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LEAR CORP

Form 10-Q

April 26, 2019

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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
X ACT OF 1934**

For the quarterly period ended March 30, 2019.

**..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

(State or other jurisdiction of
incorporation or organization)

13-3386776

(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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of April 23, 2019, the number of shares outstanding of the registrant's common stock was 62,261,160 shares.

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LEAR CORPORATION AND SUBSIDIARIES

PART I — FINANCIAL INFORMATION

ITEM 1 — CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We have prepared the unaudited condensed consolidated financial statements of Lear Corporation and subsidiaries 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 ("GAAP") 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, 2018.

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 30, 2019 ⁽¹⁾	December 31, 2018
ASSETS		
<i>CURRENT ASSETS:</i>		
Cash and cash equivalents	\$1,199.4	\$1,493.2
Accounts receivable	3,468.8	2,880.3
Inventories	1,200.5	1,196.8
Other	728.9	710.2
Total current assets	6,597.6	6,280.5
<i>LONG-TERM ASSETS:</i>		
Property, plant and equipment, net	2,593.3	2,598.1
Goodwill	1,406.3	1,405.3
Other	1,764.8	1,316.8
Total long-term assets	5,764.4	5,320.2
Total assets	\$12,362.0	\$11,600.7
LIABILITIES AND EQUITY		
<i>CURRENT LIABILITIES:</i>		
Short-term borrowings	\$14.9	\$9.9
Accounts payable and drafts	3,094.4	2,862.8
Accrued liabilities	1,791.3	1,615.0
Current portion of long-term debt	13.8	12.9
Total current liabilities	4,914.4	4,500.6
<i>LONG-TERM LIABILITIES:</i>		
Long-term debt	1,938.6	1,941.0
Other	958.7	640.4
Total long-term liabilities	2,897.3	2,581.4
Redeemable noncontrolling interest	156.6	158.1
<i>EQUITY:</i>		
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; 64,563,291 shares issued as of March 30, 2019 and December 31, 2018	0.6	0.6
Additional paid-in capital	961.5	1,017.4
Common stock held in treasury, 2,147,928 and 1,623,678 shares as of March 30, 2019 and December 31, 2018, respectively, at cost	(305.6)	(225.1)
Retained earnings	4,300.3	4,113.6
Accumulated other comprehensive loss	(711.5)	(705.8)
Lear Corporation stockholders' equity	4,245.3	4,200.7
Noncontrolling interests	148.4	159.9
Equity	4,393.7	4,360.6
Total liabilities and equity	\$12,362.0	\$11,600.7

⁽¹⁾ Unaudited.

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

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Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
(Unaudited; in millions, except share and per share data)

	Three Months Ended	
	March 30,	March 31,
	2019	2018
Net sales	\$5,160.1	\$ 5,733.7
Cost of sales	4,686.9	5,102.3
Selling, general and administrative expenses	148.3	155.4
Amortization of intangible assets	12.7	13.1
Interest expense	20.9	20.7
Other (income) expense, net	4.4	(5.6)
Consolidated income before provision for income taxes and equity in net income of affiliates	286.9	447.8
Provision for income taxes	43.1	77.7
Equity in net income of affiliates	(2.3)	(4.1)
Consolidated net income	246.1	374.2
Less: Net income attributable to noncontrolling interests	17.2	20.5
Net income attributable to Lear	\$228.9	\$ 353.7
Basic net income per share available to Lear common stockholders (Note 13)	\$3.75	\$ 5.19
Diluted net income per share available to Lear common stockholders (Note 13)	\$3.73	\$ 5.16
Cash dividends declared per share	\$0.75	\$ 0.70
Average common shares outstanding	62,818,795	67,086,326
Average diluted shares outstanding	63,123,195	67,562,452
Consolidated comprehensive income (Condensed Consolidated Statements of Equity)	\$248.2	\$ 520.0
Less: Comprehensive income attributable to noncontrolling interests	25.0	33.7
Comprehensive income attributable to Lear	\$223.2	\$ 486.3

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

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF EQUITY****(In millions, except share and per share data)**

	Three Months Ended March 30, 2019			
	Common Stock	Additional Paid-In Capital	Common Stock Held in Treasury	Retained Earnings
Balance at January 1, 2019	\$0.6	\$1,017.4	\$(225.1)	\$4,113.6
Comprehensive income (loss):				
Net income	—	—	—	228.9
Other comprehensive income (loss):	—	—	—	—
Total comprehensive income (loss)	—	—	—	228.9
Stock-based compensation	—	9.5	—	—
Net issuance of 280,020 shares held in treasury in settlement of stock-based compensation	—	(65.4)	37.4	(1.2)
Repurchase of 804,270 shares of common stock at average price of \$146.56 per share	—	—	(117.9)	—
Dividends declared to Lear Corporation stockholders	—	—	—	(47.7)
Dividends declared to non-controlling interest holders	—	—	—	—
Redeemable non-controlling interest adjustment	—	—	—	6.7
Balance at March 30, 2019	\$0.6	\$961.5	\$(305.6)	\$4,300.3

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

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (continued)****(In millions, except share and per share data)**

	Three Months Ended March 30, 2019				
	Accumulated Other Comprehensive Loss, Net of Tax	Lear Corporation Stockholders' Equity	Non-controlling Interests	Equity	Redeemable Non-controlling Interests
Balance at January 1, 2019	\$(705.8)	\$4,200.7	\$ 159.9	\$4,360.6	\$ 158.1
Comprehensive income (loss):					
Net income	—	228.9	16.0	244.9	1.2
Other comprehensive income (loss):	(5.7)	(5.7)	3.8	(1.9)	4.0
Total comprehensive income (loss)	(5.7)	223.2	19.8	243.0	5.2
Stock-based compensation	—	9.5	—	9.5	—
Net issuance of 280,020 shares held in treasury in settlement of stock-based compensation	—	(29.2)	—	(29.2)	—
Repurchase of 804,270 shares of common stock at average price of \$146.56 per share	—	(117.9)	—	(117.9)	—
Dividends declared to Lear Corporation stockholders	—	(47.7)	—	(47.7)	—
Dividends declared to non-controlling interest holders	—	—	(31.3)	(31.3)	—
Redeemable non-controlling interest adjustment	—	6.7	—	6.7	(6.7)
Balance at March 30, 2019	\$(711.5)	\$4,245.3	\$ 148.4	\$4,393.7	\$ 156.6

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

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (continued)****(In millions, except share and per share data)**

	Three Months Ended March 31, 2018			
	Common Stock	Additional Paid-In Capital	Common Stock Held in Treasury	Retained Earnings
Balance at January 1, 2018	\$0.7	\$1,215.4	\$(724.1)	\$4,171.9
Comprehensive income:				
Net income	—	—	—	353.7
Other comprehensive income:	—	—	—	—
Total comprehensive income	—	—	—	353.7
Stock-based compensation	—	13.2	—	—
Net issuance of 327,498 shares held in treasury in settlement of stock-based compensation	—	(72.2)	)27.8	—
Repurchase of 829,360 shares of common stock at average price of \$187.41 per share	—	—	(155.4)	—
Dividends declared to Lear Corporation stockholders	—	—	—	(47.7)
Dividends declared to non-controlling interest holders	—	—	—	—
Adoption of ASU 2016-16	—	—	—	2.3
Affiliate transaction	—	—	—	—
Redeemable non-controlling interest adjustment	—	—	—	(5.4)
Acquisition of outstanding non-controlling interest	—	—	—	—
Balance at March 31, 2018	\$0.7	\$1,156.4	\$(851.7)	\$4,474.8

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

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (continued)****(In millions, except share and per share data)**

	Three Months Ended March 31, 2018				
	Accumulated Other Comprehensive Loss, Net of Tax	Lear Corporation Stockholders' Equity	Non-controlling Interests	Equity	Redeemable Non-controlling Interests
Balance at January 1, 2018	\$(513.4)	\$4,150.5	\$ 142.1	\$4,292.6	\$ 153.4
Comprehensive income:					
Net income	—	353.7	17.0	370.7	3.5
Other comprehensive income:	132.6	132.6	5.2	137.8	8.0
Total comprehensive income	132.6	486.3	22.2	508.5	11.5
Stock-based compensation	—	13.2	—	13.2	—
Net issuance of 327,498 shares held in treasury in settlement of stock-based compensation	—	(44.4)	—	(44.4)	—
Repurchase of 829,360 shares of common stock at average price of \$187.41 per share	—	(155.4)	—	(155.4)	—
Dividends declared to Lear Corporation stockholders	—	(47.7)	—	(47.7)	—
Dividends declared to non-controlling interest holders	—	—	(19.7)	(19.7)	—
Adoption of ASU 2016-16	—	2.3	—	2.3	—
Affiliate transaction	—	—	14.0	14.0	—
Redeemable non-controlling interest adjustment	—	(5.4)	—	(5.4)	5.4
Acquisition of outstanding non-controlling interest	—	—	(3.4)	(3.4)	—
Balance at March 31, 2018	\$(380.8)	\$4,399.4	\$ 155.2	\$4,554.6	\$ 170.3

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 30,	March 31,
	2019	2018
Cash Flows from Operating Activities:		
Consolidated net income	\$246.1	\$374.2
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	123.6	120.2
Net change in recoverable customer engineering, development and tooling	(15.3)	)22.5
Net change in working capital items (see below)	(287.5)	)(252.6)
Other, net	(15.3)	)(27.5)
Net cash provided by operating activities	51.6	236.8
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(122.8)	)(162.8)
Other, net	6.2	(25.3)
Net cash used in investing activities	(116.6)	)(188.1)
Cash Flows from Financing Activities:		
Credit agreement repayments	(1.6)	)(1.5)
Short-term borrowings, net	4.8	—
Repurchase of common stock	(122.2)	)(145.4)
Dividends paid to Lear Corporation stockholders	(49.5)	)(50.7)
Dividends paid to noncontrolling interests	(31.3)	)(19.2)
Other, net	(34.9)	)(55.8)
Net cash used in financing activities	(234.7)	)(272.6)
Effect of foreign currency translation	0.8	18.0
Net Change in Cash, Cash Equivalents and Restricted Cash	(298.9)	)(205.9)
Cash, Cash Equivalents and Restricted Cash as of Beginning of Period	1,519.8	1,500.4
Cash, Cash Equivalents and Restricted Cash as of End of Period	\$1,220.9	\$1,294.5
Changes in Working Capital Items:		
Accounts receivable	\$(592.7)	\$(460.7)
Inventories	(8.0)	)(35.0)
Accounts payable	239.6	227.9
Accrued liabilities and other	73.6	15.2
Net change in working capital items	\$(287.5)	)(252.6)
Supplementary Disclosure:		
Cash paid for interest	\$43.6	\$45.6
Cash paid for income taxes, net of refunds received	\$41.6	\$63.6
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 30, 2019.

(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. In addition to restructuring costs, the Company 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 condensed consolidated financial statements in accordance with GAAP. Generally, charges are recorded as restructuring actions are approved and/or implemented.

In the first three months of 2019, the Company recorded charges of \$54.3 million in connection with its restructuring actions. These charges consist of \$48.6 million recorded as cost of sales and \$5.7 million recorded as selling, general and administrative expenses. The restructuring charges consist of employee termination costs of \$49.1 million, fixed asset impairment charges of \$2.1 million and contract termination costs of \$1.5 million, as well as other related costs of \$1.6 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 \$2.1 million in excess of related estimated fair values.

