated aggregate fair value of $1,085.1 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).

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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 Brazilian real, the Thai baht and the Canadian dollar. As of March 29, 2014 and December 31, 2013, contracts designated as cash flow hedges with $865.1 million and $917.4 million, respectively, of notional amount were outstanding with maturities of less than 21 months. As of March 29, 2014 and December 31, 2013, the fair value of these contracts was approximately $9.6 million and $6.5 million, respectively. As of March 29, 2014 and December 31, 2013, other foreign currency derivative contracts that did not qualify for hedge accounting with $158.9 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 March 29, 2014 and December 31, 2013, the fair value of these contracts was approximately $0.8 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 March 29, 2014 and December 31, 2013, are shown below (in millions):

	March 29, 2014	December 31, 2013
Contracts qualifying for hedge accounting:		
Other current assets	$ 14.5	$ 12.4
Other long-term assets	1.7	0.7
Other current liabilities	(6.4)	(6.5)
Other long-term liabilities	(0.2)	(0.1)
	9.6	6.5
Contracts not qualifying for hedge accounting:		
Other current assets	1.5	0.4
Other current liabilities	(0.7)	(0.5)
	0.8	(0.1)
	$ 10.4	$ 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	
	March 29, 2014	**March 30, 2013**
Contracts qualifying for hedge accounting:		
Gains recognized in accumulated other comprehensive loss	$ 3.2	$ 18.2
Gains reclassified from accumulated other comprehensive loss	(1.0)	(8.2)
Comprehensive income	$ 2.2	$ 10.0

For the three months ended March 29, 2014 and March 30, 2013, net sales includes gains of $0.4 million and $0.5 million, respectively, reclassified from accumulated other comprehensive loss related to foreign currency derivative contracts. For the three months ended March 29, 2014 and March 30, 2013, cost of sales includes gains of $0.6 million and $7.7 million, respectively, reclassified from accumulated other comprehensive loss related to foreign currency derivative contracts.

Interest rate Historically, the Company used interest rate swap and other derivative contracts to manage its exposure to fluctuations in interest rates. As of March 29, 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.

LEAR CORPORATION AND SUBSIDIARIES

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 March 29, 2014 and December 31, 2013, there were no commodity swap contracts outstanding.

As of March 29, 2014 and December 31, 2013, pretax net gains of approximately $9.2 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 twelve month period ending March 28, 2015, the Company expects to reclassify into earnings net gains of approximately $8.1 million recorded in accumulated other comprehensive loss as of March 29, 2014. Such gains will be reclassified at the time that the underlying hedged transactions are realized. During the three months ended March 29, 2014 and March 30, 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.

Level 3: Unobservable inputs that reflect the entity s own assumptions about the exit price of the asset or liability. Unobservable inputs may be used if there is little or no market data for the asset or liability at the measurement date.

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

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Items measured at fair value on a recurring basis   Fair value measurements and the related valuation techniques and fair value hierarchy level for the Company s assets and liabilities measured at fair value on a recurring basis as of March 29, 2014 and December 31, 2013, are shown below (in millions):

	March 29, 2014					
	Frequency	Asset (Liability)	Valuation Technique	Level 1	Level 2	Level 3
Foreign currency derivative contracts, net	Recurring	$ 10.4	Market/Income	$	$ 10.4	$

	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 March 29, 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 quarter 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 March 29, 2014, there were no significant assets or liabilities measured at fair value on a non-recurring basis.

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

(16) 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 March 29, 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.

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(17) Supplemental Guarantor Condensed Consolidating Financial Statements

	March 29, 2014				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 220.7	$ 0.1	$ 698.6	$	$ 919.4
Accounts receivable	67.5	555.8	2,404.5		3,027.8
Inventories	4.4	313.5	554.1		872.0
Other	151.2	70.0	520.6		741.8
Total current assets	443.8	939.4	4,177.8		5,561.0
LONG-TERM ASSETS:					
Property, plant and equipment, net	93.0	321.8	1,220.5		1,635.3
Goodwill	23.5	401.0	331.1		755.6
Investments in subsidiaries	1,926.0	1,966.6		(3,892.6)	
Intercompany accounts, net	1,493.8			(1,493.8)	
Other	585.6	70.2	390.5		1,046.3
Total long-term assets	4,121.9	2,759.6	1,942.1	(5,386.4)	3,437.2
Total assets	$ 4,565.7	$ 3,699.0	$ 6,119.9	$ (5,386.4)	$ 8,998.2
LIABILITIES AND EQUITY					
CURRENT LIABILITIES:					
Accounts payable and drafts	$ 122.7	$ 672.5	$ 2,086.8	$	$ 2,882.0
Accrued liabilities	123.4	182.3	981.7		1,287.4
Total current liabilities	246.1	854.8	3,068.5		4,169.4
LONG-TERM LIABILITIES:					
Long-term debt	1,068.6				1,068.6
Intercompany accounts, net		545.2	948.6	(1,493.8)	
Other	108.7	142.0	267.0		517.7

Total long-term liabilities	1,177.3	687.2	1,215.6	(1,493.8)	1,586.3
EQUITY:					
Lear Corporation stockholders equity	3,142.3	2,157.0	1,735.6	(3,892.6)	3,142.3
Noncontrolling interests			100.2		100.2
Equity	3,142.3	2,157.0	1,835.8	(3,892.6)	3,242.5
Total liabilities and equity	$ 4,565.7	$ 3,699.0	$ 6,119.9	$ (5,386.4)	$ 8,998.2

