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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 3, 2021.

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

For the transition period from __________ to __________.

Commission file number: 001-11311

LEAR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**13-3386776**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

21557 Telegraph Road, Southfield, MI 48033
(Address of principal executive offices)

(248) 447-1500
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01	**LEA**	**New York Stock Exchange**

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

Indicate by check mark whether the registrant has submitted electronically 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 x 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	x	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 x

As of August 3, 2021, the number of shares outstanding of the registrant's common stock was 59,741,379 shares.

LEAR CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED JULY 3, 2021

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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, 2020.

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.

LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	July 3, 2021[1]	December 31, 2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,401.7	$ 1,306.7
Accounts receivable	2,965.0	3,269.2
Inventories	1,590.3	1,401.1
Other	897.3	799.7
Total current assets	6,854.3	6,776.7
LONG-TERM ASSETS:		
Property, plant and equipment, net	2,695.0	2,736.2
Goodwill	1,667.4	1,655.8
Other	2,047.0	2,029.9
Total long-term assets	6,409.4	6,421.9
Total assets	$ 13,263.7	$ 13,198.6
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable and drafts	$ 2,886.5	$ 3,141.6
Accrued liabilities	1,984.1	1,920.9
Current portion of long-term debt	4.8	14.2
Total current liabilities	4,875.4	5,076.7
LONG-TERM LIABILITIES:		
Long-term debt	2,301.3	2,300.3
Other	1,194.9	1,206.7
Total long-term liabilities	3,496.2	3,507.0
EQUITY:		
Preferred stock, 100,000,000 shares authorized (including 10,896,250 Series A convertible preferred stock authorized); no shares outstanding	—	—
Common stock, $0.01 par value, 300,000,000 shares authorized; 64,571,405 shares issued as of July 3, 2021 and December 31, 2020	0.6	0.6
Additional paid-in capital	973.6	963.6
Common stock held in treasury, 4,593,846 and 4,519,891 shares as of July 3, 2021 and December 31, 2020, respectively, at cost	(618.6)	(598.6)
Retained earnings	5,155.1	4,806.8
Accumulated other comprehensive loss	(727.8)	(705.1)
Lear Corporation stockholders’ equity	4,782.9	4,467.3
Noncontrolling interests	109.2	147.6
Equity	4,892.1	4,614.9
Total liabilities and equity	$ 13,263.7	$ 13,198.6

(1) Unaudited.

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

LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited; in millions, except share and per share data)

	Three Months Ended		Six Months Ended	
	July 3, 2021	July 4, 2020	July 3, 2021	July 4, 2020
Net sales	$ 4,760.7	$ 2,444.5	$ 10,115.1	$ 6,902.2
Cost of sales	4,359.3	2,571.9	9,220.9	6,695.4
Selling, general and administrative expenses	170.8	150.9	339.7	294.6
Amortization of intangible assets	25.1	16.0	41.6	33.1
Interest expense	22.3	27.2	44.6	51.6
Other (income) expense, net	(46.1)	(3.2)	(39.8)	37.3
Consolidated income (loss) before provision (benefit) for income taxes and equity in net income of affiliates	229.3	(318.3)	508.1	(209.8)
Provision (benefit) for income taxes	39.3	(41.0)	98.2	(14.5)
Equity in net income of affiliates	(4.9)	(7.8)	(10.8)	(9.4)
Consolidated net income (loss)	194.9	(269.5)	420.7	(185.9)
Less: Net income attributable to noncontrolling interests	19.7	24.4	41.8	31.6
Net income (loss) attributable to Lear	**$ 175.2**	**$ (293.9)**	**$ 378.9**	**$ (217.5)**
Basic net income (loss) per share available to Lear common stockholders (Note 14)	**$ 2.91**	**$ (4.89)**	**$ 6.28**	**$ (3.61)**
Diluted net income (loss) per share available to Lear common stockholders (Note 14)	**$ 2.89**	**$ (4.89)**	**$ 6.25**	**$ (3.61)**
Cash dividends declared per share	**$ 0.25**	**$ —**	**$ 0.50**	**$ 0.77**
Average common shares outstanding	**60,292,000**	**60,102,925**	**60,302,398**	**60,310,559**
Average diluted shares outstanding	**60,611,505**	**60,102,925**	**60,585,907**	**60,310,559**
Consolidated comprehensive income (loss) (Condensed Consolidated Statements of Equity)	$ 259.4	$ (142.1)	$ 398.8	$ (339.9)
Less: Comprehensive income attributable to noncontrolling interests	21.6	25.5	42.6	27.9
Comprehensive income (loss) attributable to Lear	$ 237.8	$ (167.6)	$ 356.2	$ (367.8)

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

LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited; in millions, except share and per share data)

	Three Months Ended July 3, 2021					
	Common Stock	Additional Paid-In Capital	Common Stock Held in Treasury	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax	Lear Corporation Stockholders' Equity
Balance at April 3, 2021	$ 0.6	$ 964.3	$ (589.6)	$ 4,995.2	$ (790.4)	$ 4,580.1
Comprehensive income:						
Net income	—	—	—	175.2	—	175.2
Other comprehensive income	—	—	—	—	62.6	62.6
Total comprehensive income	—	—	—	175.2	62.6	237.8
Stock-based compensation	—	12.2	—	—	—	12.2
Net issuance of 17,688 shares held in treasury in settlement of stock-based compensation	—	(2.9)	2.2	—	—	(0.7)
Repurchase of 169,814 shares of common stock at average price of $183.56 per share	—	—	(31.2)	—	—	(31.2)
Dividends declared to Lear Corporation stockholders	—	—	—	(15.3)	—	(15.3)
Dividends declared to noncontrolling interest holders	—	—	—	—	—	—
Balance at July 3, 2021	$ 0.6	$ 973.6	$ (618.6)	$ 5,155.1	$ (727.8)	$ 4,782.9

	Six Months Ended July 3, 2021					
	Common Stock	Additional Paid-In Capital	Common Stock Held in Treasury	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax	Lear Corporation Stockholders' Equity
Balance at January 1, 2021	$ 0.6	$ 963.6	$ (598.6)	$ 4,806.8	$ (705.1)	$ 4,467.3
Comprehensive income (loss):						
Net income	—	—	—	378.9	—	378.9
Other comprehensive income (loss)	—	—	—	—	(22.7)	(22.7)
Total comprehensive income (loss)	—	—	—	378.9	(22.7)	356.2
Stock-based compensation	—	29.9	—	—	—	29.9
Net issuance of 95,859 shares held in treasury in settlement of stock-based compensation	—	(19.9)	11.2	—	—	(8.7)
Repurchase of 169,814 shares of common stock at average price of $183.56 per share	—	—	(31.2)	—	—	(31.2)
Dividends declared to Lear Corporation stockholders	—	—	—	(30.6)	—	(30.6)
Dividends declared to noncontrolling interest holders	—	—	—	—	—	—
Balance at July 3, 2021	$ 0.6	$ 973.6	$ (618.6)	$ 5,155.1	$ (727.8)	$ 4,782.9

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

LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (continued)
(Unaudited; in millions, except share and per share data)

	Three Months Ended July 3, 2021		
	Lear Corporation Stockholders' Equity	Non-controlling Interests	Equity
Balance at April 3, 2021	$ 4,580.1	$ 168.6	$ 4,748.7
Comprehensive income:			
Net income	175.2	19.7	194.9
Other comprehensive income	62.6	1.9	64.5
Total comprehensive income	237.8	21.6	259.4
Stock-based compensation	12.2	—	12.2
Net issuance of 17,688 shares held in treasury in settlement of stock-based compensation	(0.7)	—	(0.7)
Repurchase of 169,814 shares of common stock at average price of $183.56 per share	(31.2)	—	(31.2)
Dividends declared to Lear Corporation stockholders	(15.3)	—	(15.3)
Dividends declared to noncontrolling interest holders	—	(81.0)	(81.0)
Balance at July 3, 2021	$ 4,782.9	$ 109.2	$ 4,892.1

	Six Months Ended July 3, 2021		
	Lear Corporation Stockholders' Equity	Non-controlling Interests	Equity
Balance at January 1, 2021	$ 4,467.3	$ 147.6	$ 4,614.9
Comprehensive income (loss):			
Net income	378.9	41.8	420.7
Other comprehensive income (loss)	(22.7)	0.8	(21.9)
Total comprehensive income (loss)	356.2	42.6	398.8
Stock-based compensation	29.9	—	29.9
Net issuance of 95,859 shares held in treasury in settlement of stock-based compensation	(8.7)	—	(8.7)
Repurchase of 169,814 shares of common stock at average price of $183.56 per share	(31.2)	—	(31.2)
Dividends declared to Lear Corporation stockholders	(30.6)	—	(30.6)
Dividends declared to noncontrolling interest holders	—	(81.0)	(81.0)
Balance at July 3, 2021	$ 4,782.9	$ 109.2	$ 4,892.1

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

LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (continued)
(Unaudited; in millions, except share and per share data)