The Company expects to incur approximately \$51 million of additional restructuring costs related to activities initiated as of March 30, 2019, 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 2019 activity is shown below (in millions):

	Accrual as of January 1, 2019	2019 Charges	Utilization		Accrual as of March 30, 2019
			Cash	Non-cash	
Employee termination benefits	\$103.3	\$49.1	\$(25.5)	\$—	\$126.9
Asset impairment charges	—	2.1	—	(2.1)	—
Contract termination costs	5.4	1.5	(0.8)	—	6.1
Other related costs	—	1.6	(1.6)	—	—
Total	\$108.7	\$54.3	\$(27.9)	\$(2.1)	\$133.0

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 net realizable value. 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 30, 2019	December 31, 2018
Raw materials	\$881.4	\$859.4
Work-in-process	105.0	104.6
Finished goods	331.1	346.0
Reserves	(117.0)	(113.2)
Inventories	\$1,200.5	\$1,196.8

(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 three months of 2019 and 2018, the Company capitalized \$58.8 million and \$33.5 million, respectively, of pre-production E&D costs for which reimbursement is contractually guaranteed by the customer. During the first three months of 2019 and 2018, the Company also capitalized \$47.0 million and \$31.8 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 three months of 2019 and 2018, the Company collected \$95.8 million and \$79.0 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):

	March 30, 2019	December 31, 2018
Current	\$ 174.6	\$ 160.9
Long-term	80.7	80.4
Recoverable customer E&D and tooling	\$ 255.3	\$ 241.3

(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.

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

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

	March 30, 2019	December 31, 2018
Land	\$ 114.9	\$ 116.8
Buildings and improvements	817.5	809.3
Machinery and equipment	3,568.8	3,463.3
Construction in progress	349.3	389.3
Total property, plant and equipment	4,850.5	4,778.7
Less – accumulated depreciation	(2,257.2)	(2,180.6)
Property, plant and equipment, net	\$ 2,593.3	\$ 2,598.1

Depreciation expense was \$110.9 million and \$107.1 million in the three months ended March 30, 2019 and March 31, 2018, 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 March 30, 2019. The Company will, however, continue to assess the impact of any significant industry events on the realization of its long-lived assets.

In the first quarters of 2019 and 2018, the Company recognized fixed asset impairment charges of \$2.1 million and \$0.9 million, respectively, in conjunction with its restructuring actions (Note 2, "Restructuring").

(6) Goodwill

A summary of the changes in the carrying amount of goodwill, by operating segment, in the three months ended March 30, 2019, is shown below (in millions):

	Seating	E-Systems	Total
Balance at January 1, 2019	\$ 1,244.3	\$ 161.0	\$ 1,405.3
Foreign currency translation and other	(2.1)	3.1	1.0
Balance at March 30, 2019	\$ 1,242.2	\$ 164.1	\$ 1,406.3

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 30, 2019. The Company will, however, continue to assess the impact of significant events or circumstances on its recorded goodwill.

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)****(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	March 30, 2019				December 31, 2018			
	Long-Term Debt	Debt Issuance Costs ⁽²⁾	Long-Term Debt, Net	Weighted Average Interest Rate	Long-Term Debt	Debt Issuance Costs ⁽²⁾	Long-Term Debt, Net	Weighted Average Interest Rate
Credit Agreement — Term Loan Facility	\$ 240.6	\$ (1.3)	\$ 239.3	3.66%	\$ 242.2	\$ (1.5)	\$ 240.7	3.92%
5.375% Senior Notes due 2024 (the "2024 Notes")	325.0	(1.9)	323.1	5.375%	325.0	(2.0)	323.0	5.375%
5.25% Senior Notes due 2025 (the "2025 Notes")	650.0	(4.8)	645.2	5.25%	650.0	(5.0)	645.0	5.25%
3.8% Senior Notes due 2027 (the "2027 Notes") ⁽¹⁾	745.5	(5.1)	740.4	3.885%	745.4	(5.3)	740.1	3.885%
Other	4.4	—	4.4	N/A	5.1	—	5.1	N/A
	\$ 1,965.5	\$ (13.1)	1,952.4		\$ 1,967.7	\$ (13.8)	1,953.9	
Less — Current portion			(13.8)				(12.9)	
Long-term debt			\$ 1,938.6				\$ 1,941.0	

⁽¹⁾ Net of unamortized original issue discount of \$4.5 million and \$4.6 million as of March 30, 2019 and December 31, 2018, respectively

⁽²⁾ Unamortized portion

Senior Notes

The issuance date, maturity date and interest payable dates of the Company's senior unsecured 2024 Notes, 2025 Notes and 2027 Notes (together, the "Notes") are as shown below:

Note	Issuance Date	Maturity Date	Interest Payable Dates
2024 Notes	March 2014	March 15, 2024	March 15 and September 15
2025 Notes	November 2014	January 15, 2025	January 15 and July 15
2027 Notes	August 2017	September 15, 2027	March 15 and September 15

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, merge or sell all or substantially all of the Company's assets. The indenture governing the 2024 Notes limits 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 March 30, 2019, the Company was in compliance with all covenants under the indentures governing the Notes.

Credit Agreement

The Company's unsecured credit agreement (the "Credit Agreement"), dated August 8, 2017, consists of a \$1.75 billion revolving credit facility (the "Revolving Credit Facility") and a \$250.0 million term loan facility (the "Term Loan Facility"). On March 27, 2019, the Company entered into an agreement to extend the maturity date of the Revolving Credit Facility by one year to August 8, 2023. The maturity date of the Term Loan Facility remains August 8, 2022.

As of March 30, 2019 and December 31, 2018, there were no borrowings outstanding under the Revolving Credit Facility and \$240.6 million and \$242.2 million, respectively, of borrowings outstanding under the Term Loan Facility. In the first three months of 2019, the Company made required principal payments of \$1.6 million under the Term Loan Facility.

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

Advances under the Revolving Credit Facility and the Term Loan Facility generally bear interest based on (i) the Eurocurrency Rate (as defined in the Credit Agreement) or (ii) the Base Rate (as defined in the Credit Agreement) plus a margin, determined in accordance with a pricing grid. The range and the rate as of March 30, 2019, are shown below (in percentages):

	Eurocurrency Rate			Base Rate		
	Minimum	Maximum	Rate as of March 30, 2019	Minimum	Maximum	Rate as of March 30, 2019
Revolving Credit Facility	1.00 %	1.60 %	1.10 %	0.00 %	0.60 %	0.10 %
Term Loan Facility	1.125 %	1.90 %	1.25 %	0.125 %	0.90 %	0.25 %

A facility fee, which ranges from 0.125% to 0.30% of the total amount committed under the Revolving Credit Facility, is payable quarterly.

Covenants

The Credit Agreement contains various customary representations, warranties and covenants by the Company, including, without limitation, (i) covenants regarding maximum leverage, (ii) limitations on fundamental changes involving the Company or its subsidiaries and (iii) limitations on indebtedness and liens.

As of March 30, 2019, the Company was in compliance with all covenants under the Credit Agreement.

Other

As of March 30, 2019, other long-term debt consists of amounts outstanding under finance leases.

For further information related to the Company's debt, 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, 2018.

(8) Leases

On January 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2016-02, "Leases," which requires lessees to record right-of-use assets and corresponding liabilities on the balance sheet, as well as disclose key information regarding leasing arrangements. Adoption of the standard resulted in the recognition of right-of-use assets of \$438.1 million and related lease obligations of \$445.8 million as of January 1, 2019. The standard did not have a significant impact on the Company's operating results or cash flows.

Transition

As permitted by the transition guidance, the Company adopted the standard by applying the modified retrospective method without the restatement of comparative periods. Accordingly, the Company has provided disclosures required by prior lease guidance for comparative periods.

The Company elected the package of practical expedients, which permits a lessee to not reassess under the new standard its prior conclusions regarding lease identification, lease classification and initial direct costs. The Company did not elect the practical expedient which permits the use of hindsight when determining the lease term and assessing right-of-use assets for impairment.

As permitted by the transition guidance, the Company used the remaining lease term as of the date of adoption of the standard to estimate discount rates. As permitted by the standard, the Company elected, for all asset classes, the short-term lease exemption. A short-term lease is a lease that, at the commencement date, has a term of twelve months or less and does not include an option to purchase the underlying asset.

Accounting Policy

The Company determines if an arrangement contains a lease at inception. The Company elected the practical expedient, for all asset classes, to account for each lease component of a contract and its associated non-lease components as a single lease component, rather than allocating a standalone value to each component of a lease.

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

For purposes of calculating operating lease obligations under the standard, the Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise such option. The Company's leases do not contain material residual value guarantees or material restrictive covenants.

Operating lease expense is recognized on a straight-line basis over the lease terms.

Discount Rate

The discount rate used to measure a lease obligation should be the rate implicit in the lease; however, the Company's operating leases generally do not provide an implicit rate. Accordingly, the Company uses its incremental borrowing rate at lease commencement to determine the present value of lease payments. The incremental borrowing rate is an entity-specific rate which represents the rate of interest a lessee would pay to borrow on a collateralized basis over a similar term with similar payments.

Right-of-Use Assets and Lease Obligations

The Company has operating leases for production, office and warehouse facilities, manufacturing and office equipment and vehicles. Operating lease assets and obligations included in the accompanying condensed consolidated balance sheet are shown below (in millions):

	March 30, 2019
Right-of-use assets under operating leases:	
Other long-term assets	\$ 443.5
Lease obligations under operating leases:	
Accrued liabilities	\$ 107.5
Other long-term liabilities	342.1
	\$ 449.6

Maturities of lease obligations as of March 30, 2019, are shown below (in millions):

	March 30, 2019
2019 ⁽¹⁾	\$93.6
2020	102.3
2021	79.4
2022	59.6
2023	43.8
Thereafter	138.7
Total undiscounted cash flows	517.4
Less: Imputed interest	(67.8)
Lease obligations under operating leases	\$449.6

⁽¹⁾ For the remaining nine months

In addition, the Company entered into a contract, for which a lease is expected to begin in the third quarter of 2019. The related right-of-use asset and corresponding lease obligation are expected to be approximately \$63 million with a lease term of approximately ten years.

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

Cash flow information related to operating leases is shown below (in millions):

	Three Months Ended March 30, 2019
Non-cash activity:	
Right-of-use assets obtained in exchange for operating lease obligations	\$ 36.9
Operating cash flows:	
Cash paid related to operating lease obligations	\$ 33.2

Lease expense included in the accompanying condensed consolidated statement of comprehensive income is shown below (in millions):

	Three Months Ended March 30, 2019
Operating lease expense	\$ 32.5
Short-term lease expense	4.4
Variable lease expense	0.6
Total lease expense	\$ 37.5

The Company's short-term lease expense excludes leases with a duration of one month or less, as permitted by the standard.

Variable lease expense includes payments based on performance or usage, as well as changes to index and rate-based lease payments. Additionally, the Company evaluated its supply contracts with its customers and concluded that variable lease expense in these arrangements is not material.

In the first three months of 2018, the Company recorded rent expense of \$41.4 million.

