

LEAR CORP
Form 10-Q
July 28, 2016
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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 July 2, 2016.

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

(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 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 Smaller reporting company
(Do not check if a smaller reporting company)

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

As of July 25, 2016, the number of shares outstanding of the registrant's common stock was 71,527,465 shares.

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FORM 10-Q

FOR THE QUARTER ENDED JULY 2, 2016

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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, 2015.

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)

	July 2, 2016 ⁽¹⁾	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,394.7	\$ 1,196.6
Accounts receivable	2,987.3	2,590.0
Inventories	1,011.3	947.6
Other	542.9	552.4
Total current assets	5,936.2	5,286.6
LONG-TERM ASSETS:		
Property, plant and equipment, net	1,890.3	1,826.5
Goodwill	1,071.1	1,053.8
Other	1,242.9	1,238.9
Total long-term assets	4,204.3	4,119.2
Total assets	\$ 10,140.5	\$ 9,405.8
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	\$ 5.0	\$ —
Accounts payable and drafts	2,767.1	2,504.4
Accrued liabilities	1,629.8	1,312.1
Current portion of long-term debt	29.4	23.1
Total current liabilities	4,431.3	3,839.6
LONG-TERM LIABILITIES:		
Long-term debt	1,916.4	1,931.7
Other	636.7	616.8
Total long-term liabilities	2,553.1	2,548.5
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; 80,563,291 shares issued as of July 2, 2016 and December 31, 2015	0.8	0.8
Additional paid-in capital	1,364.3	1,451.9
Common stock held in treasury, 9,038,815 and 6,099,078 shares as of July 2, 2016 and December 31, 2015, respectively, at cost	(949.3)	(623.0)
Retained earnings	3,310.8	2,827.8
Accumulated other comprehensive loss	(713.8)	(730.1)
Lear Corporation stockholders' equity	3,012.8	2,927.4
Noncontrolling interests	143.3	90.3
Equity	3,156.1	3,017.7
Total liabilities and equity	\$ 10,140.5	\$ 9,405.8

⁽¹⁾ 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 share and per share data)

	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Net sales	\$4,724.8	\$4,635.1	\$9,387.7	\$9,156.5
Cost of sales	4,184.4	4,184.9	8,311.6	8,280.6
Selling, general and administrative expenses	154.3	151.5	303.3	303.2
Amortization of intangible assets	13.3	13.2	26.5	26.5
Interest expense	20.3	20.5	41.4	44.9
Other (income) expense, net	(23.5) 8.7	(15.0) 38.7
Consolidated income before provision for income taxes and equity in net income of affiliates	376.0	256.3	719.9	462.6
Provision for income taxes	101.0	71.9	199.2	134.8
Equity in net income of affiliates	(19.5) (8.5) (36.3) (21.8
Consolidated net income	294.5	192.9	557.0	349.6
Less: Net income attributable to noncontrolling interests	12.1	11.0	26.2	20.4
Net income attributable to Lear	\$282.4	\$181.9	\$530.8	\$329.2
Basic net income per share attributable to Lear	\$3.85	\$2.35	\$7.17	\$4.23
Diluted net income per share attributable to Lear	\$3.82	\$2.33	\$7.11	\$4.19
Cash dividends declared per share	\$0.30	\$0.25	\$0.60	\$0.50
Average common shares outstanding	73,322,857	77,478,053	74,013,593	77,855,641
Average diluted shares outstanding	73,864,457	78,076,247	74,678,147	78,566,649
Consolidated comprehensive income (Note 12)	\$238.5	\$222.5	\$570.7	\$251.3
Less: Comprehensive income attributable to noncontrolling interests	9.3	11.0	23.6	20.3
Comprehensive income attributable to Lear	\$229.2	\$211.5	\$547.1	\$231.0

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)

	Six Months Ended	
	July 2, 2016	June 27, 2015
Cash Flows from Operating Activities:		
Consolidated net income	\$557.0	\$349.6
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	184.7	169.4
Net change in recoverable customer engineering, development and tooling	19.6	(21.9)
Net change in working capital items (see below)	49.9	(157.9)
Other, net	6.4	68.8
Net cash provided by operating activities	817.6	408.0
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(181.7)	(212.9)
Acquisition of Eagle Ottawa, net of cash acquired and use of \$350 million restricted cash (see non-cash investing activities below) (Note 7)	—	(465.3)
Other, net	50.5	8.3
Net cash used in investing activities	(131.2)	(669.9)
Cash Flows from Financing Activities:		
Credit agreement borrowings	—	500.0
Credit agreement repayments	(9.4)	—
Short-term borrowings	5.2	—
Repurchase of senior notes, net of use of \$250 million restricted cash in 2015 (see non-cash financing activities below) (Note 7)	—	(5.0)
Repurchase of common stock	(367.1)	(234.8)
Dividends paid to Lear Corporation stockholders	(47.0)	(41.1)
Dividends paid to noncontrolling interests	(14.3)	(11.9)
Other, net	(51.3)	(48.6)
Net cash provided by (used in) financing activities	(483.9)	158.6
Effect of foreign currency translation	(4.4)	(22.9)
Net Change in Cash and Cash Equivalents	198.1	(126.2)
Cash and Cash Equivalents as of Beginning of Period	1,196.6	1,094.1
Cash and Cash Equivalents as of End of Period	\$1,394.7	\$967.9
Changes in Working Capital Items:		
Accounts receivable	\$(327.2)	\$(578.0)
Inventories	(39.8)	(25.2)
Accounts payable (including \$45.7 million of cash paid in 2015 in conjunction with the acquisition of Eagle Ottawa to settle pre-existing accounts payable)	201.7	241.8
Accrued liabilities and other	215.2	203.5
Net change in working capital items	\$49.9	\$(157.9)
Supplementary Disclosure:		
Cash paid for interest	\$44.1	\$35.9
Cash paid for income taxes, net of refunds received	\$108.4	\$109.7