	Three Months Ended July 4, 2020					
	Common Stock	Additional Paid-In Capital	Common Stock Held in Treasury	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax	Lear Corporation Stockholders' Equity
Balance at April 4, 2020	$ 0.6	$ 946.0	$ (615.6)	$ 4,741.8	$ (1,049.3)	$ 4,023.5
Comprehensive income (loss):						
Net income (loss)	—	—	—	(293.9)	—	(293.9)
Other comprehensive income	—	—	—	—	126.3	126.3
Total comprehensive income (loss)	—	—	—	(293.9)	126.3	(167.6)
Stock-based compensation	—	12.5	—	—	—	12.5
Net issuance of 21,616 shares held in treasury in settlement of stock-based compensation	—	(2.9)	3.0	(0.8)	—	(0.7)
Dividends declared to noncontrolling interest holders	—	—	—	—	—	—
Balance at July 4, 2020	$ 0.6	$ 955.6	$ (612.6)	$ 4,447.1	$ (923.0)	$ 3,867.7

	Six Months Ended July 4, 2020					
	Common Stock	Additional Paid-In Capital	Common Stock Held in Treasury	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax	Lear Corporation Stockholders' Equity
Balance at January 1, 2020	$ 0.6	$ 969.1	$ (563.1)	$ 4,715.8	$ (772.7)	$ 4,349.7
Comprehensive income (loss):						
Net income (loss)	—	—	—	(217.5)	—	(217.5)
Other comprehensive loss	—	—	—	—	(150.3)	(150.3)
Total comprehensive income (loss)	—	—	—	(217.5)	(150.3)	(367.8)
Adoption of accounting standard update 2016-13	—	—	—	(0.8)	—	(0.8)
Stock-based compensation	—	16.4	—	—	—	16.4
Net issuance of 145,447 shares held in treasury in settlement of stock-based compensation	—	(29.9)	20.5	(2.5)	—	(11.9)
Repurchase of 641,149 shares of common stock at average price of $109.22 per share	—	—	(70.0)	—	—	(70.0)
Dividends declared to Lear Corporation stockholders	—	—	—	(46.8)	—	(46.8)
Dividends declared to noncontrolling interest holders	—	—	—	—	—	—
Redeemable noncontrolling interest adjustment	—	—	—	(1.1)	—	(1.1)
Balance at July 4, 2020	$ 0.6	$ 955.6	$ (612.6)	$ 4,447.1	$ (923.0)	$ 3,867.7

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

LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (continued)
(Unaudited; in millions, except share and per share data)

	Three Months Ended July 4, 2020			
	Lear Corporation Stockholders' Equity	Non-controlling Interests	Equity	Redeemable Non-controlling Interests
Balance at April 4, 2020	$ 4,023.5	$ 159.8	$ 4,183.3	$ 113.5
Comprehensive income (loss):				
Net income (loss)	(293.9)	24.0	(269.9)	0.4
Other comprehensive income	126.3	0.7	127.0	0.4
Total comprehensive income (loss)	(167.6)	24.7	(142.9)	0.8
Stock-based compensation	12.5	—	12.5	—
Net issuance of 21,616 shares held in treasury in settlement of stock-based compensation	(0.7)	—	(0.7)	—
Dividends declared to noncontrolling interest holders	—	(69.0)	(69.0)	—
Balance at July 4, 2020	$ 3,867.7	$ 115.5	$ 3,983.2	$ 114.3

	Six Months Ended July 4, 2020			
	Lear Corporation Stockholders' Equity	Non-controlling Interests	Equity	Redeemable Non-controlling Interests
Balance at January 1, 2020	$ 4,349.7	$ 151.4	$ 4,501.1	$ 118.4
Comprehensive income (loss):				
Net income (loss)	(217.5)	35.1	(182.4)	(3.5)
Other comprehensive loss	(150.3)	(2.0)	(152.3)	(1.7)
Total comprehensive income (loss)	(367.8)	33.1	(334.7)	(5.2)
Adoption of accounting standard update 2016-13	(0.8)	—	(0.8)	—
Stock-based compensation	16.4	—	16.4	—
Net issuance of 145,447 shares held in treasury in settlement of stock-based compensation	(11.9)	—	(11.9)	—
Repurchase of 641,149 shares of common stock at average price of $109.22 per share	(70.0)	—	(70.0)	—
Dividends declared to Lear Corporation stockholders	(46.8)	—	(46.8)	—
Dividends declared to noncontrolling interest holders	—	(69.0)	(69.0)	—
Redeemable noncontrolling interest adjustment	(1.1)	—	(1.1)	1.1
Balance at July 4, 2020	$ 3,867.7	$ 115.5	$ 3,983.2	$ 114.3

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

LEAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in millions)

	Six Months Ended July 3, 2021	Six Months Ended July 4, 2020
Cash Flows from Operating Activities:		
Consolidated net income (loss)	$ 420.7	$ (185.9)
Adjustments to reconcile consolidated net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	291.0	260.8
Net change in recoverable customer engineering, development and tooling	(79.8)	(58.1)
Net change in working capital items (see below)	(136.4)	(358.8)
Loss on extinguishment of debt	—	21.1
Other, net	12.1	18.7
Net cash provided by (used in) operating activities	507.6	(302.2)
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(252.9)	(195.2)
Other, net	(30.3)	19.2
Net cash used in investing activities	(283.2)	(176.0)
Cash Flows from Financing Activities:		
Term loan repayments	(9.4)	(6.3)
Revolving credit facility borrowings	—	1,000.0
Proceeds from the issuance of senior notes	—	669.1
Redemption of senior notes	—	(667.1)
Short-term repayments, net	—	(12.0)
Payment of debt issuance and other financing costs	—	(6.9)
Repurchase of common stock	(29.2)	(70.0)
Dividends paid to Lear Corporation stockholders	(30.8)	(47.9)
Dividends paid to noncontrolling interests	(52.8)	(43.0)
Other, net	(10.1)	(14.6)
Net cash provided by (used in) financing activities	(132.3)	801.3
Effect of foreign currency translation	(1.9)	(20.4)
Net Change in Cash, Cash Equivalents and Restricted Cash	90.2	302.7
Cash, Cash Equivalents and Restricted Cash as of Beginning of Period	1,314.5	1,510.4
Cash, Cash Equivalents and Restricted Cash as of End of Period	$ 1,404.7	$ 1,813.1
Changes in Working Capital Items:		
Accounts receivable	$ 283.7	$ 557.3
Inventories	(199.6)	(11.5)
Accounts payable	(232.6)	(866.8)
Accrued liabilities and other	12.1	(37.8)
Net change in working capital items	$ (136.4)	$ (358.8)
Supplementary Disclosure:		
Cash paid for interest	$ 45.3	$ 65.0
Cash paid for income taxes, net of refunds received	$ 82.5	$ 63.3

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

(2) Impact of COVID-19 Pandemic

Although industry production has improved relative to 2020, production remains below recent historic levels. It is likely that, for a period of time, the global automotive industry will continue to be impacted by the COVID-19 pandemic, particularly through supply shortages, ongoing costs related to personal protective equipment and higher labor costs reflecting inefficiencies and increased absenteeism. The most significant supply shortage relates to semiconductor chips, which is impacting global industry production, resulting in cancellations of planned production. Further, a resurgence of the virus or its variants, including corresponding "stay at home" or similar government orders impacting industry production, could impact the Company's financial results.

The accompanying condensed consolidated financial statements reflect estimates and assumptions made by management as of July 3, 2021, and for the six months then ended. Such estimates and assumptions affect, among other things, the Company's goodwill; long-lived asset and indefinite-lived intangible asset valuations; inventory valuations; valuations of deferred income taxes and income tax contingencies; and credit losses related to the Company's financial instruments. Events and circumstances arising after July 3, 2021, including those resulting from the impact of the COVID-19 pandemic, will be reflected in management's estimates and assumptions in future periods.

(3) Restructuring

Restructuring costs include employee termination benefits, asset impairment charges and contract termination costs, as well as other incremental costs resulting from the restructuring actions. Employee termination benefits are recorded based on existing union and employee contracts, statutory requirements, completed negotiations and Company policy. Other 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 when restructuring actions are approved and/or implemented.

In the first half of 2021, the Company recorded charges of $32.6 million in connection with its restructuring actions. These charges consist of $28.0 million recorded as cost of sales and $4.6 million recorded as selling, general and administrative expenses. The restructuring charges consist of employee termination costs of $26.3 million, asset impairment charges of $0.4 million and contract termination credits of $0.8 million, as well as other related costs of $6.7 million. Employee termination benefits were recorded based on existing union and employee contracts, statutory requirements, completed negotiations and Company policy. Asset impairment charges relate to the disposal of buildings, leasehold improvements and/or machinery and equipment with carrying values of $0.4 million in excess of related estimated fair values.