The weighted average lease term and discount rate for operating leases are shown below:

	March 30, 2019
Weighted average remaining lease term (in years)	6.75
Weighted average discount rate	3.7 %

The Company has entered into certain finance lease agreements which are not material to the condensed consolidated financial statements. See Note 7, "Debt," to the condensed consolidated financial statements included in this Report.

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)****(9) Pension and Other Postretirement Benefit Plans**

The Company sponsors defined benefit pension plans and other postretirement benefit plans (primarily for the continuation of medical benefits) for eligible employees in the United States and certain other countries.

Net Periodic Pension and Other Postretirement Benefit (Credit) Cost

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

	Three Months Ended			
	March 30, 2019		March 31, 2018	
	U.S.	Foreign	U.S.	Foreign
Service cost	\$—	\$1.6	\$—	\$1.7
Interest cost	4.6	3.7	5.0	3.8
Expected return on plan assets	(5.0)	(5.2)	(6.9)	(5.9)
Amortization of actuarial loss	0.5	2.0	0.5	1.6
Settlement loss	0.1	—	0.2	—
Net periodic benefit (credit) cost	\$0.2	\$2.1	\$(1.2)	\$1.2

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

	Three Months Ended			
	March 30, 2019		March 31, 2018	
	U.S.	Foreign	U.S.	Foreign
Service cost	\$—	\$0.1	\$—	\$0.1
Interest cost	0.5	0.3	0.5	0.4
Amortization of actuarial gain	(0.6)	—	(0.6)	—
Amortization of prior service credit	—	—	—	(0.1)
Net periodic benefit (credit) cost	\$(0.1)	\$0.4	\$(0.1)	\$0.4

Contributions

In the three months ended March 30, 2019, employer contributions to the Company's domestic and foreign defined benefit pension plans were \$3.5 million.

The Company expects contributions to its domestic and foreign defined benefit pension plans to be approximately \$10 million to \$15 million in 2019. 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.

(10) Revenue Recognition

The Company enters into contracts with its customers to provide production parts generally at the beginning of a vehicle's life cycle. Typically, these contracts do not provide for a specified quantity of products, but once entered into, the Company is often expected to fulfill its customers' purchasing requirements for the production life of the vehicle. Many of these contracts may be terminated by the Company's customers at any time. Historically, terminations of these contracts have been minimal. The Company receives purchase orders from its customers, which provide the commercial terms for a particular production part, including price (but not quantities). Contracts may also provide for annual price reductions over the production life of the vehicle, and prices may be adjusted on an ongoing basis to reflect changes in product content/cost and other commercial factors.

Revenue is recognized at a point in time when control of the product is transferred to the customer under standard commercial terms, as the Company does not have an enforceable right to payment prior to such transfer. The amount

of revenue recognized reflects the consideration that the Company expects to be entitled to in exchange for those products based on the annual purchase orders, annual price reductions and ongoing price adjustments (some of which is accounted for as variable consideration). The Company does not believe that there will be significant changes to its estimates of variable consideration.

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

The Company's customers pay for products received in accordance with payment terms that are customary within the industry. The Company's contracts with its customers do not have significant financing components.

The Company records a contract liability for advances received from its customers. As of March 30, 2019, there were no significant contract liabilities recorded. Further, there were no significant contract liabilities recognized in revenue during the first three months of 2019.

Amounts billed to customers related to shipping and handling costs are included in net sales in the condensed consolidated statements of comprehensive income. Shipping and handling costs are accounted for as fulfillment costs and are included in cost of sales in the condensed consolidated statements of comprehensive income.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction that are collected by the Company from a customer are excluded from revenue.

A summary of the Company's revenue by reportable operating segment and geography is shown below (in millions):

	Three Months Ended					
	March 30, 2019			March 31, 2018		
	Seating	E-Systems	Total	Seating	E-Systems	Total
North America	\$1,591.1	\$285.0	\$1,876.1	\$1,740.1	\$315.0	\$2,055.1
Europe and Africa	1,554.3	617.1	2,171.4	1,752.2	691.0	2,443.2
Asia	651.4	304.3	955.7	686.1	358.0	1,044.1
South America	116.9	40.0	156.9	151.5	39.8	191.3
	\$3,913.7	\$1,246.4	\$5,160.1	\$4,329.9	\$1,403.8	\$5,733.7

(11) 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, losses on the extinguishment of debt, gains and losses on the disposal of fixed assets, the non-service cost components of net periodic benefit cost and other miscellaneous income and expense.

A summary of other (income) expense, net is shown below (in millions):

	Three Months Ended	
	March 30, 2019	March 31, 2018
Other expense	\$ 11.3	\$ 5.5
Other income	(6.9)	(11.1)
Other (income) expense, net	\$ 4.4	\$ (5.6)

In the three months ended March 30, 2019, other expense includes net foreign currency transaction losses of \$5.8 million.

In the three months ended March 31, 2018, other income includes a gain of \$10.0 million related to gaining control of an affiliate. For further information related to obtaining control of an affiliate, see Note 5, "Investments in Affiliates and Other Related Party Transactions," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)****(12) Income Taxes**

A summary of the provision for income taxes and the corresponding effective tax rate for the three months ended March 30, 2019 and March 31, 2018, is shown below (in millions, except effective tax rates):

	Three Months Ended	
	March 30, 2019	March 31, 2018
Provision for income taxes	\$43.1	\$77.7
Pretax income before equity in net income of affiliates	\$286.9	\$447.8
Effective tax rate	15.0 %	17.4 %

In the first three months of 2019 and 2018, the provision for income taxes was primarily impacted by the level and mix of earnings among tax jurisdictions. In addition, the Company recognized tax benefits (expense) related to the significant, discrete items shown below (in millions):

	Three Months Ended	
	March 30, 2019	March 31, 2018
Restructuring charges and various other items	\$15.6	\$4.1
Reversal of valuation allowances on deferred tax assets of a foreign subsidiary	—	35.1
Share-based compensation	3.2	10.1
Increase in foreign withholding tax on certain undistributed foreign earnings	—	(22.0)
Change in tax status of certain affiliates	18.4	—
	\$37.2	\$27.3

In addition, in the first quarter of 2018, the Company recognized a gain of \$10.0 million related to obtaining control of an affiliate, for which no tax expense was provided.

Excluding the items above, the effective tax rate for the first quarters of 2019 and 2018 approximated the U.S. federal statutory income tax rate of 21%, 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. In determining the provision for income taxes for financial statement purposes, the Company makes certain estimates and judgments, which affect its evaluation of

the carrying value of its deferred tax assets, as well as its calculation of certain tax liabilities.

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, 2018.

For further information related to obtaining control of an affiliate, see Note 5, "Investments in Affiliates and Other Related Party Transactions," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)****(13) Net Income Per Share Attributable to Lear**

Basic net income per share available to Lear common stockholders is computed using the two-class method by dividing net income attributable to Lear, after deducting the redemption adjustment related to the redeemable noncontrolling interest, 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 available to Lear common stockholders. Diluted net income per share available to Lear common stockholders is computed using the two-class method by dividing net income attributable to Lear, after deducting the redemption adjustment related to the redeemable noncontrolling interest, by the average number of common shares outstanding, including the dilutive effect of common stock equivalents computed using the treasury stock method and the average share price during the period. A summary of information used to compute basic and diluted net income per share available to Lear common stockholders is shown below (in millions, except share and per share data):

	Three Months Ended	
	March 30,	March 31,
	2019	2018
Net income attributable to Lear	\$228.9	\$ 353.7
Less: Redeemable noncontrolling interest adjustment	(6.7)	5.4
Net income available to Lear common stockholders	\$235.6	\$ 348.3
Average common shares outstanding	62,818,797	67,086,326
Dilutive effect of common stock equivalents	304,405	476,126
Average diluted shares outstanding	63,123,197	67,562,452
Basic net income per share available to Lear common stockholders	\$3.75	\$ 5.19
Diluted net income per share available to Lear common stockholders	\$3.73	\$ 5.16

For further information related to the redeemable noncontrolling interest adjustment, see Note 14, "Comprehensive Income and Equity."

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)****(14) 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.

Accumulated Other Comprehensive Loss

A summary of changes, net of tax, in accumulated other comprehensive loss for the three months ended March 30, 2019, is shown below (in millions):

	Three Months Ended March 30, 2019
Defined benefit plans:	
Balance at beginning of period	\$(172.8)
Reclassification adjustments (net of tax expense of \$0.4 million)	1.6
Other comprehensive loss recognized during the period (net of tax impact of \$— million)	(1.3)
Balance at end of period	\$(172.5)
Derivative instruments and hedging:	
Balance at beginning of period	\$(9.7)
Reclassification adjustments (net of tax benefit of \$2.1 million)	(7.1)
Other comprehensive income recognized during the period (net of tax expense of \$2.3 million)	7.8
Balance at end of period	\$(9.0)
Foreign currency translation:	
Balance at beginning of period	\$(523.3)
Other comprehensive loss recognized during the period (net of tax impact of \$— million)	(6.7)
Balance at end of period	\$(530.0)
 Total accumulated other comprehensive loss	 \$(711.5)

In the three months ended March 30, 2019, foreign currency translation adjustments are primarily related to the weakening of the Euro, offset by the strengthening of the Chinese renminbi, 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.

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

A summary of changes, net of tax, in accumulated other comprehensive loss for the three months ended March 31, 2018, is shown below (in millions):

	Three Months Ended March 31, 2018
Defined benefit plans:	
Balance at beginning of period	\$(184.0)
Reclassification adjustments (net of tax expense of \$0.3 million)	1.3
Other comprehensive income recognized during the period (net of tax impact of \$— million)	1.0
Balance at end of period	\$(181.7)
Derivative instruments and hedging:	
Balance at beginning of period	\$(22.9)
Reclassification adjustments (net of tax benefit of \$0.7 million)	(2.4)
Other comprehensive income recognized during the period (net of tax expense of \$11.0 million)	39.8
Balance at end of period	\$14.5
Foreign currency translation:	
Balance at beginning of period	\$(306.5)
Other comprehensive income recognized during the period (net of tax impact of \$— million)	92.9
Balance at end of period	\$(213.6)
Total accumulated other comprehensive loss	\$(380.8)

In the three months ended March 31, 2018, foreign currency translation adjustments are primarily related to the strengthening of the Chinese renminbi and the Euro relative to the U.S. dollar and include pretax losses of \$0.3 million related to intercompany transactions for which settlement is not planned or anticipated in the foreseeable future.

For further information regarding reclassification adjustments related to the Company's defined benefit plans, see Note 9, "Pension and Other Postretirement Benefit Plans." For further information regarding reclassification adjustments related to the Company's derivative and hedging activities, see Note 17, "Financial Instruments."

Lear Corporation Stockholders' EquityCommon Stock Share Repurchase Program

On February 7, 2019, the Company's Board of Directors authorized an increase to the existing common stock share repurchase program authorization to \$1.5 billion and extended the term of the program to December 31, 2021. Share repurchases in the first three months of 2019 are shown below (in millions except for shares and per share amounts):

Three Months Ended		As of	
March 30, 2019		March 30, 2019	
Aggregate Cash paid Repurchases⁽¹⁾	Number of Shares	Average Price per Share⁽²⁾	Remaining Purchase Authorization
\$117.9	\$122.2	804,270	\$146.56
			\$1,465.2

⁽¹⁾ Includes \$83.0 million of repurchases made prior to the increased authorization

⁽²⁾ Excludes commissions

Since the first quarter of 2011, the Company's Board of Directors has authorized \$5.8 billion in share repurchases

under the common stock share repurchase program. As of the end of the first quarter of 2019, the Company has repurchased, in aggregate, \$4.3 billion of its outstanding common stock, at an average price of \$88.17 per share, excluding commissions and related fees.