Non-cash Investing Activities:

Cash restricted for use - acquisition of Eagle Ottawa	\$—	\$(350.0)
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Non-cash Financing Activities:

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

In the first quarter of 2015, the Company completed the acquisition of 100% of the outstanding equity interests of Everett Smith Group, Ltd., the parent company of Eagle Ottawa, LLC ("Eagle Ottawa"). The acquisition was accounted for as a business combination, and accordingly, the assets acquired and liabilities assumed are included in the accompanying condensed consolidated financial statements from the date of acquisition. For further information on the acquisition of Eagle Ottawa, see Note 3, "Acquisition," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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 July 2, 2016.

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 half of 2016, the Company recorded charges of \$36.3 million in connection with its restructuring actions. These charges consist of \$31.4 million recorded as cost of sales and \$4.9 million recorded as selling, general and administrative expenses. The restructuring charges consist of employee termination benefits of \$31.7 million, fixed asset impairment charges of \$3.2 million and contract termination costs of \$0.3 million, as well as other related costs of \$1.1 million. Employee termination benefits were recorded based on existing union and employee contracts, statutory requirements, completed negotiations and Company policy. Fixed asset impairment charges relate to the disposal of buildings, leasehold improvements and/or machinery and equipment with carrying values of \$3.2 million in excess of related estimated fair values. The Company expects to incur approximately \$56 million of additional restructuring costs related to activities initiated as of July 2, 2016, 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 2016 activity is shown below (in millions):

	Accrual as of January 1, 2016	2016 Charges	Utilization		Accrual as of July 2, 2016
			Cash	Non-cash	
Employee termination benefits	\$ 66.5	\$ 31.7	\$(35.3)	\$ —	\$ 62.9
Asset impairment charges	—	3.2	—	(3.2)	—
Contract termination costs	5.3	0.3	(0.3)	—	5.3
Other related costs	—	1.1	(1.1)	—	—
Total	\$ 71.8	\$ 36.3	\$(36.7)	\$(3.2)	\$ 68.2

(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):

	July 2, 2016	December 31, 2015
Raw materials	\$ 751.8	\$ 706.8
Work-in-process	102.4	90.2
Finished goods	157.1	150.6
Inventories	\$ 1,011.3	\$ 947.6

(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 six months of 2016 and 2015, the Company capitalized \$72.4 million and \$99.5 million, respectively, of pre-production E&D costs for which reimbursement is contractually guaranteed by the customer. During the first six months of 2016 and 2015, the Company also capitalized \$41.6 million and \$68.2 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 six months of 2016 and 2015, the Company collected \$127.9 million and \$142.0 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):

	July 2, 2016	December 31, 2015
Current	\$ 148.3	\$ 162.0
Long-term	54.7	53.7
Recoverable customer E&D and tooling	\$ 203.0	\$ 215.7

(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.

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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):

	July 2, 2016	December 31, 2015
Land	\$104.2	\$97.9
Buildings and improvements	613.0	560.4
Machinery and equipment	2,350.8	2,125.8
Construction in progress	210.7	274.9
Total property, plant and equipment	3,278.7	3,059.0
Less – accumulated depreciation	(1,388.4)	(1,232.5)
Property, plant and equipment, net	\$1,890.3	\$1,826.5

Depreciation expense was \$81.2 million and \$71.7 million for the three months ended July 2, 2016 and June 27, 2015, respectively, and \$158.2 million and \$142.9 million for the six months ended July 2, 2016 and June 27, 2015, 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. Except as discussed below, the Company does not believe that there were any indicators that would have resulted in long-lived asset impairment charges as of July 2, 2016. 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 six months of 2016 and 2015, the Company recognized fixed asset impairment charges of \$3.2 million and \$1.6 million, respectively, in conjunction with its restructuring actions (Note 2, "Restructuring"). In the first six months of 2015, the Company also recognized additional fixed asset impairment charges of \$0.5 million.

Investment in Affiliates

On June 21, 2016, the Company gained control of Beijing BAI Lear Automotive Systems Co., Ltd. ("Beijing BAI") by amending the existing joint venture agreement to eliminate the substantive participating rights of its joint venture partner. Prior to the amendment, Beijing BAI was accounted for under the equity method. The consolidation of Beijing BAI was accounted for as a business combination, and accordingly, the assets acquired and liabilities assumed are included in the accompanying condensed consolidated balance sheet as of July 2, 2016. The operating results and cash flows of Beijing BAI are reflected in the Company's seating segment in the accompanying condensed consolidated financial statements from the date of the amended joint venture agreement.