The Company expects to incur approximately $28 million of additional restructuring costs related to activities initiated as of July 3, 2021, 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 2021 activity is shown below (in millions):

	Accrual at January 1, 2021	2021 Charges	Utilization		Accrual at July 3, 2021
			Cash	Non-cash	
Employee termination benefits	$ 134.8	$ 26.3	$ (44.6)	$ —	$ 116.5
Asset impairment charges	—	0.4	—	(0.4)	—
Contract termination costs	4.2	(0.8)	(1.1)	—	2.3
Other related costs	—	6.7	(6.7)	—	—
Total	$ 139.0	$ 32.6	$ (52.4)	$ (0.4)	$ 118.8

(4) 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):

	July 3, 2021	December 31, 2020
Raw materials	$ 1,137.9	$ 1,051.6
Work-in-process	113.5	109.8
Finished goods	489.9	396.9
Reserves	(151.0)	(157.2)
Inventories	$ 1,590.3	$ 1,401.1

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

The Company incurs pre-production engineering and development ("E&D") and tooling costs related to the products produced for its customers under long-term supply agreements. The Company expenses all pre-production E&D costs for which reimbursement is not contractually guaranteed by the customer. In addition, the Company expenses all pre-production tooling costs related to customer-owned tools for which reimbursement is not contractually guaranteed by the customer or for which the Company does not have a non-cancelable right to use the tooling.

During the first six months of 2021 and 2020, the Company capitalized $140.1 million and $91.8 million, respectively, of pre-production E&D costs for which reimbursement is contractually guaranteed by the customer. During the first six months of 2021 and 2020, the Company also capitalized $77.2 million and $90.0 million, respectively, of pre-production tooling costs related to customer-owned tools for which reimbursement is contractually guaranteed by the customer or for which the Company has a non-cancelable right to use the tooling. These amounts are included in other current and long-term assets in the condensed consolidated balance sheets.

During the first six months of 2021 and 2020, the Company collected $147.7 million and $127.8 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 included in the accompanying condensed consolidated balance sheets is shown below (in millions):

	July 3, 2021	December 31, 2020
Current	$ 267.4	$ 212.0
Long-term	142.6	121.4
Recoverable customer E&D and tooling	$ 410.0	$ 333.4

(6) Long-Lived Assets

Impairment of Long-Lived Assets

The Company monitors its long-lived assets for impairment indicators on an ongoing basis in accordance with GAAP. If impairment indicators exist, the Company performs the required impairment analysis by comparing the undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. If the net book value exceeds the undiscounted cash flows, an impairment loss is measured and recognized.

The Company will continue to assess the impact of significant industry and other events on the realization of its long-lived assets.

Property, Plant and Equipment

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

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

	July 3, 2021	December 31, 2020
Land	$ 111.4	$ 114.1
Buildings and improvements	851.2	880.7
Machinery and equipment	4,407.1	4,339.2
Construction in progress	315.8	311.1
Total property, plant and equipment	5,685.5	5,645.1
Less – accumulated depreciation	(2,990.5)	(2,908.9)
Property, plant and equipment, net	$ 2,695.0	$ 2,736.2

Depreciation expense was $125.1 million and $114.3 million in the three months ended July 3, 2021 and July 4, 2020, respectively, and $249.4 million and $227.7 million in the six months ended July 3, 2021 and July 4, 2020, respectively.

In the first six months of 2021 and 2020, the Company recognized asset impairment charges of $0.4 million and $10.4 million, respectively, in conjunction with its restructuring actions (Note 3, "Restructuring"). In the first six months of 2021 and 2020, the Company recognized additional asset impairment charges of $2.0 million and $0.6 million, respectively.

Intangible Assets

Amortization expense was $25.1 million and $16.0 million in the three months ended July 3, 2021 and July 4, 2020, respectively, and $41.6 million and $33.1 million in the six months ended July 3, 2021 and July 4, 2020, respectively.

In the second quarter of 2021, the Company recognized an impairment charge of $8.5 million related to certain intangible assets of its E-Systems segment resulting from a change in the intended use of the assets. The impairment charge is included in amortization of intangible assets in the accompanying condensed consolidated statements of comprehensive income (loss) for the three and six months ended July 3, 2021.

(7) Goodwill

A summary of the changes in the carrying amount of goodwill, by operating segment, in the six months ended July 3, 2021, is shown below (in millions):

	Seating	E-Systems	Total
Balance at January 1, 2021	$ 1,268.8	$ 387.0	$ 1,655.8
Foreign currency translation and other	(8.0)	19.6	11.6
Balance at July 3, 2021	$ 1,260.8	$ 406.6	$ 1,667.4

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 recognized in an amount equal to that excess, limited to the total amount of goodwill recorded. The Company conducts its annual impairment testing as of the first day of its fourth quarter.

During the first and second quarters of 2021, an interim goodwill impairment analysis related to one of the Company's reporting units within its Seating operating segment was performed. The results of the quantitative analysis indicated that the fair value of the reporting unit exceeded the related carrying value. The quantitative analysis reflected the Company's best estimates of the COVID-19 pandemic's ultimate impact on industry conditions, including consumer demand and economic recovery. The reporting unit is at risk of failing a future quantitative assessment if the impact of the COVID-19 pandemic is more severe or if economic recovery is slower or weaker than anticipated. As of July 3, 2021, the goodwill of the reporting unit represents approximately 1% of the Company's total goodwill. The Company does not believe that any other reporting units are at risk for impairment.

There was no impairment of goodwill in the first six months of 2021 and 2020. The Company will, however, continue to assess the impact of significant industry and other events on its recorded goodwill.

(8) Debt

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

	July 3, 2021				
Debt Instrument	Long-Term Debt	Unamortized Debt Issuance Costs	Unamortized Original Issue Premium (Discount)	Long-Term Debt, Net	Weighted Average Interest Rate
Credit Agreement — Term Loan Facility	$ 210.9	$ (0.4)	$ —	$ 210.5	1.350%
3.8% Senior Notes due 2027 (the "2027 Notes")	750.0	(3.7)	(3.3)	743.0	3.885%
4.25% Senior Notes due 2029 (the "2029 Notes")	375.0	(2.5)	(0.9)	371.6	4.288%
3.5% Senior Notes due 2030 (the "2030 Notes")	350.0	(2.4)	(0.7)	346.9	3.525%
5.25% Senior Notes due 2049 (the "2049 Notes")	625.0	(6.2)	13.9	632.7	5.103%
Other	1.4	—	—	1.4	N/A
	$ 2,312.3	$ (15.2)	$ 9.0	$ 2,306.1	
Less — Current portion				(4.8)	
Long-term debt				$ 2,301.3	

	December 31, 2020				
Debt Instrument	Long-Term Debt	Unamortized Debt Issuance Costs	Unamortized Original Issue Premium (Discount)	Long-Term Debt, Net	Weighted Average Interest Rate
Credit Agreement — Term Loan Facility	$ 220.3	$ (0.6)	$ —	$ 219.7	1.360%
2027 Notes	750.0	(4.1)	(3.5)	742.4	3.885%
2029 Notes	375.0	(2.6)	(1.0)	371.4	4.288%
2030 Notes	350.0	(2.6)	(0.7)	346.7	3.525%
2049 Notes	625.0	(6.3)	14.2	632.9	5.103%
Other	1.4	—	—	1.4	N/A
	$ 2,321.7	$ (16.2)	$ 9.0	2,314.5	
Less — Current portion				(14.2)	
Long-term debt				$ 2,300.3	

Senior Notes

The issuance, maturity and interest payment dates of the Company's senior unsecured 2027 Notes, 2029 Notes, 2030 Notes and 2049 Notes (collectively, the "Notes") are shown below:

Note	Issuance Date(s)	Maturity Date	Interest Payment Dates
2027 Notes	August 2017	September 15, 2027	March 15 and September 15
2029 Notes	May 2019	May 15, 2029	May 15 and November 15
2030 Notes	February 2020	May 30, 2030	May 30 and November 30
2049 Notes	May 2019 and February 2020	May 15, 2049	May 15 and November 15

In February 2020, the Company issued $350.0 million in aggregate principal amount at maturity of 2030 Notes and an additional $300.0 million in aggregate principal amount at maturity of 2049 Notes. The 2030 Notes have a stated coupon rate of 3.5% and were issued at 99.774% of par, resulting in a yield to maturity of 3.525%. The 2049 Notes have a stated coupon rate of 5.25% and were issued at 106.626% of par, resulting in a yield to maturity of 4.821%.

The net proceeds from the offering were $669.1 million after original issue discount. The proceeds were used to redeem $650.0 million in aggregate principal amount of outstanding 5.25% senior notes due 2025 (the "2025 Notes") at a redemption price equal to 102.625% of the principal amount of such 2025 Notes, plus accrued interest.

In connection with these transactions, the Company recognized a loss of $21.1 million on the extinguishment of debt and paid related issuance costs of $5.9 million in the six months ended July 4, 2020.

Covenants

Subject to certain exceptions, the indentures governing the Notes contain certain 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 indentures governing the Notes also provide for customary events of default.

As of July 3, 2021, 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"). In February 2020, the Company entered into an agreement to extend the maturity date of the Revolving Credit Facility by one year to August 8, 2024. The maturity date of the Term Loan Facility is August 8, 2022.