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

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

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 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 tax withholding requirements as common stock held in treasury in the accompanying condensed consolidated balance sheets as of March 30, 2019 and December 31, 2018.

Quarterly Dividend

In the first three months of 2019 and 2018, the Company's Board of Directors declared quarterly cash dividends of \$0.75 and \$0.70 per share of common stock, respectively. Dividends declared and paid are shown below (in millions):

	Three Months Ended March 30	
	2019	2018
Dividends declared	\$47.7	\$ 47.7
Dividends paid	49.5	50.7

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.

Redeemable Noncontrolling Interest

In accordance with GAAP, the Company records redeemable noncontrolling interests at the greater of (1) the initial carrying amount adjusted for the noncontrolling interest holder's share of total comprehensive income or loss and dividends ("noncontrolling interest carrying value") or (2) the redemption value as of and based on conditions existing as of the reporting date. Required redeemable noncontrolling interest adjustments are recorded as an increase to redeemable noncontrolling interests, with an offsetting adjustment to retained earnings. The redeemable noncontrolling interest is classified in mezzanine equity in the accompanying condensed consolidated balance sheets as of March 30, 2019 and December 31, 2018.

For further information related to the redeemable noncontrolling interest adjustment, see Note 13, "Net Income Per Share Attributable to Lear," as well as Note 5, "Investments in Affiliates and Other Related Party Transactions," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Noncontrolling Interests

In the first three months of 2018, the Company gained control of an affiliate and acquired the outstanding non-controlling interest of another affiliate. For further information related to the affiliate transactions, see Note 5, "Investments in Affiliates and Other Related Party Transactions," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

(15) Legal and Other Contingencies

As of March 30, 2019 and December 31, 2018, the Company had recorded reserves for pending legal disputes, including commercial disputes and other matters, of \$13.3 million and \$11.0 million, respectively. Such reserves reflect amounts recognized in accordance with GAAP and exclude the cost of legal representation. Product liability and warranty reserves are recorded separately from legal reserves, as described below.

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

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Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

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 three months ended March 30, 2019, is shown below (in millions):

Balance at January 1, 2019	\$28.5
Expense, net (including changes in estimates)	1.4
Settlements	(2.3)
Foreign currency translation and other	0.1
Balance at March 30, 2019	\$27.7

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.

As of March 30, 2019 and December 31, 2018, the Company had recorded environmental reserves of \$9.0 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.

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.

(16) 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 E-Systems, which includes complete electrical distribution systems, as well as sophisticated electronic

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control modules, electrification products and connectivity products. Key components in the Company's electrical distribution portfolio include wire harnesses, terminals and connectors and junction boxes for both internal combustion engine and electrification architectures that require management of higher voltage and power. Key components in the Company's electronic control module portfolio include body control modules, wireless receiver and transmitter technology and lighting and audio control modules, as well as portfolios specific to electrification and connectivity trends. Electrification products include charging systems (onboard charging modules, cord set charging equipment and wireless charging systems), battery electronics (battery disconnect units, cell monitoring supervisory systems and integrated total battery control modules) and other power management modules, including converter and inverter systems. Connectivity products include gateway modules and independent communication modules to manage both wired and wireless networks and data in 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. Corporate and regional headquarters costs include various support functions, such as information technology, corporate finance, legal, executive administration and human resources, as well as advanced engineering expenses.

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, net, ("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 March 30, 2019			
	Seating	E-Systems	Other	Consolidated
Revenues from external customers	\$3,913.7	\$1,246.4	\$ —	\$5,160.1
Segment earnings ⁽¹⁾	252.3	128.3	(68.4)	312.2
Depreciation and amortization	82.9	36.8	3.9	123.6
Capital expenditures	80.2	39.1	3.5	122.8
Total assets	7,702.2	2,703.2	1,956.6	12,362.0
	Three Months Ended March 31, 2018			
	Seating	E-Systems	Other	Consolidated
Revenues from external customers	\$4,329.9	\$1,403.8	\$ —	\$5,733.7
Segment earnings ⁽¹⁾	339.5	190.8	(67.4)	462.9
Depreciation and amortization	80.0	36.6	3.6	120.2
Capital expenditures	112.3	48.2	2.3	162.8
Total assets	7,901.5	2,631.3	2,148.4	12,681.2

⁽¹⁾ See definition above

For the three months ended March 30, 2019, segment earnings include restructuring charges of \$45.2 million, \$8.9 million and \$0.2 million in the Seating and E-Systems segments and in the other category, respectively, (Note 2, "Restructuring").

For the three months ended March 31, 2018, segment earnings include restructuring charges of \$14.4 million, \$1.9 million and \$2.1 million in the Seating and E-Systems segments and in the other category, respectively, (Note 2, "Restructuring").

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

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 30,	March 31,
	2019	2018
Segment earnings	\$312.2	\$462.9
Interest expense	20.9	20.7
Other (income) expense, net	4.4	(5.6)
Consolidated income before provision for income taxes and equity in net income of affiliates	\$286.9	\$447.8

(17) Financial Instruments*Debt Instruments*

The carrying values of the Notes vary from their fair values. The fair values of the Notes were determined by reference to the quoted market prices of these securities (Level 2 input based on the GAAP fair value hierarchy). The carrying value of the Company's Term Loan Facility approximates its fair value (Level 3 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):

	March 30,	December
	2019	31, 2018
Estimated aggregate fair value ⁽¹⁾	\$1,971.7	\$1,921.6
Aggregate carrying value ^{(1) (2)}	1,965.6	1,967.2

⁽¹⁾ Term Loan Facility and Notes (excludes "other" debt)

⁽²⁾ Excludes the impact of unamortized original issue discount and debt issuance costs

Cash, Cash Equivalents and Restricted Cash

The Company has on deposit, cash that is legally restricted as to use or withdrawal. A reconciliation of cash, cash equivalents and restricted cash reported on the condensed consolidated balance sheets to cash, cash equivalents and restricted cash reported on the condensed consolidated statements of cash flows is shown below (in millions):

	March 30,	March 31,
	2019	2018
Balance sheet - cash and cash equivalents	\$1,199.4	\$1,268.5
Restricted cash included in other current assets	13.9	8.4
Restricted cash included in other long-term assets	7.6	17.6
Statement of cash flows - cash, cash equivalents and restricted cash	\$1,220.9	\$1,294.5

Marketable Equity Securities

Marketable equity securities, which the Company accounts for under the fair value option, are included in the accompanying condensed consolidated balance sheets as shown below (in millions):

	March 30,	December
	2019	31, 2018
Current assets	\$ 13.8	\$ 4.8
Other long-term assets	37.3	42.5
	\$ 51.1	\$ 47.3

Unrealized gains and losses arising from changes in the fair value of the marketable equity securities are recognized in the accompanying condensed consolidated statements of comprehensive income as a component of other (income) 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).

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LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Derivative Instruments and Hedging Activities

The Company has used derivative financial instruments, including forwards, futures, options, swaps and other derivative contracts to reduce the effects of fluctuations in foreign exchange rates 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), (3) a hedge of a net investment in a foreign operation (a net investment hedge) or (4) a contract not designated as a hedging instrument.

For a fair value hedge, the change in the fair value of the derivative is recorded in earnings and reflected in the condensed consolidated statement of comprehensive 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 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 comprehensive 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 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. Changes in the fair value of contracts not designated as hedging instruments are recorded in earnings and reflected in the condensed consolidated statement of comprehensive income as other (income) expense, net.

The Company formally documents its hedge relationships, including the identification of the hedge instruments and the related hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. Derivatives are recorded at fair value in other current and long-term assets and other current and long-term liabilities in the consolidated balance sheet. The Company also formally assesses whether a derivative used in a hedge transaction is highly effective in offsetting changes in either the fair value or the cash flows of the hedged item. When it is determined that a hedged transaction is no longer probable to occur, the Company discontinues hedge accounting.

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 Chinese renminbi and the Philippine peso.

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

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

	March 30, 2019	December 31, 2018
Fair value of foreign currency contracts designated as cash flow hedges:		
Other current assets	\$28.0	\$20.6
Other long-term assets	4.2	2.8
Other current liabilities	(3.0)	(8.4)
Other long-term liabilities	(0.6)	(2.0)
	28.6	13.0
Notional amount	\$1,357.2	\$1,499.0
Outstanding maturities in months, not to exceed	24	24
Fair value of foreign currency contracts not designated as hedging instruments:		
Other current assets	\$6.5	\$6.1
Other current liabilities	(7.7)	(4.8)
	(1.2)	1.3
Notional amount	\$1,321.4	\$654.0
Outstanding maturities in months, not to exceed	9	12
Total fair value	\$27.4	\$14.3
Total notional amount	\$2,678.6	\$2,153.0

Foreign currency derivative contracts not designated as hedging instruments consist principally of hedges of cash transactions, intercompany loans and certain other balance sheet exposures.

Interest Rate Swaps

The Company has entered into forward starting interest rate swap contracts to partially hedge the risk of changes in interest payments attributable to increases in the benchmark interest rate.

The notional amount, estimated aggregate fair value and related balance sheet classification of the Company's interest rate swap contracts are shown below (in millions, except for maturities):

	March 30, 2019	December 31, 2018
Fair value of interest rate swap contracts designated as cash flow hedges:		
Other current liabilities	\$29.4	\$14.7
Notional amount	\$500.0	\$500.0
Outstanding maturities in months, not to exceed	9	3

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**Accumulated Other Comprehensive Loss - Derivative Instruments and Hedging

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

	Three Months Ended	
	March 30, 2019	March 31, 2018
Gains (losses) recognized in accumulated other comprehensive loss:		
Foreign currency contracts	\$24.8	\$ 50.9
Interest rate swap contracts	(14.7)	—
	10.1	50.9
Foreign currency contract (gains) losses reclassified from accumulated other comprehensive loss to:		
Net sales	0.5	1.7
Cost of sales	(9.7)	(4.8)
	(9.2)	(3.1)
Comprehensive income	\$0.9	\$ 47.8

As of March 30, 2019 and December 31, 2018, pretax net losses of approximately \$0.8 million and \$1.7 million, respectively, related to the Company's derivative instruments and hedging activities were recorded in accumulated other comprehensive loss. During the next twelve month period, the Company expects to reclassify into earnings net gains of approximately \$22.5 million recorded in accumulated other comprehensive loss as of March 30, 2019. Such gains will be reclassified at the time that the underlying hedged transactions are realized.

Fair Value Measurements

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

Market: This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Income: This approach uses valuation techniques to convert future amounts to a single present value amount based on current market expectations.

Cost: This approach is based on the amount that would be required to replace the service capacity of an asset (replacement cost).

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

Level 1: Observable inputs, such as quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Inputs, other than quoted market prices included in Level 1, that are observable either directly or indirectly for the asset or liability.