A preliminary summary of the fair value of the assets acquired and liabilities assumed in conjunction with the consolidation is shown below (in millions):

Property, plant and equipment	\$20.7
Other assets and liabilities assumed, net	33.2
Goodwill	13.1
Intangible assets	34.0
	\$101.0

Intangible assets consist of amounts recognized for the fair value of customer-based assets and were based on an independent appraisal. Customer-based assets include Beijing BAI's established relationships with its customers and the expectation of these relationships generating future economic profits for the Company. It is currently estimated that these intangible assets have a weighted average useful life of approximately eight years. Recognized goodwill is attributable to the assembled workforce, expected synergies and other intangible assets that do not qualify for separate recognition.

The fair values of the assets acquired and liabilities assumed in conjunction with the consolidation contain provisional estimates that may be revised as a result of additional information obtained regarding such assets and liabilities. As of the date of consolidation, the fair value of the Company's previously held equity interest in Beijing BAI was \$61.0 million, and the fair value of the noncontrolling interest in Beijing BAI was \$40.0 million. As a result of valuing the Company's

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LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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previously held equity interest in Beijing BAI at fair value, the Company recognized a gain of \$30.3 million during the three and six months ended July 2, 2016.

The pro forma effects of the consolidation would not materially impact the Company's reported results for any period presented.

For further information on acquired assets measured at fair value see Note 15, "Financial Instruments".

(6) Goodwill

A summary of the changes in the carrying amount of goodwill, by operating segment, for the six months ended July 2, 2016, is shown below (in millions):

	Seating	Electrical	Total
Balance at January 1, 2016	\$1,026.8	\$ 27.0	\$1,053.8
Consolidation of affiliate	13.1	—	13.1
Foreign currency translation and other	3.7	0.5	4.2
Balance at July 2, 2016	\$1,043.6	\$ 27.5	\$1,071.1

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 July 2, 2016. The Company will, however, continue to assess the impact of significant events or circumstances on its recorded goodwill.

For further information related to the consolidation of an affiliate, see Note 5, "Long-Term Assets."

(7) Debt

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

Debt Instrument	July 2, 2016				December 31, 2015			
	Long-Term Debt	Debt Issuance Costs ⁽¹⁾	Long-Term Debt, Net	Weighted Average Interest Rate	Long-Term Debt	Debt Issuance Costs ⁽¹⁾	Long-Term Debt, Net	Weighted Average Interest Rate
Credit Agreement — Term Loan Facility	\$481.2	\$(1.9)	\$479.3	1.8%	\$490.6	\$(2.2)	\$488.4	1.78%
4.75% Senior Notes due 2023	500.0	(5.1)	494.9	4.75%	500.0	(5.5)	494.5	4.75%
5.375% Senior Notes due 2024	325.0	(3.0)	322.0	5.375%	325.0	(3.2)	321.8	5.375%
5.25% Senior Notes due 2025	650.0	(7.0)	643.0	5.25%	650.0	(7.5)	642.5	5.25%
Other	6.6	—	6.6	N/A	7.6	—	7.6	N/A
	\$1,962.8	\$(17.0)	1,945.8		\$1,973.2	\$(18.4)	1,954.8	
Less — Current portion			(29.4)				(23.1)	
Long-term debt			\$1,916.4				\$1,931.7	

(1) Unamortized portion

Senior Notes

As of July 2, 2016, the Company's senior notes consist of \$500 million in aggregate principal amount of senior unsecured notes due 2023 at a stated coupon rate of 4.75% (the "2023 Notes"), \$325 million in aggregate principal amount of senior unsecured

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LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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notes due 2024 at a stated coupon rate of 5.375% (the "2024 Notes") and \$650 million in aggregate principal amount of senior unsecured notes due 2025 at a stated coupon rate of 5.25% (the "2025 Notes" and together with the 2023 Notes and 2024 Notes, the "Notes").

2023 Notes

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

2024 Notes

The 2024 Notes were issued in March 2014 and mature on March 15, 2024. Interest is payable on March 15 and September 15 of each year.

2025 Notes

The 2025 Notes were issued in November 2014 and mature on January 15, 2025. Interest is payable on January 15 and July 15 of each year. Of the \$650 million of proceeds from the offering, net of related issuance costs of \$8.4 million, \$250 million was restricted for the redemption of the remaining outstanding aggregate principal amount of the Company's 8.125% senior unsecured notes due 2020 (the "2020 Notes") and \$350 million was restricted to finance, in part, the acquisition of Eagle Ottawa (Note 1, "Basis of Presentation"). In January 2015, the Company used \$350 million of the restricted cash proceeds from the offering, along with \$500 million in borrowings under the Term Loan Facility (see "— Credit Agreement" below), to finance the acquisition of Eagle Ottawa. In March 2015, the Company redeemed the 2020 Notes at a price equal to 104.063% of the principal amount thereof, plus accrued and unpaid interest to the redemption date. In connection with this transaction, the Company paid \$255.0 million, including \$250 million of the restricted cash proceeds from the offering, and recognized a loss of \$14.3 million on the extinguishment of debt in the first quarter of 2015. The use of restricted cash for the acquisition of Eagle Ottawa and the redemption of the 2020 Notes is reflected as non-cash investing and financing activities, respectively, in the accompanying condensed consolidated statement of cash flows for the six months ended June 27, 2015. The remaining proceeds from the offering were used for general corporate purposes, including the payment of fees and expenses associated with the acquisition of Eagle Ottawa and related financing transactions.