In connection with the extension agreement, the Company paid related issuance costs of $1.0 million.

As of July 3, 2021 and December 31, 2020, there were $210.9 million and $220.3 million, respectively, of borrowings outstanding under the Term Loan Facility.

In March 2020, as a proactive measure in response to the COVID-19 pandemic, the Company borrowed $1.0 billion under the Revolving Credit Facility, which was repaid in full in September 2020. As of July 3, 2021 and December 31, 2020, there were no borrowings outstanding under the Revolving Credit Facility.

In the first six months of 2021, the Company made required principal payments of $9.4 million under the Term Loan Facility.

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 ranges and rates as of July 3, 2021, are shown below (in percentages):

	Eurocurrency Rate			Base Rate		
	Minimum	Maximum	Rate as of July 3, 2021	Minimum	Maximum	Rate as of July 3, 2021
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 July 3, 2021, the Company was in compliance with all covenants under the Credit Agreement.

Other

As of July 3, 2021, other long-term debt consists of amounts outstanding under a finance lease agreement.

For further information related to the Company's debt, see Note 7, "Debt," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

(9) Leases

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 sheets are shown below (in millions):

	July 3, 2021	December 31, 2020
Right-of-use assets under operating leases:		
Other long-term assets	$ 562.1	$ 540.3
Lease obligations under operating leases:		
Accrued liabilities	$ 125.2	$ 116.3
Other long-term liabilities	451.1	438.9
	$ 576.3	$ 555.2

Maturities of lease obligations as of July 3, 2021, are shown below (in millions):

	July 3, 2021
2021 (1)	$ 75.8
2022	128.9
2023	100.1
2024	83.2
2025	68.6
Thereafter	198.4
Total undiscounted cash flows	655.0
Less: Imputed interest	(78.7)
Lease obligations under operating leases	$ 576.3

(1) For the remaining six months

The Company entered into a lease agreement which is expected to commence in the third quarter of 2021 with a lease term of approximately ten years. The aggregate right-of-use asset and related lease obligation are expected to be approximately $50 million.

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

	Six Months Ended	
	July 3, 2021	July 4, 2020
Non-cash activity:		
Right-of-use assets obtained in exchange for operating lease obligations	$ 94.3	$ 83.2
Operating cash flows:		
Cash paid related to operating lease obligations	$ 81.1	$ 70.9

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

	Three Months Ended		Six Months Ended	
	July 3, 2021	July 4, 2020	July 3, 2021	July 4, 2020
Operating lease expense	$ 39.9	$ 35.3	$ 78.9	$ 71.6
Short-term lease expense	4.4	3.9	8.6	8.0
Variable lease expense	2.2	1.8	4.4	3.7
Total lease expense	$ 46.5	$ 41.0	$ 91.9	$ 83.3

In the six months ended July 4, 2020, the Company recognized an impairment charge of $2.0 million related to its right-of-use assets in conjunction with its restructuring actions. In the six months ended July 3, 2021, there were no impairments of the Company's right-of-use assets.

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

	July 3, 2021
Weighted average remaining lease term	Seven years
Weighted average discount rate	3.4 %

The Company is party to a finance lease agreement, which is not material to the accompanying condensed consolidated financial statements (Note 8, "Debt").

For further information related to the Company's leases, see Note 8, "Leases," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

(10) Pension and Other Postretirement Benefit Plans

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

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				Six Months Ended			
	July 3, 2021		July 4, 2020		July 3, 2021		July 4, 2020	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Service cost	$ —	$ 1.4	$ —	$ 1.2	$ —	$ 2.7	$ —	$ 2.4
Interest cost	3.6	2.7	4.1	3.0	7.2	5.3	8.2	6.1
Expected return on plan assets	(5.9)	(5.0)	(5.3)	(4.9)	(11.8)	(9.8)	(10.6)	(9.9)
Amortization of actuarial loss	0.9	1.6	0.5	1.2	1.9	3.1	1.1	2.3
Settlement loss	—	—	—	—	0.4	—	0.3	—
Net periodic benefit (credit) cost	$ (1.4)	$ 0.7	$ (0.7)	$ 0.5	$ (2.3)	$ 1.3	$ (1.0)	$ 0.9

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

	Three Months Ended				Six Months Ended			
	July 3, 2021		July 4, 2020		July 3, 2021		July 4, 2020	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Interest cost	$ 0.4	$ 0.2	$ 0.4	$ 0.2	0.7	0.4	0.8	0.4
Amortization of actuarial gain	(0.3)	—	(0.4)	—	(0.6)	—	(0.8)	—
Amortization of prior service credit	(0.1)	—	(0.1)	—	(0.1)	—	(0.1)	—
Net periodic benefit (credit) cost	$ —	$ 0.2	$ (0.1)	$ 0.2	$ —	$ 0.4	$ (0.1)	$ 0.4

Contributions

In the six months ended July 3, 2021, employer contributions to the Company's domestic and foreign defined benefit pension plans were $4.9 million. The Company expects contributions to its domestic and foreign defined benefit pension plans to be $5 million to $10 million in 2021.

(11) 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 infrequent. 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. In the first six months of 2021 and 2020, revenue recognized related to prior years represented approximately 1% of consolidated net sales. 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 July 3, 2021 and December 31, 2020, there were no significant contract liabilities recorded. Further, in the first six months of 2021 and 2020, there were no significant contract liabilities recognized in revenue.

Amounts billed to customers related to shipping and handling costs are included in net sales in the condensed consolidated statements of comprehensive income (loss). 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 (loss).

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					
	July 3, 2021			July 4, 2020		
	Seating	E-Systems	Total	Seating	E-Systems	Total
North America	$ 1,572.7	$ 284.3	$ 1,857.0	$ 614.8	$ 125.1	$ 739.9
Europe and Africa	1,226.0	501.0	1,727.0	550.1	273.5	823.6
Asia	664.7	332.5	997.2	557.9	283.0	840.9
South America	144.8	34.7	179.5	32.1	8.0	40.1
	$ 3,608.2	$ 1,152.5	$ 4,760.7	$ 1,754.9	$ 689.6	$ 2,444.5

	Six Months Ended					
	July 3, 2021			July 4, 2020		
	Seating	E-Systems	Total	Seating	E-Systems	Total
North America	$ 3,241.3	$ 626.9	$ 3,868.2	$ 2,188.5	$ 432.6	$ 2,621.1
Europe and Africa	2,700.7	1,103.3	3,804.0	1,786.1	790.1	2,576.2
Asia	1,381.4	701.3	2,082.7	1,015.3	501.9	1,517.2
South America	280.8	79.4	360.2	131.6	56.1	187.7
	$ 7,604.2	$ 2,510.9	$ 10,115.1	$ 5,121.5	$ 1,780.7	$ 6,902.2

(12) 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, gains and losses on the consolidation and deconsolidation of affiliates, 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		Six Months Ended	
	July 3, 2021	July 4, 2020	July 3, 2021	July 4, 2020
Other expense	$ 6.2	$ 4.4	$ 15.3	$ 43.6
Other income	(52.3)	(7.6)	(55.1)	(6.3)
Other (income) expense, net	$ (46.1)	$ (3.2)	$ (39.8)	$ 37.3

In May 2021, the Brazilian Supreme Court ruled on certain matters, including the method of determining the amount of indirect tax credits that taxpayers are entitled to monetize in future periods. As a result of the ruling, other income includes a gain of

$47.0 million in the three and six months ended July 3, 2021. In the three and six months ended July 3, 2021, other expense includes net foreign currency transaction losses of $2.5 million and $6.7 million, respectively, and a loss of $1.0 million related to the impairment of an affiliate.

In the three months ended July 4, 2020, other income includes net foreign currency transaction gains of $1.0 million. In the six months ended July 4, 2020, other expense includes net foreign currency transaction losses of $16.7 million and a loss of $21.1 million on the extinguishment of debt (Note 8, "Debt").

(13) Income Taxes

A summary of the provision for income taxes and the corresponding effective tax rate for the six months ended July 3, 2021 and July 4, 2020, is shown below (in millions, except effective tax rates):

	Three Months Ended		Six Months Ended	
	July 3, 2021	July 4, 2020	July 3, 2021	July 4, 2020
Provision (benefit) for income taxes	$ 39.3	$ (41.0)	$ 98.2	$ (14.5)
Pretax income (loss) before equity in net income of affiliates	$ 229.3	$ (318.3)	$ 508.1	$ (209.8)
Effective tax rate	17.1 %	12.9 %	19.3 %	6.9 %

For the six months ended July 3, 2021, the Company estimated its annual effective tax rate utilizing the annualized effective tax rate method under Accounting Standards Codification ("ASC") 740, "Income Taxes," to calculate its interim income tax provision. For the six months ended July 4, 2020, the Company utilized the discrete effective tax rate method, as allowed under ASC 740, to calculate its interim income tax provision. The discrete method is applied when the application of the estimated annual effective tax rate is impractical because it is not possible to reliably estimate the annual effective tax rate. The discrete method treats the year-to-date period as if it was the annual period and determines the income tax expense or benefit on that basis. At the time, it was not possible to reliably estimate the annual effective tax rate for the year due to uncertainty created by the COVID-19 pandemic.