Unobservable inputs that reflect the entity's own assumptions about the exit price of the asset or liability.

Level 3: Unobservable inputs may be used if there is little or no market data for the asset or liability at the measurement date.

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

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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 30, 2019 and December 31, 2018, are shown below (in millions):

	March 30, 2019			Level 1	Level 2	Level 3
	Frequency	Asset (Liability)	Valuation Technique			
Foreign currency contracts, net	Recurring	\$27.4	Market/ Income	\$—	\$27.4	\$ —
Interest rate swap contracts	Recurring	\$(29.4)	Market/ Income	\$—	\$(29.4)	\$ —
Marketable equity securities	Recurring	\$51.1	Market	\$51.1	\$—	\$ —
	December 31, 2018			Level 1	Level 2	Level 3
	Frequency	Asset (Liability)	Valuation Technique			
Foreign currency contracts, net	Recurring	\$14.3	Market/ Income	\$—	\$14.3	\$ —
Interest rate swap contracts	Recurring	\$(14.7)	Market/ Income	\$—	\$(14.7)	\$ —
Marketable equity securities	Recurring	\$47.3	Market	\$47.3	\$—	\$ —

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. If an estimate of the credit spread is required, 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 30, 2019 and December 31, 2018, 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 in 2019.

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 30, 2019, there were no significant assets or liabilities measured at fair value on a non-recurring basis.

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)****(18) Accounting Pronouncements***Standards Effective in 2019*Leases

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, "Leases," which requires lessees to record right-of-use assets and corresponding liabilities on the balance sheet, as well as disclose key information regarding leasing arrangements. On January 1, 2019, the Company adopted the standard by applying the modified retrospective method without the restatement of comparative financial information, as permitted by the transition guidance. See Note 8, "Leases."

Other Standards

The Company adopted the ASUs summarized below, none of which significantly impacted its financial statements:

Standard	Description	Effective Date
ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	The standard allows for the reclassification of "stranded" tax effects as a result of the Act from accumulated other comprehensive income to retained earnings. The Company elected not to reclassify such amounts. The Company reclassifies taxes from accumulated other comprehensive loss to earnings as the items to which the tax effects relate are similarly reclassified.	January 1, 2019
ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting	The standard aligns measurement and classification guidance for share-based payments to nonemployees with the guidance applicable to employees. Under the new guidance, the measurement of equity-classified nonemployee awards will be fixed at the grant date.	January 1, 2019

Standards Effective After 2019

The Company considered the ASUs summarized below, effective after 2019, none of which are expected to significantly impact its financial statements:

Standard	Description	Effective Date
ASU 2016-13 and 2018-19, Measurement of Credit Losses on Financial Instruments	The standard changes the impairment model for most financial instruments to an "expected loss" model. The new model will generally result in earlier recognition of credit losses.	January 1, 2020
ASU 2017-04, Simplifying the Test for Goodwill Impairment	The standard simplifies the accounting for goodwill impairments and allows a goodwill impairment charge to be based on the amount of a reporting unit's carrying value in excess of its fair value. This eliminates the requirement to calculate the implied fair value of goodwill or what is known as "Step 2" under the current guidance.	January 1, 2020
ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement	The standard eliminates certain fair value disclosures while requiring additional disclosures related to the development of inputs for level 3 of the fair value hierarchy and for entities that use the practical expedient to measure the fair value of certain investments at net asset value.	January 1, 2020
ASU 2018-15, Customer's Accounting for Implementation Cost Incurred in a Cloud Computing Arrangement that is a Service Contract	The standard requires implementation costs in a cloud computing arrangement that is a service contract to be capitalized and amortized over the non-cancellable term of the contract and any renewals that are reasonably certain.	January 1, 2020
ASU 2018-17, Related Party Guidance for Variable Interest Entities	The standard changes how entities evaluate decision making fees under the variable interest guidance.	January 1, 2020
ASU 2018-18, Collaborative Arrangements	The standard requires certain transactions between participants in a collaborative arrangement to be accounted for as revenue under the new revenue standard when the participant is a customer.	January 1, 2020
ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans	The standard requires specific disclosures for defined benefit plans, including the weighted average interest credit rate for cash balance plans and reasons for significant gains and losses affecting the benefit obligation and plan assets. The standard also eliminates certain other disclosures.	January 1, 2021

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LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(19) Subsequent Event

On April 17, 2019, the Company completed the acquisition of Xevo Inc. (“Xevo”), a Seattle-based, Tier 1 automotive supplier of software solutions for cloud, car and mobile devices that are deployed in millions of vehicles worldwide. The Company acquired all of the outstanding shares of Xevo for approximately \$320 million on a cash and debt free basis (subject to certain adjustments). In conjunction with the acquisition, the Company issued 16,231 shares of restricted stock and 130,285 restricted stock units to certain Xevo employees who joined the Company. These shares of restricted stock and restricted stock units were issued pursuant to the 2019 Inducement Grant Plan which was adopted by the Company's Board of Directors without stockholder approval pursuant to the inducement exemption provided under the New York Stock Exchange listing rules.

The acquisition of Xevo will be accounted for as a business combination, and accordingly, the assets acquired and liabilities assumed will be recognized at fair value as of the acquisition date. The operating results and cash flows of Xevo will be included in the consolidated financial statements from the date of acquisition in the Company's E-Systems segment. The Company is in the process of preparing the preliminary estimate of the fair value of assets acquired and liabilities assumed, which will be included in the Company's Quarterly Report on Form 10-Q for the period ending June 29, 2019.

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LEAR CORPORATION

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

Executive Overview

We are a leading Tier 1 supplier to the global automotive industry. We supply seating, electrical distribution systems and electronic modules, as well as related sub-systems, components and software, to all of the world's major automotive manufacturers.

We use our product, design and technological expertise, global reach and competitive manufacturing footprint to achieve our financial goals and objectives of continuing to deliver profitable growth (balancing risks and returns), maintaining a strong balance sheet with investment grade credit metrics and consistently returning excess cash to our stockholders.

Our Seating business consists of the design, development, engineering, just-in-time assembly and delivery of complete seat systems, as well as the design, development, engineering and manufacture of all major seat components, including seat covers and surface materials such as leather and fabric, seat structures and mechanisms, seat foam and headrests. Further, we have capabilities in active sensing and comfort for seats, utilizing electronically controlled sensor and adjustment systems and internally developed algorithms.

Our E-Systems business consists of the design, development, engineering and manufacture of complete electrical distribution systems, as well as sophisticated electronic control modules, electrification products and connectivity products. Electrical distribution systems route networks and electrical signals and manage electrical power within the vehicle for all types of power trains - traditional internal combustion engine ("ICE") architectures to the full range of hybrid, plug-in hybrid and battery electric architectures. Key components in our electrical distribution portfolio include wire harnesses, terminals and connectors and junction boxes for both ICE and electrification architectures that require management of higher voltage and power. Electronic control modules facilitate signal, data and power management within the vehicle and include the associated software required to facilitate these functions. Key components in our electronic control module portfolio include body control modules, wireless receiver and transmitter technology and lighting and audio control modules, as well as portfolios specific to electrification and connectivity trends. Electrification products include charging systems (onboard charging modules, cord set charging equipment and wireless charging systems), battery electronics (battery disconnect units, cell monitoring supervisory systems and integrated total battery control modules) and other power management modules, including converter and inverter systems which may be integrated into other modules or sold separately. Connectivity products include gateway modules and independent communication modules to manage both wired and wireless networks and data in vehicles. In addition to fully functional electronic modules, we offer software that includes cybersecurity, advanced vehicle positioning for automated and autonomous driving applications, roadside modules that communicate real-time traffic information and full capabilities in both dedicated short-range communication ("DSRC") and cellular protocols for vehicle connectivity.

We serve all of the world's major automotive manufacturers across both our Seating and E-Systems businesses, and we have automotive content on more than 400 vehicle nameplates worldwide. It is common to have both seating and electrical content on the same and multiple vehicle platforms with a single customer. Our businesses benefit globally from leveraging common operating standards and disciplines, including world-class product development and manufacturing processes, as well as common customer support and regional infrastructures. Our core capabilities are shared across component categories and include high-precision manufacturing and assembly with short lead times, management of complex supply chains, global engineering and program management skills, the agility to establish and/or move facilities quickly and a unique customer-focused culture. Our businesses utilize proprietary, industry-specific processes and standards, leverage common low-cost engineering centers and share centralized operating support functions, such as logistics, supply chain management, quality and health and safety, as well as all major administrative functions. Further, the seat is becoming a more dynamic and integrated system requiring increased levels of electrical and electronic integration and accelerating the convergence of our Seating and E-Systems businesses. We are the only global automotive supplier with complete capabilities in both of these critical business

segments.

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Table of Contents**LEAR CORPORATION***Industry Overview*

Our sales are driven by the number of vehicles produced by the automotive manufacturers, which is ultimately dependent on consumer demand for automotive vehicles, and our content per vehicle. Global automotive industry production volumes in the first quarter of 2019, as compared to the first quarter of 2018, are shown below (in millions of units):

	Three Months Ended		
	March 30, 2019 ⁽¹⁾	March 31, 2018 ^{(1) (2)}	% Change
North America	4.3	4.4	(2) %
Europe and Africa	5.8	6.1	(5) %
Asia	11.2	12.1	(8) %
South America	0.7	0.8	(5) %
Other	0.3	0.5	(40) %
Global light vehicle production	22.3	23.9	(7) %

⁽¹⁾ Production data based on IHS Automotive

⁽²⁾ Production data for 2018 has been updated to reflect actual production levels

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

Our percentage of consolidated net sales by region in the first quarters of 2019 and 2018 is shown below:

	Three Months Ended	
	March 30, 2019	March 31, 2018
North America	36 %	36 %
Europe and Africa	42 %	43 %
Asia	19 %	18 %
South America	3 %	3 %
Total	100 %	100 %

Our ability to reduce the risks inherent in certain concentrations of business, and thereby maintain our financial performance in the future, will depend, in part, on our ability to continue to diversify our sales on a customer, product, platform and geographic basis to reflect the market overall.

Key trends that specifically affect our business include automotive manufacturers' utilization of global vehicle platforms, increasing demand for luxury and performance features, including increasing levels of electrical and electronic content, and China's emergence as the single largest automotive market in the world, as well as the shift toward crossover and sport utility vehicles, where our content can be significantly higher than our average content per vehicle. In addition, we believe that demand for efficiency, connectivity and safety are driving the technology trends of autonomy, connectivity and electrification. These trends, along with the trend toward shared mobility, are likely to

be at the forefront of our industry for the foreseeable future with each converging long-term toward fully autonomous, connected, electric or hybrid electric vehicles.

Our sales and marketing approach is based on addressing these trends, while our strategy focuses on the major imperatives for success as an automotive supplier: quality, service, cost and efficiency and innovation and technology. We have expanded key component and software capabilities through organic investment and acquisitions to ensure a full complement of the highest quality solutions for our customers. We have restructured, and continue to align, our manufacturing and engineering footprint to attain a leading competitive position globally. We have established or expanded our capabilities in new and growing markets, especially China, in support of our customers' growth and global platform initiatives. These initiatives have helped us achieve our financial goals overall, as well as a more balanced regional, customer and vehicle segment diversification in our business.