Guarantees

The Notes are senior unsecured obligations. The Company's obligations under the Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by certain domestic subsidiaries, which are directly or indirectly 100% owned by Lear (Note 17, "Supplemental Guarantor Condensed Consolidating Financial Statements").

Covenants

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

As of July 2, 2016, the Company was in compliance with all covenants under the indentures governing the Notes.

Credit Agreement

As of July 2, 2016, the Company's credit agreement (the "Credit Agreement") consists of a \$1.25 billion revolving credit facility (the "Revolving Credit Facility"), which matures on November 14, 2019, and a \$500 million term loan facility (the "Term Loan Facility"), which matures on January 5, 2020. As of July 2, 2016 and December 31, 2015, there were no borrowings outstanding under the Revolving Credit Facility. As of July 2, 2016 and December 31, 2015, there were \$481.2 million and \$490.6 million, respectively, of borrowings outstanding under the Term Loan Facility. In the three and six months ended July 2, 2016, the Company made required principal payments under the Term Loan Facility of \$6.3 million and \$9.4 million, respectively.

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 (1.25% as of July 2, 2016), payable on the last day of each applicable interest period but in no event less frequently than quarterly, or (ii) the

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Adjusted Base Rate (as defined) plus an adjustable margin of 0.0% to 1.25% based on the Company's corporate rating (0.25% as of July 2, 2016), payable quarterly. A facility fee, which ranges from 0.25% to 0.50% of the total amount committed under the Revolving Credit Facility, is payable quarterly.

Loans under the Term Loan Facility generally bear interest at a variable rate per annum equal to (i) the Eurocurrency Rate (as defined) plus an adjustable margin of 1.25% to 2.25% based on the Company's corporate rating (1.375% as of July 2, 2016), payable on the last day of each applicable interest period but in no event less frequently than quarterly, or (ii) the Adjusted Base Rate (as defined) plus an adjustable margin of 0.25% to 1.25% based on the Company's corporate rating (0.375% as of July 2, 2016), payable quarterly.

The Company's obligations under the Credit Agreement are guaranteed, jointly and severally, on a first priority basis, by certain domestic subsidiaries, which are directly or indirectly 100% owned by Lear (Note 17, "Supplemental Guarantor Condensed Consolidating Financial Statements").

The Credit Agreement contains various customary representations, warranties and covenants by the Company, including, without limitation, (i) covenants regarding maximum leverage and minimum interest coverage, (ii) limitations on fundamental changes involving the Company or its subsidiaries and (iii) limitations on indebtedness, liens, investments and restricted payments. As of July 2, 2016, the Company was in compliance with all covenants under the Credit Agreement.

Other

As of July 2, 2016, other long-term debt consists of amounts outstanding under capital leases.

For further information on the Notes and the Credit Agreement, see Note 6, "Debt," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

(8) Pension and Other Postretirement Benefit Plans**Net Periodic Pension and Other Postretirement Benefit Cost (Credit)**

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

	Three Months Ended				Six Months Ended			
	July 2, 2016		June 27, 2015		July 2, 2016		June 27, 2015	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Service cost	\$1.4	\$1.7	\$1.2	\$2.5	\$2.8	\$3.2	\$2.4	\$4.6
Interest cost	7.5	4.2	7.2	5.0	14.9	8.1	14.3	8.9
Expected return on plan assets	(9.5)	(6.0)	(9.9)	(8.1)	(19.0)	(11.6)	(19.7)	(14.0)
Amortization of actuarial loss	0.7	0.8	0.7	1.2	1.4	1.5	1.3	2.3
Curtailement loss	—	—	—	7.7	—	—	—	7.7
Settlement loss	—	—	—	—	0.2	—	0.1	—
Net periodic benefit cost (credit)	\$0.1	\$0.7	\$(0.8)	\$8.3	\$0.3	\$1.2	\$(1.6)	\$9.5

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

	Three Months Ended				Six Months Ended			
	July 2, 2016		June 27, 2015		July 2, 2016		June 27, 2015	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Service cost	\$0.1	\$0.1	\$—	\$0.3	\$0.1	\$0.3	\$0.1	\$0.5
Interest cost	0.7	0.4	0.8	0.4	1.5	0.8	1.5	0.8
Amortization of actuarial (gain) loss	(0.3)	—	(0.3)	0.1	(0.6)	0.1	(0.6)	0.3
Amortization of prior service credit	—	(0.1)	—	(0.1)	—	(0.2)	—	(0.2)
Special termination benefits	—	0.3	—	—	—	0.3	—	—
Net periodic benefit cost	\$0.5	\$0.7	\$0.5	\$0.7	\$1.0	\$1.3	\$1.0	\$1.4

For the three and six months ended June 27, 2015, the Company recognized pension benefit curtailment losses of \$7.7 million related to its restructuring actions.