The Company’s provision (benefit) for income taxes is impacted by the level and mix of earnings among tax jurisdictions. Pretax income before equity in net income of affiliates was $508.1 million in the first six months of 2021, as compared to pretax losses before equity in net income of affiliates of $209.8 million in the first six months of 2020, primarily due to the COVID-19 pandemic. As a result of COVID-19-related pretax losses in many jurisdictions in 2020, an effective tax rate comparison between the first six months of 2021 and the first six months of 2020 is not meaningful.

The Company's discrete tax benefit (expense) on significant items is shown below (in millions):

	Six Months Ended	
	July 3, 2021	July 4, 2020
Restructuring charges and various other items	$ 13.4	$ 29.6
Valuation allowances on deferred tax assets	6.7	(22.0)
Release of tax reserves	6.5	1.3
Favorable indirect tax ruling in a foreign jurisdiction	(16.0)	—
	$ 10.6	$ 8.9

Excluding the items above, the effective tax rate for the first six months of 2021 and 2020 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 9, "Income Taxes," to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

(14) Net Income (Loss) Per Share Attributable to Lear

Basic net income (loss) per share available to Lear common stockholders is computed using the two-class method by dividing net income (loss) available to Lear by the average number of common shares outstanding during the period. Common shares issuable upon the satisfaction of certain conditions pursuant to a contractual agreement are considered common shares outstanding and are included in the computation of basic net income (loss) 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 available to Lear 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. The computation of diluted net loss per share available to Lear common stockholders excludes the effect of common stock equivalents as such effect would be anti-dilutive.

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

	Three Months Ended		Six Months Ended	
	July 3, 2021	July 4, 2020	July 3, 2021	July 4, 2020
Net income (loss) available to Lear	$ 175.2	$ (293.9)	$ 378.9	$ (217.5)
Average common shares outstanding	60,292,000	60,102,925	60,302,398	60,310,559
Dilutive effect of common stock equivalents	319,505	—	283,509	—
Average diluted shares outstanding	60,611,505	60,102,925	60,585,907	60,310,559
Basic net income (loss) per share available to Lear common stockholders	$ 2.91	$ (4.89)	$ 6.28	$ (3.61)
Diluted net income (loss) per share available to Lear common stockholders	$ 2.89	$ (4.89)	$ 6.25	$ (3.61)

(15) Comprehensive Income (Loss) and Equity

Comprehensive Income (Loss)

Comprehensive income (loss) 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 (loss).

Accumulated Other Comprehensive Loss

A summary of changes, net of tax, in accumulated other comprehensive loss for the three and six months ended July 3, 2021, is shown below (in millions):

	Three Months Ended July 3, 2021	Six Months Ended July 3, 2021
Defined benefit plans:		
Balance at beginning of period	$ (275.6)	$ (276.9)
Reclassification adjustments (net of tax expense of $0.3 million and $0.7 million in the three and six months ended July 3, 2021, respectively)	1.8	4.0
Other comprehensive loss recognized during the period (net of tax impact of $— million in the three and six months ended July 3, 2021)	(2.5)	(3.4)
Balance at end of period	$ (276.3)	$ (276.3)
Derivative instruments and hedging:		
Balance at beginning of period	$ 9.6	$ 12.6
Reclassification adjustments (net of tax benefit of $1.9 million and $3.3 million in the three and six months ended July 3, 2021, respectively)	(8.1)	(13.4)
Other comprehensive income recognized during the period (net of tax expense of $4.5 million and $5.2 million in the three and six months ended July 3, 2021, respectively)	18.7	21.0
Balance at end of period	$ 20.2	$ 20.2
Foreign currency translation:		
Balance at beginning of period	$ (524.4)	$ (440.8)
Other comprehensive income (loss) recognized during the period (net of tax benefit (expense) of $0.6 million and ($1.5) million in the three and six months ended July 3, 2021, respectively)	52.7	(30.9)
Balance at end of period	$ (471.7)	$ (471.7)
Total accumulated other comprehensive loss	$ (727.8)	$ (727.8)

In the three months ended July 3, 2021, foreign currency translation adjustments are primarily related to the strengthening of the Brazilian real, the Chinese renminbi and the Euro relative to the U.S. dollar. In the six months ended July 3, 2021, foreign currency translation adjustments are primarily related to the weakening of the Euro relative to the U.S. dollar.

In the three and six months ended July 3, 2021, foreign currency translation adjustments include pretax losses of $0.5 million and $0.6 million, respectively, related to intercompany transactions for which settlement is not planned or anticipated in the foreseeable future.

A summary of changes, net of tax, in accumulated other comprehensive loss for the three and six months ended July 4, 2020, is shown below (in millions):

	Three Months Ended July 4, 2020	Six Months Ended July 4, 2020
Defined benefit plans:		
Balance at beginning of period	$ (208.7)	$ (217.6)
Reclassification adjustments (net of tax expense of $0.4 million and $0.7 million in the three and six months ended July 4, 2020, respectively)	0.8	2.1
Other comprehensive income (loss) recognized during the period (net of tax impact of $— million in the three and six months ended July 4, 2020)	(3.8)	3.8
Balance at end of period	$ (211.7)	$ (211.7)
Derivative instruments and hedging:		
Balance at beginning of period	$ (111.3)	$ 9.8
Reclassification adjustments (net of tax expense of $3.1 million and $1.7 million in the three and six months ended July 4, 2020, respectively)	11.0	5.3
Other comprehensive income (loss) recognized during the period (net of tax benefit (expense) of ($12.0) million and $15.9 million in the three and six months ended July 4, 2020, respectively)	49.9	(65.5)
Balance at end of period	$ (50.4)	$ (50.4)
Foreign currency translation:		
Balance at beginning of period	$ (729.3)	$ (564.9)
Other comprehensive income (loss) recognized during the period (net of tax benefit (expense) of $2.6 million and ($2.2) million in the three and six months ended July 4, 2020, respectively)	68.4	(96.0)
Balance at end of period	$ (660.9)	$ (660.9)
Total accumulated other comprehensive loss	$ (923.0)	$ (923.0)

In the three months ended July 4, 2020, foreign currency translation adjustments are primarily related to the strengthening of the Euro relative to the U.S. dollar. In the six months ended July 4, 2020, foreign currency translation adjustments are primarily related to the weakening of the Brazilian real and the Chinese renminbi relative to the U.S. dollar.

In the three and six months ended July 4, 2020, foreign currency translation adjustments include pretax (gains) losses of ($0.5) million and $1.1 million, respectively, 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 10, "Pension and Other Postretirement Benefit Plans." For further information regarding reclassification adjustments related to the Company's derivative and hedging activities, see Note 18, "Financial Instruments."

Lear Corporation Stockholders’ Equity

Common Stock Share Repurchase Program

The Company may implement 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 may 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.

The Company has a common stock share repurchase program (the "Program") which permits the discretionary repurchase of its common stock. Since its inception in the first quarter of 2011, the Company's Board of Directors has authorized $6.1 billion in share repurchases under the Program. The current authorization expires on December 31, 2022. In March 2020, as a proactive measure in response to the COVID-19 pandemic, the Company suspended share repurchases under the Program. Share repurchases were reinstated in the second quarter of 2021. Share repurchases since the reinstatement through July 3, 2021, are shown below (in millions except for shares and per share amounts):

Six Months Ended July 3, 2021 [1]				As of July 3, 2021
Aggregate Repurchases	Cash Paid for Repurchases	Number of Shares	Average Price per Share [2]	Remaining Purchase Authorization
$ 31.2	$ 29.2	169,814	$ 183.56	$ 1,398.8

[1] From reinstatement through July 3, 2021
[2] Excludes commissions

Since the inception of the Program, the Company repurchased, in aggregate, $4.7 billion of its outstanding common stock, at an average price of $90.38 per share, excluding commissions and related fees.

In addition to shares repurchased under the Program described above, the Company classifies 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 condensed consolidated balance sheets.

Quarterly Dividend

In March 2020, as a proactive measure in response to the COVID-19 pandemic, the Company suspended its quarterly cash dividend. Prior to the suspension, the Company’s Board of Directors declared a quarterly cash dividend of $0.77 per share of common stock. In the fourth quarter of 2020, the Company reinstated a quarterly cash dividend of $0.25 per share of common stock. In the first and second quarters of 2021, the Company’s Board of Directors declared a quarterly cash dividend of $0.25 per share of common stock.

Dividends declared and paid are shown below (in millions):

	Six Months Ended	
	July 3, 2021	July 4, 2020 [1]
Dividends declared	$ 30.6	$ 46.8
Dividends paid	30.8	47.9

[1] Prior to March 2020 suspension

Dividends payable on common shares to be distributed under the Company’s stock-based compensation program will be paid when such common shares are distributed.