Table of Contents**LEAR CORPORATION**

For further information related to these trends and our strategy, see Part 1 — Item 1, "Business — Industry and Strategy" of our Annual Report on Form 10-K for the year ended December 31, 2018.

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

Our material cost as a percentage of net sales was 64.8% in the first quarter of 2019, as compared to 64.9% in the first quarter of 2018. Raw material, energy and commodity costs can be volatile, reflecting changes in supply and demand and global trade and tariff policies. We have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, such as the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments and the selective expansion of low-cost country sourcing and engineering, as well as value engineering and product benchmarking. However, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. Certain of these strategies also may limit our opportunities in a declining commodity environment. In addition, the availability of raw materials, commodities and product components fluctuates from time to time due to factors outside of our control. If these costs increase or availability is restricted, it could have an adverse impact on our operating results in the foreseeable future. See "— Forward-Looking Statements" below and Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2018.

Financial Measures

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

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

Acquisition

On April 17, 2019, we completed the acquisition of Xevo Inc. ("Xevo"), a Seattle-based, Tier 1 automotive supplier of software solutions for cloud, car and mobile devices that are deployed in millions of vehicles worldwide. We acquired all of the outstanding shares of Xevo for approximately \$320 million on a cash and debt free basis (subject to certain adjustments). In conjunction with the acquisition, we issued 16,231 shares of restricted stock and 130,285 restricted

stock units to certain Xevo employees who joined Lear. These shares of restricted stock and restricted stock units were issued pursuant to the 2019 Inducement Grant Plan which was adopted by our Board of Directors without stockholder approval pursuant to the inducement exemption provided under the New York Stock Exchange listing rules. For further information, see Note 19, "Subsequent Event," to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q (this "Report").

Table of Contents**LEAR CORPORATION***Financing Transactions*

Our credit agreement (the "Credit Agreement"), dated August 8, 2017, consists of a \$1.75 billion revolving credit facility (the "Revolving Credit Facility") and a \$250 million term loan facility (the "Term Loan Facility"). On March 27, 2019, we entered into an agreement ("the Extension Agreement") to extend the maturity date of the Revolving Credit Facility by one year to August 8, 2023. The maturity date of the Term Loan Facility remains August 8, 2022.

For further information, see Note 7, "Debt," to the condensed consolidated financial statements included in this Report.

Operational Restructuring

In the first quarter of 2019, we incurred pretax restructuring costs of approximately \$54 million and related manufacturing inefficiency charges of approximately \$2 million. Any future restructuring actions will depend upon market conditions, customer actions and other factors.

For further information, see Note 2, "Restructuring," to the condensed consolidated financial statements included in this Report.

Share Repurchase Program and Quarterly Cash Dividends

Since the first quarter of 2011, our Board of Directors has authorized \$5.8 billion in share repurchases under our common stock share repurchase program. In the first quarter of 2019, we repurchased \$118 million of shares and have a remaining repurchase authorization of \$1.5 billion, which will expire on December 31, 2021.

In the first quarter of 2019, our Board of Directors declared a quarterly cash dividend of \$0.75 per share of common stock, reflecting a 7% increase over the quarterly cash dividend declared in 2018.

For further information related to our common stock share repurchase program and our quarterly dividends, see "— Liquidity and Capital Resources — Capitalization" below and Note 14, "Comprehensive Income and Equity," to the condensed consolidated financial statements included in this Report.

Other Matters

In the first quarter of 2019, we recognized tax benefits of \$18 million related to changes in the tax status of certain affiliates, \$3 million related to share-based compensation and \$16 million related to restructuring and various other items.

In January 2018, we acquired an additional 20% interest in Changchun Lear FAWSN Automotive Electrical and Electronics Co., Ltd. ("Lear FAWSN") from a joint venture partner and amended the existing joint venture agreement to eliminate the substantive participating rights of the remaining joint venture partner. Prior to the amendment, Lear FAWSN was accounted for under the equity method. In conjunction with obtaining control of Lear FAWSN and the valuation of our prior equity investment in Lear FAWSN at fair value, we recognized a gain of approximately \$10 million in the three months ended March 31, 2018.

In the first quarter of 2018, we recognized tax benefits of \$35 million related to the reversal of the valuation allowance on the deferred tax assets of a foreign subsidiary, \$10 million related to share-based compensation and \$4 million related to restructuring charges and various other items, offset by tax expense of \$22 million related to an increase in foreign withholding tax on certain undistributed foreign earnings.

As discussed above, our results for the three months ended March 30, 2019 and March 31, 2018, reflect the following items (in millions):

	Three Months Ended	
	March 30, 2019	March 31, 2018
Costs related to restructuring actions, including manufacturing inefficiencies of \$2 million and \$6 million in the three months ended March 30, 2019 and March 31, 2018	\$56	\$ 24
Gain related to affiliate	—	10
Tax benefit, net	37	27

For further information regarding these items, see Note 2, "Restructuring," and Note 12, "Income Taxes," to the condensed consolidated financial statements included in this Report and Note 5, "Investments in Affiliates and Other

Related Party Transactions," to the consolidated financial statement included in our Annual Report on Form 10-K for the year ended December 31, 2018.

This Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," includes forward-looking statements that are subject to risks and uncertainties. For further information regarding other factors that have had, or

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may have in the future, a significant impact on our business, financial condition or results of operations, see "— Forward-Looking Statements" below and Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2018.

RESULTS OF OPERATIONS

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

	Three Months Ended			
	March 30, 2019		March 31, 2018	
Net sales				
Seating	\$3,913.7	75.8 %	\$4,329.9	75.5 %
E-Systems	1,246.4	24.2	1,403.8	24.5
Net sales	5,160.1	100.0	5,733.7	100.0
Cost of sales	4,686.9	90.8	5,102.3	89.0
Gross profit	473.2	9.2	631.4	11.0
Selling, general and administrative expenses	148.3	2.9	155.4	2.7
Amortization of intangible assets	12.7	0.3	13.1	0.2
Interest expense	20.9	0.4	20.7	0.4
Other (income) expense, net	4.4	0.1	(5.6)	(0.1)
Provision for income taxes	43.1	0.8	77.7	1.4
Equity in net income of affiliates	(2.3)	—	(4.1)	(0.1)
Net income attributable to noncontrolling interests	17.2	0.3	20.5	0.3
Net income attributable to Lear	\$228.9	4.4 %	\$353.7	6.2 %

Three Months Ended March 30, 2019 vs. Three Months Ended March 31, 2018

Net sales in the first quarter of 2019 were \$5.2 billion, as compared to \$5.7 billion in the first quarter of 2018, a decrease of \$574 million or 10%. Lower production volumes on key Lear platforms in all regions and net foreign exchange rate fluctuations negatively impacted net sales by \$447 million and \$273 million, respectively. These decreases were partially offset by the impact of new business, primarily in Asia and Europe, which increased net sales by \$155 million.

(in millions)	Cost of Sales
First quarter 2018	\$5,102
Material cost	(379)
Labor and other	(40)
Depreciation	4
First quarter 2019	\$4,687

Cost of sales in the first quarter of 2019 was \$4.7 billion, as compared to \$5.1 billion in the first quarter of 2018. Lower production volumes on key Lear platforms in all regions and net foreign exchange rate fluctuations, partially offset by the impact of new business, primarily in Asia and Europe, reduced cost of sales by \$438 million.

Gross profit and gross margin were \$473 million and 9.2% of net sales, respectively, in the first quarter of 2019, as compared to \$631 million and 11.0% of net sales, respectively, in the first quarter of 2018. Lower production volumes on key Lear platforms and net foreign exchange rate fluctuations, partially offset by the impact of new business, negatively impacted gross profit by \$127 million. The impact of selling price reductions and higher restructuring costs was offset by favorable operating performance, including the benefit of operational restructuring actions. These factors had a corresponding impact on gross margin.

Selling, general and administrative expenses, including engineering and development expenses, were \$148 million in the first quarter of 2019, as compared to \$155 million in the first quarter of 2018. As a percentage of net sales, selling, general and administrative expenses were 2.9% in the first quarter of 2019, as compared to 2.7% in the first quarter of 2018.

Amortization of intangible assets was \$13 million in the first quarters of 2019 and 2018.
Interest expense was \$21 million in the first quarters of 2019 and 2018.

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Other (income) expense, net, which includes non-income related taxes, foreign exchange gains and losses, gains and losses related to certain derivative instruments and hedging activities, losses on the extinguishment of debt, gains and losses on the disposal of fixed assets, the non-service cost components of net periodic benefit cost and other miscellaneous income and expense, was an expense of \$4 million in the first quarter of 2019, as compared to income of \$6 million in the first quarter of 2018. In the first quarter of 2018, we recognized a gain of approximately \$10 million related to obtaining control of an affiliate.

In the first quarter of 2019, the provision for income taxes was \$43 million, representing an effective tax rate of 15.0% on pretax income before equity in net income of affiliates of \$287 million. In the first quarter of 2018, the provision for income taxes was \$78 million, representing an effective tax rate of 17.4% on pretax income before equity in net income of affiliates of \$448 million, for the reasons described below.

In the first quarters of 2019 and 2018, the provision for income taxes was primarily impacted by the level and mix of earnings among tax jurisdictions. In the first quarter of 2019, we recognized tax benefits of \$18 million related to changes in the tax status of certain affiliates, \$3 million related to share-based compensation and \$16 million related to restructuring and various other items. In the first quarter of 2018, we recognized tax benefits of \$35 million related to the reversal of a valuation allowance on the deferred tax assets of a foreign subsidiary, \$10 million related to share-based compensation and \$4 million related to restructuring charges and various other items, offset by tax expense of \$22 million related to an increase in foreign withholding tax on certain undistributed foreign earnings. In addition, we recognized a gain of approximately \$10 million related to obtaining control of an affiliate, for which no tax expense was provided. Excluding these items, the effective tax rate for the first quarters of 2019 and 2018 approximated the U.S. federal statutory income tax rate of 21%, adjusted for income taxes on foreign earnings, losses and remittances, valuation allowances, tax credits, income tax incentives and other permanent items.

Equity in net income of affiliates was \$2 million in the first quarter of 2019, as compared to \$4 million in the first quarter of 2018.

Net income attributable to Lear was \$229 million, or \$3.73 per diluted share, in the first quarter of 2019, as compared to \$354 million, or \$5.16 per diluted share, in the first quarter of 2018. Net income and diluted net income per share decreased for the reasons described above. In addition, diluted net income per share was impacted by the decrease in average shares outstanding between periods.

Reportable Operating Segments

We have 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 E-Systems, which includes complete electrical distribution systems, as well as sophisticated electronic control modules, electrification products and connectivity products. Key components in our electrical distribution portfolio include wire harnesses, terminals and connectors and junction boxes for both ICE and electrification architectures that require management of higher voltage and power. Key components in our electronic control module portfolio include body control modules, wireless receiver and transmitter technology and lighting and audio control modules, as well as portfolios specific to electrification and connectivity trends. Electrification products include charging systems (onboard charging modules, cord set charging equipment and wireless charging systems), battery electronics (battery disconnect units, cell monitoring supervisory systems and integrated total battery control modules) and other power management modules, including converter and inverter systems. Connectivity products include gateway modules and independent communication modules to manage both wired and wireless networks and data in vehicles.