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Contributions

Employer contributions to the Company's domestic and foreign defined benefit pension plans for the six months ended July 2, 2016, were \$6.9 million. The Company expects contributions to its domestic and foreign defined benefit pension plans to be approximately \$10 million to \$15 million in 2016. 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.

(9) Other (Income) Expense, Net

Other (income) 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 (income) expense, net is shown below (in millions):

	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Other expense	\$ 10.6	\$ 9.0	\$19.6	\$ 41.2
Other income	(34.1)	(0.3)	(34.6)	(2.5)
Other (income) expense, net	\$ (23.5)	\$ 8.7	\$(15.0)	\$ 38.7

For the three and six months ended July 2, 2016, other income includes a gain of \$30.3 million related to the consolidation of an affiliate (Note 5, "Long-Term Assets"). For the three and six months ended July 2, 2016, other expense includes net foreign currency transaction losses of \$2.2 million and \$1.8 million, respectively.

For the six months ended June 27, 2015, other expense includes a loss of \$14.3 million related to the extinguishment of debt (Note 7, "Debt") and net foreign currency transaction losses of \$14.3 million.

(10) Income Taxes

A summary of the provision for income taxes and the corresponding effective tax rate for the three and six months ended July 2, 2016 and June 27, 2015, is shown below (in millions, except effective tax rates):

	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Provision for income taxes	\$101.0	\$71.9	\$199.2	\$134.8
Pretax income before equity in net income of affiliates	\$376.0	\$256.3	\$719.9	\$462.6
Effective tax rate	26.9 %	28.1 %	27.7 %	29.1 %

In the first six months of 2016 and 2015, 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 six months of 2016, the Company recognized net tax benefits of \$12.1 million related to restructuring charges and various other items. In addition, the Company recognized a gain of \$30.3 million related to the consolidation of an affiliate, for which no tax expense was provided. In the first six months of 2015, the Company recognized net tax benefits of \$29.8 million related to restructuring charges, debt redemption costs, acquisition costs and various other items.

Excluding these items, the effective tax rate in the first six months of 2016 and 2015 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

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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 related to the consolidation of an affiliate, see Note 5, "Long-Term Assets." For further information related to the Company's income taxes, 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, 2015.

(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.

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		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Net income attributable to Lear	\$282.4	\$ 181.9	\$530.8	\$ 329.2
Average common shares outstanding	73,322,857	77,478,053	74,013,593	855,641
Dilutive effect of common stock equivalents	541,600	598,194	664,554	711,008
Average diluted shares outstanding	73,864,457	78,076,247	74,678,147	856,649
Basic net income per share attributable to Lear	\$3.85	\$ 2.35	\$7.17	\$ 4.23
Diluted net income per share attributable to Lear	\$3.82	\$ 2.33	\$7.11	\$ 4.19

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(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 and six months ended July 2, 2016, is shown below (in millions):

	Three Months Ended July 2, 2016			Six Months Ended July 2, 2016		
	Equity	Lear Corporation Stockholders' Equity	Non-controlling Interests	Equity	Lear Corporation Stockholders' Equity	Non-controlling Interests
Beginning equity balance	\$3,144.4	\$ 3,037.6	\$ 106.8	\$3,017.7	\$ 2,927.4	\$ 90.3
Stock-based compensation transactions	18.7	18.7	—	(8.9)	(8.9)	—
Repurchase of common stock	(250.2)	(250.2)	—	(405.0)	(405.0)	—
Dividends declared to Lear Corporation stockholders	(22.5)	(22.5)	—	(45.6)	(45.6)	—
Dividends declared to noncontrolling interest holders	(12.8)	—	(12.8)	(12.8)	—	(12.8)
Consolidation of affiliate	40.0	—	40.0	40.0	—	40.0
Non-controlling interests — other	—	—	—	—	(2.2)	2.2
Comprehensive income:						
Net income	294.5	282.4	12.1	557.0	530.8	26.2
Other comprehensive income (loss), net of tax:						
Defined benefit plan adjustments	1.1	1.1	—	(1.7)	(1.7)	—
Derivative instruments and hedging activities	(13.4)	(13.4)	—	(11.4)	(11.4)	—
Foreign currency translation adjustments	(43.7)	(40.9)	(2.8)	26.8	29.4	(2.6)
Other comprehensive income (loss)	(56.0)	(53.2)	(2.8)	13.7	16.3	(2.6)
Comprehensive income	238.5	229.2	9.3	570.7	547.1	23.6
Ending equity balance	\$3,156.1	\$ 3,012.8	\$ 143.3	\$3,156.1	\$ 3,012.8	\$ 143.3

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A summary of changes, net of tax, in accumulated other comprehensive loss for the three and six months ended July 2, 2016, is shown below (in millions):