Redeemable Noncontrolling Interest

As of July 4, 2020, the accompanying condensed consolidated statements of equity include the Company's redeemable noncontrolling interest in Shanghai Lear STEC Automotive Parts Co., Ltd. ("STEC"). 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. In 2020, the noncontrolling interest holder in STEC exercised its option requiring the Company to purchase its redeemable noncontrolling interest. The transaction was completed in the fourth quarter of 2020.

(16) Legal and Other Contingencies

As of July 3, 2021 and December 31, 2020, the Company had recorded reserves for pending legal disputes, including commercial disputes and other matters, of $17.0 million and $17.2 million, respectively. Such reserves reflect amounts recognized in accordance with GAAP and typically exclude the cost of legal representation. Product liability and warranty reserves are recorded separately from legal reserves, as described below.

Commercial Disputes

The Company is involved from time to time in legal proceedings and claims related to commercial or contractual disputes with its customers, suppliers and competitors. These disputes vary in nature and are usually resolved by negotiations between the parties.

Product Liability and Warranty Matters

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

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

In certain instances, allegedly defective products may be supplied by Tier 2 suppliers. The Company may seek recovery from its suppliers of materials or services included within the Company's products that are associated with product liability and warranty claims. The Company carries insurance for certain legal matters, including product liability claims, but such coverage may be limited. The Company does not maintain insurance for product warranty or recall matters.

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

A summary of the changes in reserves for product liability and warranty claims for the six months ended July 3, 2021, is shown below (in millions):

Balance at January 1, 2021	$	48.7
Expense, net (including changes in estimates)		2.2
Settlements		(7.2)
Foreign currency translation and other		(0.5)
Balance at July 3, 2021	$	43.2

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 July 3, 2021 and December 31, 2020, the Company had recorded environmental reserves of $8.6 million and $8.9 million, respectively. The Company does not believe that the environmental liabilities associated with its current and former properties will have a material adverse impact on its business, financial condition, results of operations or cash flows; however, no assurances can be given in this regard.

Other Matters

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

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

(17) Segment Reporting

The Company is organized under two reportable operating segments: Seating, which consists of the design, development, engineering and manufacture of complete seat systems, seat subsystems and key seat components, and E-Systems, which consists of the design, development, engineering and manufacture of complete electrical distribution and connection systems, electronic systems, and software. Key components in the Company's complete seat system and subsystem solutions are advanced comfort, wellness, safety and sound offerings, as well as configurable seating product technologies, all of which are compatible with traditional internal combustion engine ("ICE") architectures and the full range of hybrid, plug-in hybrid and battery electric architectures. Key seat component product offerings include seat trim covers, surface materials such as leather and fabric, seat mechanisms, seat foam and headrests. Key components in the Company's electrical distribution portfolio include wire harnesses, terminals and connectors, and engineered components for both ICE and electrified vehicle architectures that require management of higher voltage and power. Key components in the Company's electronic systems portfolio include body domain control modules and products specific to electrification and connectivity trends. Electrification products include on-board battery chargers, power conversion modules, high voltage battery management systems and high voltage power distribution systems. Connectivity products include gateway modules and communication modules to manage both wired and wireless networks and data in vehicles. In addition to electronic modules, the Company offers software that includes cybersecurity, advanced vehicle positioning for automated and autonomous driving applications and full capabilities in both dedicated short-range communication and cellular protocols for vehicle connectivity. The Company's software offerings include embedded control software and cloud and mobile device-based software and services. 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, advanced research and development, corporate finance, legal, executive administration and human resources.

Each of the Company’s operating segments reports its results from operations and makes its requests for capital expenditures directly to the chief operating decision maker. The economic performance of each operating segment is driven primarily by automotive production volumes in the geographic regions in which it operates, as well as by the success of the vehicle platforms for which it supplies products. Also, each operating segment operates in the competitive Tier 1 automotive supplier environment and is continually working with its customers to manage costs and improve quality. The Company’s production processes generally make use of hourly labor, dedicated facilities, sequential manufacturing and assembly processes and commodity raw materials.

The Company evaluates the performance of its operating segments based primarily on (i) revenues from external customers, (ii) pretax income (loss) 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 July 3, 2021			
	Seating	E-Systems	Other	Consolidated
Revenues from external customers	$ 3,608.2	$ 1,152.5	$ —	$ 4,760.7
Segment earnings [1]	252.2	26.6	(73.3)	205.5
Depreciation and amortization	90.1	56.3	3.8	150.2
Capital expenditures	83.5	51.8	4.7	140.0
Total assets	7,528.6	3,466.6	2,268.5	13,263.7

	Three Months Ended July 4, 2020			
	Seating	E-Systems	Other	Consolidated
Revenues from external customers	$ 1,754.9	$ 689.6	$ —	$ 2,444.5
Segment earnings [1]	(116.4)	(113.4)	(64.5)	(294.3)
Depreciation and amortization	83.8	42.6	3.9	130.3
Capital expenditures	47.0	37.1	2.0	86.1
Total assets	6,687.7	2,901.2	2,680.1	12,269.0

	Six Months Ended July 3, 2021			
	Seating	E-Systems	Other	Consolidated
Revenues from external customers	$ 7,604.2	$ 2,510.9	$ —	$ 10,115.1
Segment earnings [1]	544.2	115.9	(147.2)	512.9
Depreciation and amortization	180.5	102.9	7.6	291.0
Capital expenditures	146.5	95.0	11.4	252.9

	Six Months Ended July 4, 2020			
	Seating	E-Systems	Other	Consolidated
Revenues from external customers	$ 5,121.5	$ 1,780.7	$ —	$ 6,902.2
Segment earnings [1]	69.7	(81.0)	(109.6)	(120.9)
Depreciation and amortization	167.3	85.7	7.8	260.8
Capital expenditures	113.2	78.8	3.2	195.2

[1] See definition above

For the three months ended July 3, 2021, segment earnings include restructuring charges of $7.2 million and $3.7 million in the Seating and E-Systems segments, respectively. For the six months ended July 3, 2021, segment earnings include restructuring charges of $20.0 million, $8.4 million and $4.2 million in the Seating and E-Systems segments and in the other category, respectively. The Company expects to incur approximately $19 million and $9 million of additional restructuring costs in the Seating and E-Systems segments, respectively, related to activities initiated as of July 3, 2021, and expects that the components of such costs will be consistent with its historical experience.

For the three months ended July 4, 2020, segment earnings include restructuring charges of $13.4 million, $20.9 million and $0.6 million in the Seating and E-Systems segments and in the other category, respectively. For the six months ended July 4, 2020, segment earnings include restructuring charges of $25.7 million, $41.2 million and $0.6 million in the Seating and E-Systems segments and in the other category, respectively.

For further information, see Note 3, "Restructuring."

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

	Three Months Ended		Six Months Ended	
	July 3, 2021	July 4, 2020	July 3, 2021	July 4, 2020
Segment earnings	$ 205.5	$ (294.3)	$ 512.9	$ (120.9)
Interest expense	22.3	27.2	44.6	51.6
Other (income) expense, net	(46.1)	(3.2)	(39.8)	37.3
Consolidated income (loss) before provision (benefit) for income taxes and equity in net income of affiliates	$ 229.3	$ (318.3)	$ 508.1	$ (209.8)

(18) 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):

	July 3, 2021	December 31, 2020
Estimated aggregate fair value [(1)]	$ 2,632.4	$ 2,633.3
Aggregate carrying value [(1)] [(2)]	2,310.9	2,320.3

(1) Includes Term Loan Facility and Notes (excludes "other" debt)
(2) Excludes the impact of unamortized debt issuance costs and unamortized original issue premium (discount)

Cash, Cash Equivalents and Restricted Cash

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

	July 3, 2021	July 4, 2020
Balance sheet:		
Cash and cash equivalents	$ 1,401.7	$ 1,775.5
Restricted cash included in other current assets	1.4	36.0
Restricted cash included in other long-term assets	1.6	1.6
Statement of cash flows:		
Cash, cash equivalents and restricted cash	$ 1,404.7	$ 1,813.1

Accounts Receivable

The Company’s allowance for credit losses on financial assets measured at amortized cost, primarily accounts receivable, reflects management’s estimate of credit losses over the remaining expected life of such assets, measured primarily using historical experience, as well as current conditions and forecasts that affect the collectability of the reported amount. Expected credit losses for newly recognized financial assets, as well as changes to expected credit losses during the period, are recognized in earnings. The Company also considers geographic and segment specific risk factors in the development of expected credit losses. As of July 3, 2021 and December 31, 2020, accounts receivable are reflected net of reserves of $34.3 million and $35.3 million, respectively. Changes in expected credit losses were not significant in the first six months of 2021.

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):

	July 3, 2021	December 31, 2020
Current assets	$ 2.7	$ 9.3
Other long-term assets	53.7	49.4
	$ 56.4	$ 58.7

Unrealized gains and losses arising from changes in the fair value of the marketable equity securities are recognized in other (income) expense, net in the condensed consolidated statements of comprehensive income (loss). 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).