The financial information presented below is for our two reportable operating segments and our other category for the periods presented. The other category includes unallocated costs related to corporate headquarters, regional headquarters and the elimination of intercompany activities, none of which meets the requirements for being classified as an operating segment. Corporate and regional headquarters costs include various support functions, such as information technology, corporate finance, legal, executive administration and human resources. Financial measures regarding each segment's pretax income before equity in net income of affiliates, interest expense and other (income)

expense, net ("segment earnings") and segment earnings divided by net sales ("margin") are not measures of performance under accounting principles generally accepted in the United States ("GAAP"). Segment earnings and the related margin are used by management to evaluate the performance of our reportable operating segments. Segment earnings should not be considered in isolation or as a substitute for net income attributable to Lear, net cash provided by operating activities or other income statement or cash flow statement data prepared in accordance with GAAP or as measures of profitability or liquidity. In addition, segment earnings, as we determine it, may not be comparable to related or similarly titled measures reported by other companies. For a reconciliation of consolidated segment earnings to consolidated income before provision for income taxes and equity in net income of affiliates, see Note 16, "Segment Reporting," to the condensed consolidated financial statements included in this Report.

Table of Contents**LEAR CORPORATION**Seating

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

	Three Months Ended			
	March 30, 2019	March 31, 2018		
Net sales	\$3,913.7	\$4,329.9		
Segment earnings ⁽¹⁾	252.3	339.5		
Margin	6.4	% 7.8	%	

⁽¹⁾ See definition above

Seating net sales were \$3.9 billion in the first quarter of 2019, as compared to \$4.3 billion in the first quarter of 2018, a decrease of \$416 million or 10%. Lower production volumes on key Lear platforms and net foreign exchange rate fluctuations negatively impacted net sales by \$316 million and \$196 million, respectively. These decreases were partially offset by the impact of new business, which increased net sales by \$77 million.

Segment earnings, including restructuring costs, and the related margin on net sales were \$252 million and 6.4% in the first quarter of 2019, as compared to \$340 million and 7.8% in the first quarter of 2018. Lower production volumes on key Lear platforms, higher restructuring costs and net foreign exchange rate fluctuations, partially offset by the impact of new business, negatively impacted segment earnings by \$109 million. Favorable operating performance, including the benefit of operational restructuring actions, of \$56 million was partially offset by the impact of selling price reductions.

E-Systems

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

	Three Months Ended			
	March 30, 2019	March 31, 2018		
Net sales	\$1,246.4	\$1,403.8		
Segment earnings ⁽¹⁾	128.3	190.8		
Margin	10.3	% 13.6	%	

⁽¹⁾ See definition above

E-Systems net sales were \$1.2 billion in the first quarter of 2019, as compared to \$1.4 billion in the first quarter of 2018, a decrease of \$157 million or 11%. Lower production volumes on key Lear platforms and net foreign exchange rate fluctuations negatively impacted net sales by \$131 million and \$77 million, respectively. These decreases were partially offset by the impact of new business, which increased net sales by \$78 million.

Segment earnings, including restructuring costs, and the related margin on net sales were \$128 million and 10.3% in the first quarter of 2019, as compared to \$191 million and 13.6% in the first quarter of 2018. Lower production volumes on key Lear platforms, higher restructuring costs and net foreign exchange rate fluctuations, partially offset by the impact of new business, negatively impacted segment earnings by \$48 million. Improved operating performance of \$13 million was more than offset by the impact of selling price reductions.

Other

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

	Three Months Ended			
	March 30, 2019	March 31, 2018		
Net sales	\$—	\$ —		
Segment earnings ⁽¹⁾	(68)	(67)		
Margin	N/A	N/A		

⁽¹⁾ See definition above

Segment earnings related to our other category were (\$68) million in the first quarter of 2019, as compared to (\$67) million in the first quarter of 2018.

Table of Contents**LEAR CORPORATION****LIQUIDITY AND CAPITAL RESOURCES**

Our primary liquidity needs are to fund general business requirements, including working capital requirements, capital expenditures, operational restructuring actions and debt service requirements. In addition, we expect to continue to pay quarterly dividends and repurchase shares of our common stock pursuant to our authorized common stock share repurchase program. Our principal sources of liquidity are cash flows from operating activities, borrowings under available credit facilities and our existing cash balance. A substantial portion of our operating income is generated by our subsidiaries. As a result, we are dependent on the earnings and cash flows of and the combination of dividends, royalties, intercompany loan repayments and other distributions and advances from our subsidiaries to provide the funds necessary to meet our obligations.

As of March 30, 2019 and December 31, 2018, cash and cash equivalents of \$934 million and \$1,094 million, respectively, were held in foreign subsidiaries and can be repatriated, primarily through the repayment of intercompany loans and the payment of dividends, without creating additional income tax expense. There are no significant restrictions on the ability of our subsidiaries to pay dividends or make other distributions to Lear. For further information related to potential dividends from our non-U.S. subsidiaries, see "— Adequacy of Liquidity Sources" below and Note 7, "Income Taxes," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Cash Flows

A summary of net cash provided by operating activities is shown below (in millions):

	Three Months Ended		
	March 30, 2019	March 31, 2018	Increase (Decrease) in Operating Cash Flow
Consolidated net income and depreciation and amortization	\$ 370	\$ 494	\$ (124)
Net change in working capital items:			
Accounts receivable	(593)	(461)	(132)
Inventory	(8)	(35)	27
Accounts payable	240	228	12
Accrued liabilities and other	73	15	58
Net change in working capital items	(288)	(253)	(35)
Other	(30)	(4)	(26)
Net cash provided by operating activities	\$ 52	\$ 237	\$ (185)

In the first three months of 2019, lower net income, including the impact of depreciation and amortization, and an incremental increase in working capital reduced cash provided by operating activities by \$124 million and \$35 million, respectively, between periods.

Net cash used in investing activities was \$117 million in the first three months of 2019, as compared to \$188 million in the first three months of 2018. Capital spending was \$123 million in the first three months of 2019, as compared to \$163 million in the first three months of 2018. Capital spending in 2019 is estimated at \$700 million.

Net cash used in financing activities was \$235 million in the first three months of 2019, as compared to \$273 million in the first three months of 2018. In 2019, we paid \$122 million for repurchases of our common stock, \$50 million of dividends to Lear stockholders and \$31 million of dividends to noncontrolling interest holders. In the first three months of 2018, we paid \$145 million for repurchases of our common stock, \$51 million of dividends to Lear stockholders and \$19 million of dividends to noncontrolling interest holders.

Capitalization

From time to time, we utilize uncommitted credit facilities to fund our capital expenditures and working capital requirements at certain of our foreign subsidiaries, in addition to cash provided by operating activities. The availability of uncommitted lines of credit may be affected by our financial performance, credit ratings and other

factors. As of March 30, 2019 and December 31, 2018, our short-term borrowings outstanding were \$15 million and \$10 million, respectively.

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As of March 30, 2019, our senior notes (collectively, the "Notes") consisted of the amounts shown below (in millions, except stated coupon rates):

Note	Aggregate Principal Amount at Maturity	Stated Coupon Rate
Senior unsecured notes due 2024 (the "2024 Notes")	\$ 325	5.375 %
Senior unsecured notes due 2025 (the "2025 Notes")	650	5.25 %
Senior unsecured notes due 2027 (the "2027 Notes")	750	3.8 %
	\$ 1,725	

The issue, maturity and interest payable dates of the Notes are shown below:

Note	Issuance Date	Maturity Date	Interest Payable Dates
2024 Notes	March 2014	March 15, 2024	March 15 and September 15
2025 Notes	November 2014	January 15, 2025	January 15 and July 15
2027 Notes	August 2017	September 15, 2027	March 15 and September 15

For further information related to the Notes, including information on early redemption, covenants and events of default, see Note 7, "Debt," to the condensed consolidated financial statements included in this Report and Note 6, "Debt," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Credit Agreement

Our Credit Agreement, dated August 8, 2017, consists of a \$1.75 billion Revolving Credit Facility and a \$250 million Term Loan Facility. On March 27, 2019, we entered into an Extension Agreement to extend the maturity date of the Revolving Credit Facility by one year to August 8, 2023. The maturity date of the Term Loan Facility remains August 8, 2022.

As of March 30, 2019 and December 31, 2018, there were no borrowings outstanding under the Revolving Credit Facility and \$241 million and \$242 million, respectively, of borrowings outstanding under the Term Loan Facility. During the first three months of 2019, we made required principal payments of \$2 million under the Term Loan Facility.

For further information related to the Credit Agreement, including information on pricing, covenants and events of default, see Note 7, "Debt," to the condensed consolidated financial statements included in this Report and Note 6, "Debt," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Scheduled Interest Payment and Covenants

Scheduled cash interest payments on the Notes and the Term Loan Facility are \$47 million for the remaining nine months of 2019.

As of March 30, 2019, we were in compliance with all covenants under the Credit Agreement and the indentures governing the Notes.

Common Stock Share Repurchase Program

On February 7, 2019, our Board of Directors authorized an increase to our existing common stock share repurchase program authorization to \$1.5 billion and extended the term of the program to December 31, 2021.

Our share repurchases in the first three months of 2019 are shown below (in millions except for shares and per share amounts):

Three Months Ended	As of
March 30, 2019	March 30, 2019
Aggregate Cash paid	Remaining
Repurchases	Purchase
(1) Repurchases	Authorization
Number of Shares	Average Price per Share (2)

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\$ 118 \$ 122 804,270 \$ 146.56 \$ 1,465

⁽¹⁾ Includes \$83 million of repurchases made prior to the increased authorization

⁽²⁾ Excludes commissions

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Since the first quarter of 2011, our Board of Directors has authorized \$5.8 billion in share repurchases under our common stock share repurchase program. As of the end of the first quarter of 2019, we have repurchased, in aggregate, \$4.3 billion of our outstanding common stock, at an average price of \$88.17 per share, excluding commissions and related fees.

We may implement these share repurchases through a variety of methods, including, but not limited to, open market purchases, accelerated stock repurchase programs and structured repurchase transactions. The extent to which we will repurchase our outstanding common stock and the timing of such repurchases will depend upon our financial condition, prevailing market conditions, alternative uses of capital and other factors (see "—Forward-Looking Statements").

For further information related to our common stock share repurchase program, see Note 14, "Comprehensive Income and Equity," to the condensed consolidated financial statements included in this Report.

Dividends

The quarterly cash dividend declared in the first quarter of 2019 reflects a 7% increase over the quarterly cash dividend declared in the first quarter of 2018. A summary of the 2019 dividends is shown below:

Payment Date	Dividend		
	Per Share	Declaration Date	Record Date
March 20, 2019	\$ 0.75	February 7, 2019	March 1, 2019

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

Adequacy of Liquidity Sources

As of March 30, 2019, we had approximately \$1.2 billion of cash and cash equivalents on hand and \$1.75 billion in available borrowing capacity under our Revolving Credit Facility. Together with cash provided by operating activities, we believe that this will enable us to meet our liquidity needs to satisfy ordinary course business obligations. In addition, we expect to continue to pay quarterly dividends and repurchase shares of our common stock pursuant to our authorized common stock share repurchase program (see "— Common Stock Share Repurchase Program," above). Our future financial results and our ability to continue to meet our liquidity needs are subject to, and will be affected by, cash flows from operations, including the impact of restructuring activities, automotive industry conditions, the financial condition of our customers and suppliers and other related factors. Additionally, an economic downturn or reduction in production levels could negatively impact our financial condition. For further discussion of the risks and uncertainties affecting our cash flows from operations and our overall liquidity, see "— Executive Overview" above, "— Forward-Looking Statements" below and Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2018.