	Three Months Ended July 2, 2016	Six Months Ended July 2, 2016
Defined benefit plans:		
Balance at beginning of period	\$(197.4)	\$(194.6)
Reclassification adjustments (net of tax expense of \$0.5 million and \$0.7 million for the three and six months ended July 2, 2016, respectively)	0.6	1.7
Other comprehensive income (loss) recognized during the period (net of tax impact of \$— million for the three and six months ended July 2, 2016)	0.5	(3.4)
Balance at end of period	\$(196.3)	\$(196.3)
Derivative instruments and hedging:		
Balance at beginning of period	\$(36.7)	\$(38.7)
Reclassification adjustments (net of tax expense of \$5.8 million and \$10.7 million for the three and six months ended July 2, 2016, respectively)	15.5	29.1
Other comprehensive loss recognized during the period (net of tax benefit of \$10.3 million and \$14.5 million for the three and six months ended July 2, 2016, respectively)	(28.9)	(40.5)
Balance at end of period	\$(50.1)	\$(50.1)
Foreign currency translation:		
Balance at beginning of period	\$(426.5)	\$(496.8)
Other comprehensive income (loss) recognized during the period (net of tax impact of \$— million for the three and six months ended July 2, 2016)	(40.9)	29.4
Balance at end of period	\$(467.4)	\$(467.4)
For the three months ended July 2, 2016, foreign currency translation adjustments are related primarily to the weakening of the Chinese renminbi and the Euro relative to the U.S. dollar and include pretax gains of \$0.1 million related to intercompany transactions for which settlement is not planned or anticipated in the foreseeable future.		
For the six months ended July 2, 2016, foreign currency translation adjustments are related primarily to the strengthening of the Euro and Brazilian real relative to the U.S. dollar, partially offset by the weakening of the Chinese renminbi relative to the U.S. dollar. Foreign currency translation adjustments include pretax losses of \$0.5 million related to intercompany transactions for which settlement is not planned or anticipated in the foreseeable future.		

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A summary of comprehensive income and reconciliations of equity, Lear Corporation stockholders' equity and noncontrolling interests for the three and six months ended June 27, 2015, is shown below (in millions):

	Three Months Ended June 27, 2015			Six Months Ended June 27, 2015		
	Equity	Lear Corporation Stockholders' Equity	Non-controlling Interests	Equity	Lear Corporation Stockholders' Equity	Non-controlling Interests
Beginning equity balance	\$2,891.8	\$ 2,812.1	\$ 79.7	\$3,029.3	\$ 2,958.8	\$ 70.5
Stock-based compensation transactions	18.3	18.3	—	(15.2)	(15.2)	—
Repurchase of common stock	(122.4)	(122.4)	—	(234.8)	(234.8)	—
Dividends declared to Lear Corporation stockholders	(20.1)	(20.1)	—	(40.4)	(40.4)	—
Dividends declared to noncontrolling interest holders	(11.8)	—	(11.8)	(11.9)	—	(11.9)
Comprehensive income:						
Net income	192.9	181.9	11.0	349.6	329.2	20.4
Other comprehensive income (loss), net of tax:						
Defined benefit plan adjustments	2.3	2.3	—	10.0	10.0	—
Derivative instruments and hedging activities	(3.9)	(3.9)	—	1.8	1.8	—
Foreign currency translation adjustments	31.2	31.2	—	(110.1)	(110.0)	(0.1)
Other comprehensive income (loss)	29.6	29.6	—	(98.3)	(98.2)	(0.1)
Comprehensive income	222.5	211.5	11.0	251.3	231.0	20.3
Ending equity balance	\$2,978.3	\$ 2,899.4	\$ 78.9	\$2,978.3	\$ 2,899.4	\$ 78.9

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A summary of changes, net of tax, in accumulated other comprehensive loss for the three and six months ended June 27, 2015, is shown below (in millions):

	Three Months Ended June 27, 2015	Six Months Ended June 27, 2015
Defined benefit plans:		
Balance at beginning of period	\$(211.5)	\$(219.2)
Reclassification adjustments (net of tax expense of \$0.5 million and \$0.9 million for the three and six month ended June 27, 2015, respectively)	1.1	2.3
Other comprehensive income recognized during the period (net of tax expense of \$1.1 million for the three and six months ended June 27, 2015)	1.2	7.7
Balance at end of period	\$(209.2)	\$(209.2)
Derivative instruments and hedging:		
Balance at beginning of period	\$(27.5)	\$(33.2)
Reclassification adjustments (net of tax expense of \$1.9 million and \$3.2 million for the three and six months ended June 27, 2015, respectively)	5.3	8.7
Other comprehensive loss recognized during the period (net of tax benefit of \$3.6 million and \$2.5 million for the three and six months ended June 27, 2015, respectively)	(9.2)	(6.9)
Balance at end of period	\$(31.4)	\$(31.4)
Foreign currency translation:		
Balance at beginning of period	\$(390.8)	\$(249.6)
Other comprehensive income (loss) recognized during the period (net of tax expense (benefit) of \$0.1 million and (\$4.0) million for the three and six months ended June 27, 2015, respectively)	31.2	(110.0)
Balance at end of period	\$(359.6)	\$(359.6)

For the three months ended June 27, 2015, foreign currency translation adjustments are related primarily to the strengthening of the Euro relative to the U.S. dollar and include pretax gains of \$2.8 million related to intercompany transactions for which settlement is not planned or anticipated in the foreseeable future.