Equity Securities Without Readily Determinable Fair Values

As of July 3, 2021 and December 31, 2020, investments in equity securities without readily determinable fair values of $15.4 million and $11.2 million, respectively, are included in other long-term assets in the accompanying condensed consolidated balance sheets. Such investments are valued at cost, less cumulative impairments of $10.0 million. During the three and six months ended July 3, 2021, the Company recognized an impairment charge of $1.0 million related to an investment in equity securities without a readily determinable fair value.

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 hedge 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 hedge 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 statements of comprehensive income (loss) 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 sheets. 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 statements of comprehensive income (loss) 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 sheets. When the related currency translation adjustment is required to be reclassified, usually upon the sale or liquidation of the investment, the gain or loss included in accumulated other comprehensive loss is recorded in earnings and reflected in other expense, net in the condensed consolidated statements of comprehensive income (loss). Changes in the fair value of contracts not designated as hedge instruments are recorded in earnings and reflected in other expense, net in the condensed consolidated statements of comprehensive income (loss). Cash flows attributable to derivatives used to manage foreign currency risks are classified on the same line as the hedged item attributable to the hedged risk in the condensed consolidated statements of cash flows. Upon settlement, cash flows attributable to derivatives designated as net investment hedges are classified as investing activities in the condensed consolidated statements of cash flows. Cash flows attributable to forward starting interest rate swaps are classified as financing activities in the condensed consolidated statements of cash flows.

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 condensed consolidated balance sheets. 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 Chinese renminbi, the Japanese yen, the Philippine peso and the Thai baht.

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

Net Investment Hedges

The Company uses cross-currency interest rate swaps, which are designated as net investment hedges of the foreign currency rate exposure of its investment in certain Euro-denominated subsidiaries. In the six months ended July 3, 2021 and July 4, 2020, contra interest expense on net investment hedges of $3.2 million is included in interest expense in the accompanying condensed consolidated statements of comprehensive income (loss).

Balance Sheet Classification

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

	July 3, 2021	December 31, 2020
Fair value of foreign currency contracts designated as cash flow hedges:		
Other current assets	$ 54.6	$ 49.7
Other long-term assets	5.7	13.0
Other current liabilities	(3.7)	(14.1)
Other long-term liabilities	(0.6)	(0.8)
	56.0	47.8
Notional amount	$ 1,167.1	$ 1,353.3
Outstanding maturities in months, not to exceed	24	24
Fair value of derivatives designated as net investment hedges:		
Other long-term liabilities	$ (15.3)	$ (22.6)
Notional amount	$ 300.0	$ 300.0
Outstanding maturities in months, not to exceed	39	45
Fair value of foreign currency contracts not designated as hedging instruments:		
Other current assets	$ 10.9	$ 5.8
Other current liabilities	(8.5)	(6.1)
	2.4	(0.3)
Notional amount	$ 1,909.1	$ 1,140.8
Outstanding maturities in months, not to exceed	12	12
Total fair value	$ 43.1	$ 24.9
Total notional amount	$ 3,376.2	$ 2,794.1

Accumulated Other Comprehensive Loss — Derivative Instruments and Hedging

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

	Three Months Ended		Six Months Ended	
	July 3, 2021	July 4, 2020	July 3, 2021	July 4, 2020
Gains (losses) recognized in accumulated other comprehensive loss:				
Foreign currency contracts	$ 23.2	$ 61.9	$ 26.2	$ (81.4)
Net investment hedge contracts	(2.6)	(12.6)	7.3	10.4
	20.6	49.3	33.5	(71.0)
(Gains) losses reclassified from accumulated other comprehensive loss to:				
Net sales	(0.8)	(0.4)	(0.6)	(0.5)
Cost of sales	(9.8)	14.1	(17.3)	6.5
Interest expense	0.6	0.6	1.2	1.2
Other (income) expense, net	—	(0.2)	—	(0.2)
	(10.0)	14.1	(16.7)	7.0
Comprehensive income (loss)	$ 10.6	$ 63.4	$ 16.8	$ (64.0)

As of July 3, 2021 and December 31, 2020, pretax net gains of $21.5 million and $4.7 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, net gains (losses) expected to be reclassified into earnings are shown below (in millions):

Foreign currency contracts	$ 50.9
Interest rate swap contracts	(2.4)
Total	$ 48.5

Such gains and losses 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.

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

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

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 July 3, 2021 and December 31, 2020, are shown below (in millions):

	July 3, 2021					
	Frequency	**Asset (Liability)**	**Valuation Technique**	**Level 1**	**Level 2**	**Level 3**
Foreign currency contracts, net	Recurring	$ 58.4	Market/ Income	$ —	$ 58.4	$ —
Net investment hedges	Recurring	(15.3)	Market/ Income	—	(15.3)	—
Marketable equity securities	Recurring	56.4	Market	56.4	—	—

	December 31, 2020					
	Frequency	**Asset (Liability)**	**Valuation Technique**	**Level 1**	**Level 2**	**Level 3**
Foreign currency contracts, net	Recurring	$ 47.5	Market/ Income	$ —	$ 47.5	$ —
Net investment hedges	Recurring	(22.6)	Market/ Income	—	(22.6)	—
Marketable equity securities	Recurring	58.7	Market	58.7	—	—

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 July 3, 2021 and December 31, 2020, 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 the first six months of 2021.

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.

In the first and second quarters of 2021, the Company completed a quantitative goodwill impairment assessment for one of its reporting units. The fair value estimate of the reporting unit was based on management's estimates using a discounted cash flow method.

In the second quarter of 2021, the Company completed an impairment assessment related to certain of its intangible assets. The fair value estimate of the related asset group was based on management's estimates using a discounted cash flow method.

As of July 3, 2021, there were no additional significant assets or liabilities measured at fair value on a non-recurring basis.

(19) Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates ("ASU") issued by the Financial Accounting Standards Board ("FASB") as summarized below.

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." The standard simplifies the accounting for income taxes by eliminating certain exceptions to the general principles in Topic 740 and amends existing guidance to improve consistent application. The standard was effective January 1, 2021, and the adoption did not have a significant impact on the Company's financial statements.

Reference Rate Reform

The FASB issued ASU 2020-04 and ASU 2021-01, "Reference Rate Reform (Topic 848)." The guidance provides temporary optional expedients and exceptions to the current guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates. The guidance was effective upon issuance and generally can be applied to applicable contract modifications and hedge relationships prospectively through December 31, 2022. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

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

EXECUTIVE OVERVIEW

We are a global automotive technology leader in Seating and E-Systems, enabling superior in-vehicle experiences for consumers around the world. We supply seating, electrical distribution and connection systems, electronic systems, and software to all of the world's major automotive manufacturers.

Lear is built on a foundation and strong culture of innovation, operational excellence, and engineering and program management capabilities. We use our product, design and technological expertise, as well as our global reach and competitive manufacturing footprint, to achieve our financial goals and objectives. These include continuing to deliver profitable growth (balancing risks and returns); investing in innovation to drive business growth and profitability; maintaining a strong balance sheet with investment grade credit metrics; and consistently returning excess cash to our stockholders. Further, we have aligned our strategy with the key trends affecting our business — electrification, connectivity and autonomy. At Lear, we are Making every drive better™ by providing technology for safer, smarter and more comfortable journeys, while adhering to our values — Be Inclusive. Be Inventive. Get Results the Right Way.

Our business is organized under two reporting segments: Seating and E-Systems. Each of these segments has a varied product and technology range across a number of component categories.

Our Seating business consists of the design, development, engineering and manufacture of complete seat systems, seat subsystems and key seat components. Our capabilities in operations and supply chain management enable synchronized (just-in-time) assembly and delivery of high volumes of complex complete seat systems to our customers. Included in our complete seat system and subsystem solutions are advanced comfort, wellness, safety and sound offerings, as well as configurable seating product technologies, all of which are compatible with traditional internal combustion engine ("ICE") architectures and the full range of hybrid, plug-in hybrid and battery electric architectures. Our advanced comfort, wellness, safety and sound offerings are facilitated by our system, component and integration capabilities, together with our in-house electronics, sensor, software and algorithm competencies. As the most vertically integrated global seat supplier, our key seat component product offerings include seat trim covers, surface materials such as leather and fabric, seat mechanisms, seat foam and headrests.

Our E-Systems business consists of the design, development, engineering and manufacture of complete electrical distribution and connection systems, electronic systems, and software. The unique combination of these capabilities enables us to provide our customers with customizable solutions with optimized designs at a competitive cost. Electrical distribution and connection systems utilize low voltage, high voltage, high speed data cables and flat wiring to connect networks and electrical signals and manage electrical power within the vehicle for all types of powertrains – from traditional 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 engineered components for both ICE and electrified vehicle architectures that require management of higher voltage and power. Electronic systems facilitate signal, data and power management within the vehicle and include the associated software required to facilitate these functions. Key components in our electronic systems portfolio include body domain control modules and products specific to electrification and connectivity trends. Electrification products include on-board battery chargers, power conversion modules, high voltage battery management systems and high voltage power distribution systems. Connectivity products include gateway modules and communication modules to manage both wired and wireless networks and data in vehicles. In addition to electronic modules, we offer software that includes cybersecurity, advanced vehicle positioning for automated and autonomous driving applications and full capabilities in both dedicated short-range communication and cellular protocols for vehicle connectivity. Our software offerings include embedded control software and cloud and mobile device-based software and services. Our customers traditionally have sourced our electronic hardware together with the software that we embed in it, but such software may also be sourced by our customers independently of the hardware.