Market Risk Sensitivity

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

Foreign Exchange

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

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A summary of the notional amount and estimated aggregate fair value of our outstanding foreign exchange contracts is shown below (in millions):

	March 30, 2019	December 31, 2018
Notional amount (contract maturities < 24 months)	\$ 2,679	\$ 2,153
Fair value	27	14

Currently, our most significant foreign currency transactional exposures relate to the Mexican peso, various European currencies, the Thai baht, the Chinese renminbi, the Brazilian real, the Japanese yen and the South African rand. A sensitivity analysis of our net transactional exposure is shown below (in millions):

	Hypothetical Strengthening % ⁽¹⁾	Potential Earnings Benefit (Adverse Earnings Impact)	
		March 30, 2019	December 31, 2018
U.S. dollar	10%	\$(18)	\$ (19)
Euro	10%	14	20

⁽¹⁾ Relative to all other currencies to which it is exposed for a twelve-month period

A sensitivity analysis related to the aggregate fair value of our outstanding foreign exchange contracts is shown below (in millions):

	Hypothetical Change % ⁽²⁾	Estimated Change in Fair Value	
		March 30, 2019	December 31, 2018
U.S. dollar	10%	\$41	\$ 37
Euro	10%	63	72

⁽²⁾ Relative to all other currencies to which it is exposed for a twelve-month period

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

In addition to the transactional exposure described above, our operating results are impacted by the translation of our foreign operating income into U.S. dollars ("translational exposure"). In 2018, net sales outside of the United States accounted for 82% of our consolidated net sales, although certain non-U.S. sales are U.S. dollar denominated. We do not enter into foreign exchange contracts to mitigate our translational exposure.

Interest Rate Swaps

Our exposure to market risk associated with changes in variable interest rates impacts our interest payments on current and future debt obligations. We have entered into forward starting interest rate swap contracts ("Interest Rate Swaps") to partially hedge the risk of changes in interest payments attributable to increases in the benchmark interest rate.

From time to time, we also utilize interest rate swap and other derivative contracts to convert certain fixed rate debt obligations to variable rate, matching effective and maturity dates to specific debt instruments. All of our Interest Rate Swaps are executed with banks that we believe are creditworthy and are denominated in currencies that match the underlying debt instrument. All of these contracts are designated as cash flow hedges.

A summary of the notional amount, estimated aggregate fair value and contract value of our outstanding Interest Rate Swaps is shown below (in millions):

	March 30, 2019	December 31, 2018
Notional amount (contract maturities < 9 months)	\$ 500	\$ 500
Fair value	\$ (29)	\$ (15)

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The fair value of all outstanding Interest Rate Swaps is subject to changes in value due to changes in interest rates. A sensitivity analysis related to the aggregate fair value of our outstanding Interest Rate Swaps, is shown below (in millions):

Hypothetical Parallel Shift - Basis Points	Estimated Change in Fair Value	
	March 31, 2019	December 31, 2018
Interest rate 100	\$46	\$ 46

Commodity Prices

Raw material, energy and commodity costs can be volatile, reflecting changes in supply and demand and global trade and tariff policies. We have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, such as the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments and the selective expansion of low-cost country sourcing and engineering, as well as value engineering and product benchmarking. However, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. Certain of these strategies also may limit our opportunities in a declining commodity cost environment. If these costs increase, it could have an adverse impact on our operating results in the foreseeable future. See "— Forward-Looking Statements" below and Item 1A, "Risk Factors — Increases in the costs and restrictions on the availability of raw materials, energy, commodities and product components could adversely affect our financial performance," in our Annual Report on Form 10-K for the year ended December 31, 2018.

We have commodity price risk with respect to purchases of certain raw materials, including steel, copper, diesel fuel, chemicals, resins and leather. Our main cost exposures relate to steel, copper and leather. The majority of the steel used in our products is comprised of fabricated components that are integrated into a seat system, such as seat frames, recliner mechanisms, seat tracks and other mechanical components. Therefore, our exposure to changes in steel prices is primarily indirect, through these purchased components. Approximately 90% of our copper purchases and a significant portion of our leather purchases are subject to price index agreements with our customers.

For further information related to the financial instruments described above, see Note 17, "Financial Instruments," to the condensed consolidated financial statements included in this Report.

OTHER MATTERS**Legal and Environmental Matters**

We are involved from time to time in various legal proceedings and claims, including, without limitation, commercial and contractual disputes, product liability claims and environmental and other matters. As of March 30, 2019, we had recorded reserves for pending legal disputes, including commercial disputes and other matters, of \$13 million. In addition, as of March 30, 2019, we had recorded reserves for product liability claims and environmental matters of \$28 million and \$9.0 million, respectively. Although these reserves were determined in accordance with GAAP, the ultimate outcomes of these matters are inherently uncertain, and actual results may differ significantly from current estimates. For a description of risks related to various legal proceedings and claims, see Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2018. For a more complete description of our outstanding material legal proceedings, see Note 15, "Legal and Other Contingencies," to the condensed consolidated financial statements included in this Report.

Significant Accounting Policies and Critical Accounting Estimates

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

accounting estimates, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Significant Accounting Policies and Critical Accounting Estimates," and Note 2, "Summary of Significant Accounting Policies," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018. There have been no significant changes in our significant accounting policies or critical accounting estimates during the first quarter of 2019, with the exception of leases. See Note 8, "Leases," to the condensed consolidated financial statements included in this Report.

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Recently Issued Accounting Pronouncements

For information on the impact of recently issued accounting pronouncements, see Note 18, "Accounting Pronouncements," to the condensed consolidated financial statements included in this Report.

Forward-Looking Statements

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

- general economic conditions in the markets in which we operate, including changes in interest rates or currency exchange rates;
- changes in actual industry vehicle production levels from our current estimates;
- fluctuations in the production of vehicles or the loss of business with respect to, or the lack of commercial success of, a vehicle model for which we are a significant supplier;
- the outcome of customer negotiations and the impact of customer-imposed price reductions;
- the cost and availability of raw materials, energy, commodities and product components and our ability to mitigate such costs;
- disruptions in relationships with our suppliers;
- the financial condition of and adverse developments affecting our customers and suppliers;
- risks associated with conducting business in foreign countries;
- currency controls and the ability to economically hedge currencies;
- global sovereign fiscal matters and creditworthiness, including potential defaults and the related impacts on economic activity, including the possible effects on credit markets, currency values, monetary unions, international treaties and fiscal policies;
- the operational and financial success of our joint ventures;
- competitive conditions impacting us and our key customers and suppliers;
- labor disputes involving us or our significant customers or suppliers or that otherwise affect us;
- the impact and timing of program launch costs and our management of new program launches;
- limitations imposed by our existing indebtedness and our ability to access capital markets on commercially reasonable terms;
- changes in discount rates and the actual return on pension assets;
- impairment charges initiated by adverse industry or market developments;
- our ability to execute our strategic objectives;
- disruptions to our information technology, including those related to cybersecurity;
- increases in our warranty, product liability or recall costs;
- the outcome of legal or regulatory proceedings to which we are or may become a party;
- the impact of pending legislation and regulations or changes in existing federal, state, local or foreign laws or regulations;
- the impact of regulations on our foreign operations;
- costs associated with compliance with environmental laws and regulations;

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LEAR CORPORATION

developments or assertions by or against us relating to intellectual property rights;
the impact of potential changes in tax and trade policies in the United States and related actions by countries in which we do business;
the anticipated changes in economic and other relationships between the United Kingdom and the European Union;
and
other risks described in Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2018, and our other Securities and Exchange Commission ("SEC") filings.
The forward-looking statements in this Report are made as of the date hereof, and we do not assume any obligation to update, amend or clarify them to reflect events, new information or circumstances occurring after the date hereof.

ITEM 4 — CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

During the quarter ended March 30, 2019, we implemented a new lease accounting system and processes in conjunction with the adoption of ASU 2016-02, "Leases," on January 1, 2019. These implementations resulted in a material change in a component of our internal control over financial reporting. Other than as described above, there were no changes in the Company's internal control over financial reporting during the quarter ended March 30, 2019, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

We are involved from time to time in various legal proceedings and claims, including, without limitation, commercial or contractual disputes, product liability claims and environmental and other matters. For a description of risks related to various legal proceedings and claims, see Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2018. For a description of our outstanding material legal proceedings, see Note 15, "Legal and Other Contingencies," to the condensed consolidated financial statements included in this Report.

ITEM 1A — RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

Table of Contents**LEAR CORPORATION****ITEM 2 — UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

As discussed in Part I — Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capitalization — Common Stock Share Repurchase Program," and Note 14, "Comprehensive Income and Equity," to the condensed consolidated financial statements included in this Report, we have a remaining repurchase authorization of \$1,465.2 million under our ongoing common stock share repurchase program. A summary of the shares of our common stock repurchased during the quarter ended March 30, 2019, is shown below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in millions)
January 1, 2019 through January 26, 2019	383,290	\$141.63	383,290	\$ 745.5
January 27, 2019 through February 23, 2019	259,448	\$153.80	259,448	1,488.9 (1)
February 24, 2019 through March 30, 2019	161,532	\$146.62	161,532	1,465.2
Total	804,270	\$146.56	804,270	\$ 1,465.2

(1) On February 7, 2019, our Board of Directors authorized an increase to our existing common stock share repurchase program authorization to \$1.5 billion.

Table of Contents**LEAR CORPORATION****ITEM 6 — EXHIBITS****Exhibit Index**

Exhibit Number	Exhibit Name
10.1	<u>Extension Agreement, dated March 27, 2019, related to the Credit Agreement, dated as of August 8, 2017, among the Company, the foreign subsidiary borrowers from time to time party thereto, the lenders from time to time party thereto, HSBC Securities (USA) Inc., as syndication agent, Barclays Bank PLC, Citibank N.A. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as co-documentation agents, and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 27, 2019).</u>
10.2	*** <u>Lear Corporation 2019 Inducement Grant Plan (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 filed on April 17, 2019).</u>
* 10.3	*** <u>Form of 2019 Performance Share Terms and Conditions under the Lear Corporation 2009 Long-Term Stock Incentive Plan.</u>
* 10.4	*** <u>Form of 2019 Restricted Stock Unit Terms and Conditions under the Lear Corporation 2009 Long-Term Stock Incentive Plan.</u>
* 31.1	<u>Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.</u>
* 31.2	<u>Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.</u>
* 32.1	<u>Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
* 32.2	<u>Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
** 101.SCH	XBRL Taxonomy Extension Schema Document.
** 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
** 101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
** 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
** 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

* Filed herewith.

** Submitted electronically with the Report.

*** Compensatory plan or arrangement.

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LEAR CORPORATION

SIGNATURES

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

LEAR
CORPORATION

Dated: April 26, 2019 By: /s/ Raymond E. Scott
Raymond E. Scott
President and Chief Executive Officer

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