For the six months ended June 27, 2015, foreign currency translation adjustments are related primarily to the weakening of the Euro relative to the U.S. dollar and include pretax losses of \$10.6 million related to intercompany transactions for which settlement is not planned or anticipated in the foreseeable future.

Lear Corporation Stockholders' Equity

Common Stock Share Repurchase Program

In February 2016, the Company's Board of Directors authorized a \$487.4 million increase to the existing common stock share repurchase program to provide for a remaining aggregate repurchase authorization of \$1.0 billion, while maintaining the program expiration date of December 31, 2017. In the first half of 2016, the Company repurchased, in aggregate, \$405.0 million of its outstanding common stock (3,693,281 shares at an average purchase price of \$109.65 per share, excluding commissions), of which \$367.1 million was paid in cash with the remaining amount to be paid in the third quarter of 2016. As of the date of this Report, the Company has a remaining repurchase authorization of \$595.0 million under its ongoing common stock share repurchase program. The Company may implement these share repurchases through a variety of methods, including, but not limited to, open market purchases, accelerated stock repurchase programs and structured repurchase transactions. The extent to which the Company will repurchase its

outstanding common stock and the timing of such repurchases will depend upon its financial condition, prevailing market conditions, alternative uses of capital and other factors. In addition, the Company's Credit Agreement places certain limitations on the Company's ability to repurchase its common stock.

Since the first quarter of 2011, the Company's Board of Directors has authorized \$3.4 billion in share repurchases under its common stock share repurchase program. As of the date of this Report, the Company has repurchased, in aggregate, \$2.8 billion

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of its outstanding common stock, at an average price of \$72.06 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 in the preceding paragraphs, 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 July 2, 2016 and December 31, 2015.

Quarterly Dividend

In the first half of 2016 and 2015, the Company's Board of Directors declared quarterly cash dividends of \$0.30 and \$0.25 per share of common stock, respectively. In the first half of 2016, declared dividends totaled \$45.6 million, and dividends paid totaled \$47.0 million. In the first half of 2015, declared dividends totaled \$40.4 million, and dividends paid totaled \$41.1 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 half of 2016, the Company gained control of and consolidated an affiliate. For further information related to the consolidation, see Note 5, "Long-Term Assets."

(13) Legal and Other Contingencies

As of July 2, 2016 and December 31, 2015, the Company had recorded reserves for pending legal disputes, including commercial disputes and other matters, of \$12.4 million and \$9.2 million, respectively. Such reserves reflect amounts recognized in accordance with GAAP and typically exclude the cost of legal representation. Product liability and warranty reserves are recorded separately from legal reserves, as described below.

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

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

District Court on December 3, 2014. The Settlement Agreement between the Company and the class of auto dealers received the final approval of the District Court on December 7, 2015. The Settlement Agreement between the Company and the class of end-payor purchasers received the final approval of the District Court on June 20, 2016.

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Commercial Disputes

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

Product Liability and Warranty Matters

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

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

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

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

A summary of the changes in reserves for product liability and warranty claims for the six months ended July 2, 2016, is shown below (in millions):

Balance at January 1, 2016	\$33.0
Expense, net (including changes in estimates)	15.3
Settlements	(2.9)
Foreign currency translation and other	4.5
Balance at July 2, 2016	\$49.9

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 July 2, 2016 and December 31, 2015, the Company had recorded environmental reserves of \$9.1 million. 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.

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(Continued)

Other Matters

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

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

(14) Segment Reporting

The Company has two reportable operating segments: seating, which includes complete seat systems and all major seat components, including seat covers and surface materials such as leather and fabric, seat structures and mechanisms, seat foam and headrests, and electrical, which includes complete electrical distribution systems, electronic control modules and wireless modules. Key components in the electrical distribution system include wiring harnesses, terminals and connectors, junction boxes and high power components for hybrid and electric vehicles. 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 (income) 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 July 2, 2016			
	Seating	Electrical	Other	Consolidated
Revenues from external customers	\$3,640.4	\$1,084.4	\$ —	\$ 4,724.8
Segment earnings ⁽¹⁾	287.7	151.4	(66.3)	372.8
Depreciation and amortization	64.6	26.9	3.0	94.5
Capital expenditures	61.9	24.4	7.3	93.6
Total assets	6,224.2	1,691.4	2,224.9	10,140.5
	Three Months Ended June 27, 2015			
	Seating	Electrical	Other	Consolidated
Revenues from external customers	\$3,577.7	\$1,057.4	\$ —	\$ 4,635.1
Segment earnings ⁽¹⁾	214.5	141.9	(70.9)	285.5
Depreciation and amortization	58.6	24.1	2.2	84.9
Capital expenditures	85.4	23.5	5.2	114.1
Total assets	6,302.5	1,657.7	1,865.2	9,825.4
	Six Months Ended July 2, 2016			
	Seating	Electrical	Other	Consolidated
Revenues from external customers	\$7,242.4	\$2,145.3	\$ —	\$ 9,387.7
Segment earnings ⁽¹⁾	579.3	301.2	(134.2)	746.3
Depreciation and amortization	125.9	53.0	5.8	184.7
Capital expenditures	124.3	44.6	12.8	181.7