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(17) Supplemental Guarantor Condensed Consolidating Financial Statements (continued)

	December 31, 2013				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(In millions)				
ASSETS					
CURRENT ASSETS:					
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
LONG-TERM ASSETS:					
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
LIABILITIES AND EQUITY					
CURRENT LIABILITIES:					
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
LONG-TERM LIABILITIES:					
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
EQUITY:					
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

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(17) Supplemental Guarantor Condensed Consolidating Financial Statements (continued)

	For the Three Months Ended March 29, 2014				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net sales	$ 103.1	$ 1,634.6	$ 3,791.1	$ (1,169.0)	$ 4,359.8
Cost of sales	153.3	1,484.0	3,531.0	(1,169.0)	3,999.3
Selling, general and administrative expenses	62.6	5.3	68.8		136.7
Intercompany operating (income) expense, net	(129.2)	69.7	59.5		
Amortization of intangible assets	0.4	1.2	6.9		8.5
Interest expense	13.5	4.8	(1.5)		16.8
Other expense, net	17.3	(0.3)	12.2		29.2
Consolidated income before income taxes and equity in net income of affiliates and subsidiaries	(14.8)	69.9	114.2		169.3
Provision for income taxes	(6.6)	30.2	29.1		52.7
Equity in net income of affiliates	0.1	(0.5)	(11.6)		(12.0)
Equity in net income of subsidiaries	(130.3)	(52.0)		182.3	
Consolidated net income	122.0	92.2	96.7	(182.3)	128.6
Less: Net income attributable to noncontrolling interests			6.6		6.6
Net income attributable to Lear	$ 122.0	$ 92.2	$ 90.1	$ (182.3)	$ 122.0
Consolidated comprehensive income	$ 113.0	$ 93.3	$ 84.4	$ (172.9)	$ 117.8
Less: Comprehensive income attributable to noncontrolling interests			4.8		4.8
Comprehensive income attributable to Lear	$ 113.0	$ 93.3	$ 79.6	$ (172.9)	$ 113.0

	For the Three Months Ended March 30, 2013				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net sales	$ 121.6	$ 1,527.7	$ 3,437.3	$ (1,139.5)	$ 3,947.1
Cost of sales	153.1	1,386.9	3,234.2	(1,139.5)	3,634.7
Selling, general and administrative expenses	40.4	17.7	71.5		129.6
Intercompany operating (income) expense, net	(54.3)	31.3	23.0		
Amortization of intangible assets	0.4	1.2	7.0		8.6
Interest expense	15.0	3.3	(1.6)		16.7
Other expense, net	4.4	0.5	5.8		10.7
Consolidated income before income taxes and equity in net income of affiliates and subsidiaries	(37.4)	86.8	97.4		146.8
Provision for income taxes	(16.6)	31.9	22.6		37.9
Equity in net income of affiliates		0.3	(8.3)		(8.0)
Equity in net income of subsidiaries	(129.3)	(42.5)		171.8	
Consolidated net income	108.5	97.1	83.1	(171.8)	116.9
Less: Net income attributable to noncontrolling interests			8.4		8.4
Net income attributable to Lear	$ 108.5	$ 97.1	$ 74.7	$ (171.8)	$ 108.5
Consolidated comprehensive income	$ 85.9	$ 113.9	$ 49.6	$ (154.7)	$ 94.7
Less: Comprehensive income attributable to noncontrolling interests			8.8		8.8
Comprehensive income attributable to Lear	$ 85.9	$ 113.9	$ 40.8	$ (154.7)	$ 85.9

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(17) Supplemental Guarantor Condensed Consolidating Financial Statements (continued)

	For the Three Months Ended March 29, 2014				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net cash provided by (used in) operating activities	$ 43.1	$ (44.3)	$ (53.0)	$	$ (54.2)
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(1.5)	(21.4)	(73.5)		(96.4)
Other, net	0.2	4.4	(18.6)		(14.0)
Net cash used in investing activities	(1.3)	(17.0)	(92.1)		(110.4)
Cash Flows from Financing Activities:					
Proceeds from the issuance of senior notes	325.0				325.0
Repurchase of senior notes	(327.1)				(327.1)
Payment of debt issuance and other financing costs	(3.8)				(3.8)
Dividends paid to Lear Corporation stockholders	(17.5)				(17.5)
Dividends paid to noncontrolling interests			(5.8)		(5.8)
Other	(18.9)		(2.2)		(21.1)
Change in intercompany accounts	(122.3)	61.3	61.0		
Net cash provided by (used in) financing activities	(164.6)	61.3	53.0		(50.3)
Effect of foreign currency translation			(3.4)		(3.4)
Net Change in Cash and Cash Equivalents	(122.8)		(95.5)		(218.3)
Cash and Cash Equivalents as of Beginning of Period	343.5	0.1	794.1		1,137.7
Cash and Cash Equivalents as of End of Period	$ 220.7	$ 0.1	$ 698.6	$	$ 919.4

	For the Three Months Ended March 30, 2013				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net cash provided by (used in) operating activities	$ 12.6	$ 47.1	$ 4.1	$	$ 63.8
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(5.4)	(27.3)	(66.0)		(98.7)
Insurance pr					