Total assets 6,224.2 1,691.4 2,224.9 10,140.5

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	Six Months Ended June 27, 2015			
	Seating	Electrical	Other	Consolidated
Revenues from external customers	\$7,062.7	\$2,093.8	\$ —	\$ 9,156.5
Segment earnings ⁽¹⁾	410.6	278.9	(143.3)	546.2
Depreciation and amortization	116.9	48.2	4.3	169.4
Capital expenditures	156.9	48.8	7.2	212.9
Total assets	6,302.5	1,657.7	1,865.2	9,825.4

⁽¹⁾ See definition above.

For the three months ended July 2, 2016, segment earnings include restructuring charges of \$17.3 million, \$7.7 million and \$1.1 million in the seating and electrical segments and in the other category, respectively. For the six months ended July 2, 2016, segment earnings include restructuring charges of \$23.0 million, \$10.6 million and \$2.7 million in the seating and electrical segments and in the other category, respectively (Note 2, "Restructuring"). For the three months ended June 27, 2015, segment earnings include restructuring charges of \$36.7 million, \$5.1 million and \$7.7 million in the seating and electrical segments and in the other category, respectively. For the six months ended June 27, 2015, segment earnings include restructuring charges of \$43.0 million, \$6.0 million and \$7.8 million in the seating and electrical segments and in the other category, respectively (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		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Segment earnings	\$ 372.8	\$ 285.5	\$746.3	\$ 546.2
Interest expense	20.3	20.5	41.4	44.9
Other (income) expense, net	(23.5)	8.7	(15.0)	38.7
Consolidated income before provision for income taxes and equity in net income of affiliates	\$ 376.0	\$ 256.3	\$719.9	\$ 462.6

(15) Financial Instruments

Debt Instruments

The carrying values of the Company's debt instruments vary from their fair values. The fair values were determined by reference to the quoted market prices of these securities (Level 2 input based on the GAAP fair value hierarchy). The estimated fair value, as well as the carrying value, of the Company's debt instruments are shown below (in millions):

	July 2, 2016	December 31, 2015
Estimated aggregate fair value	\$2,024.2	\$ 1,992.3
Aggregate carrying value ⁽¹⁾	1,956.2	1,965.6

⁽¹⁾ Long-term debt excluding the impact of unamortized debt issuance costs.

Accounts Receivable Factoring

One of the Company's European subsidiaries entered into an uncommitted factoring agreement, which provides for aggregate purchases of specified customer accounts of up to €200 million. As of July 2, 2016, there were no factored receivables outstanding. The Company cannot provide any assurances that this factoring facility will be available or utilized in the future.

Marketable Equity Securities

Included in other current assets in the accompanying condensed consolidated balance sheets as of July 2, 2016 and December 31, 2015, are \$26.4 million and \$23.0 million, respectively, of marketable equity securities, which the Company accounts for under the fair value option. Accordingly, unrealized gains and losses arising from changes in the fair value of the

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(Continued)

marketable equity securities are recognized in the accompanying condensed consolidated statement of income as a component of other expense, net. The fair value of the marketable equity securities is determined by reference to quoted market prices in active markets (Level 1 input based on the GAAP fair value hierarchy).

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 and interest rates 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 for a hedging instrument 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). For a fair value hedge, both the effective and ineffective portions of the change in the fair value of the derivative are recorded in earnings and reflected in the condensed consolidated statement of income on the same line as the gain or loss on the hedged item attributable to the hedged risk. For a cash flow hedge, the effective portion of the change in the fair value of the derivative is recorded in accumulated other comprehensive loss in the condensed consolidated balance sheet. When the underlying hedged transaction is realized, the gain or loss included in accumulated other comprehensive loss is recorded in earnings and reflected in the condensed consolidated statement of income on the same line as the gain or loss on the hedged item attributable to the hedged risk. For a net investment hedge, the effective portion of the change in the fair value of the derivative is recorded in cumulative translation adjustment, which is a component of accumulated other comprehensive loss in the condensed consolidated balance sheet. In addition, for both cash flow and net investment hedges, changes in the fair value of the derivative that are excluded from the Company's effectiveness assessments and the ineffective portion of changes in the fair value of the derivative are recorded in earnings and reflected in the condensed consolidated statement of income as other expense, net.

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 Thai baht, the Japanese yen, the Canadian dollar and the Chinese renminbi.

The notional amount and estimated fair value of the Company's foreign currency derivative contracts are shown below (in millions, except for maturities):

	July 2, 2016	December 31, 2015
Contracts designated as cash flow hedges:		
Notional amount	\$1,133.2	\$1,394.6
Fair value	\$(61.5)	\$(46.4)
Outstanding maturities in months, not to exceed	24	24