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. Further, with the seat becoming a more dynamic and integrated system requiring increased levels of electrical and electronic integration, the combined capabilities of our Seating and E-Systems businesses are a competitive advantage. 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, all of which contribute to our reputation for operational excellence. 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 transfer production between 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.

Industry overview

Our sales are driven by the number of vehicles produced by the automotive manufacturers, which is ultimately dependent on the availability of raw materials and components and consumer demand for automotive vehicles, and our content per vehicle. Although industry production has improved relative to 2020, production remains below recent historic levels. It is likely that, for a period of time, the global automotive industry will continue to be impacted by the COVID-19 pandemic, particularly through supply shortages, ongoing costs related to personal protective equipment and higher labor costs reflecting inefficiencies and increased absenteeism. The most significant supply shortage relates to semiconductor chips, which is impacting global industry production, resulting in cancellations of planned production. During the first half of 2021, production disruptions, primarily due to the industry-wide semiconductor chip shortage, negatively impacted our net sales by approximately 12%. In addition, increases in certain commodity costs are impacting, and will continue to impact, our operating results for the foreseeable future. Further, a resurgence of the virus or its variants, including corresponding "stay at home" or similar government orders impacting industry production, could impact our financial results. For risks related to the COVID-19 pandemic, including supply shortages, see Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2020, as supplemented and updated by Part II — Item 1A, "Risk Factors," in this Report.

Global automotive industry production volumes in the first six months of 2021, as compared to the first six months of 2020, are shown below (in millions of units):

	Six Months Ended		
	July 3, 2021 (1)	July 4, 2020 (1) (2)	% Change
North America	6.8	5.2	32 %
Europe and Africa	9.2	7.0	30 %
Asia	20.5	16.0	28 %
South America	1.3	0.8	63 %
Other	0.7	0.7	7 %
Global light vehicle production	38.5	29.7	30 %

(1) Production data based on IHS Automotive
(2) Production data for 2020 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 six months of 2021 and 2020 is shown below:

	Six Months Ended	
	July 3, 2021	July 4, 2020
North America	38 %	38 %
Europe and Africa	38 %	37 %
Asia	21 %	22 %
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 affecting our business include electrification, connectivity and autonomy. In addition, our business is affected by the consolidation of automotive manufacturers, as well as new non-traditional entrants to the automotive industry, the collaboration of automotive manufacturers on commonized vehicle platforms, increasing demand for luxury and performance features, including increasing levels of electrical and electronic content, and China's emergence as the largest automotive market in the world. In particular, we believe that we have a significant opportunity for growth in China with both global and domestic automotive manufacturers. Another key trend benefiting our business is 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 energy efficiency and reduced carbon emissions, as well as the demand for enhanced communications and safety, are driving the technology trends of electrification, connectivity and autonomy. We are focused on those trends which provide us with significant business opportunities where we have competitive differentiation and innovative technology. While both of our businesses are powertrain agnostic, we are well positioned to capitalize on these technology trends, each of which is likely to be at the forefront of our industry for the foreseeable future in light of the long-term convergence toward electric, connected and autonomous vehicles.

Our sales and marketing approach addresses 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 solutions for our customers. We have restructured, and continue to align, our manufacturing and engineering footprint to attain a leading competitive cost position globally. We have established or expanded activities in new and growing regional and product markets, including electrification, in support of our customers' growth initiatives and in pursuit of opportunities with new customers. 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.

For further information related to these trends and our strategy, see Item 1, "Business — Industry and Strategy," in our Annual Report on Form 10-K for the year ended December 31, 2020.

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 offset these price reductions with product cost reductions through product design enhancement, supply chain management, 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 64.7% in the first six months of 2021, as compared to 64.0% in the first six months of 2020, reflecting increases in certain commodity costs. Raw material, energy and commodity costs can be volatile, reflecting changes in supply and demand and global trade and tariff policies. Our primary commodity cost exposures relate to steel, copper and leather. 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. Further, our exposure to changes in steel prices is primarily indirect, through purchased components, and a significant portion of our copper, leather and direct steel purchases are subject to price index agreements with our customers and suppliers. However, these strategies, together with commercial negotiations with our customers and suppliers, typically do not offset all 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, 2020, as supplemented and updated by Part II — Item 1A, "Risk Factors," in this Report.

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 expanding our business with new and existing customers in our more established markets through new products, including electrification, our expansion plans are focused on emerging markets. Asia continues to present long-term growth opportunities, as we focus on expanding our market share and content per vehicle, as demand for luxury and performance features increases in this region. In addition to our wholly owned locations, we currently have eleven 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, 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 March 25, 2021, we completed the acquisition of M&N Plastics, an injection molding specialist and manufacturer of engineered plastic components for automotive electrical distribution applications. When combined with our continuing organic investments in connection systems, the addition of M&N Plastics enhances the ability of our E-Systems segment to vertically integrate the engineering and production of complex parts for electrical distribution, including high-voltage wire harnesses and power electronics, creating a strong platform for future revenue growth and margin expansion in our overall E-Systems business.

The acquisition is not material to the condensed consolidated financial statements included in this Report.

Operational Restructuring

In the first six months of 2021, we incurred pretax restructuring costs of $33 million and related manufacturing inefficiency charges of approximately $7 million, as compared to pretax restructuring costs of $70 million and related manufacturing inefficiency charges of approximately $3 million in the first six months of 2020. None of the individual restructuring actions initiated during the first six months of 2021 were material.

Our restructuring actions include plant closures and workforce reductions and are initiated to maintain our competitive footprint or are in response to customer initiatives or changes in global and regional automotive markets. Our restructuring actions are designed to maintain or improve our operating results and profitability throughout the automotive industry cycles. Restructuring actions are generally funded within twelve months of initiation and are funded by cash flows from operating activities and existing cash balances. There have been no changes in previously initiated restructuring actions that have resulted (or will result) in a material change to our restructuring costs. We expect to incur approximately $28 million of additional restructuring costs related to activities initiated as of July 3, 2021, all of which are expected to be incurred in the next twelve months. We plan to implement additional restructuring actions in order to align our manufacturing capacity and other costs with prevailing regional automotive production levels. Such future restructuring actions are dependent on market conditions, customer actions and other factors.

For further information, see Note 3, "Restructuring," and Note 17, "Segment Reporting," to the condensed consolidated financial statements included in this Report.

Share Repurchase Program and Quarterly Cash Dividends

We may implement 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 may repurchase our outstanding common stock and the timing of such repurchases will depend on our financial condition, results of operations, capital requirements, prevailing market conditions, alternative uses of capital and other factors (see "— Forward-Looking Statements").

Since the first quarter of 2011, our Board of Directors has authorized $6.1 billion in share repurchases under our common stock share repurchase program. In March 2020, as a proactive measure in response to the COVID-19 pandemic, we suspended share repurchases under our common stock share repurchase program. Share repurchases were reinstated in the second quarter of 2021, during which we repurchased $31 million of shares. At the end of the second quarter of 2021, we have a remaining repurchase authorization of $1.4 billion, which expires on December 31, 2022.

In March 2020, as a proactive measure in response to the COVID-19 pandemic, we suspended our quarterly cash dividend. In the fourth quarter of 2020, we reinstated a quarterly cash dividend of $0.25 per share of common stock. In the first and second quarters of 2021, our Board of Directors declared a quarterly cash dividend of $0.25 per share of common stock.

For further information related to our common stock share repurchase program and our quarterly cash dividends, see "— Liquidity and Capital Resources — Capitalization" below and Note 15, "Comprehensive Income (Loss) and Equity," to the condensed consolidated financial statements included in this Report.

Other Matters

In the three and six months ended July 3, 2021, we recognized net tax benefits of $21 million and $27 million, respectively, related to the release of valuation allowances on deferred tax assets of foreign subsidiaries, the release of tax reserves at several foreign subsidiaries, restructuring charges and various other items. In addition, we recognized tax expense of $16 million on a gain of $47 million related to a favorable indirect tax ruling in a foreign jurisdiction in the three and six months ended July 3, 2021.

In the three months ended July 4, 2020, we recognized tax expense of $23 million related to the establishment of a valuation allowance on deferred tax assets of a foreign subsidiary and net tax benefits of $21 million related to restructuring charges and various other items. In the six months ended July 4, 2020, we recognized net tax benefits of $31 million related to a loss on the extinguishment of debt, restructuring charges and various other items and tax expense of $22 million related to the net increase in valuation allowances on deferred tax assets of foreign subsidiaries.

As discussed above, our results for the three and six months ended July 3, 2021 and July 4, 2020, reflect the following items (in millions):

	Three Months Ended		Six Months Ended	
	July 3, 2021	July 4, 2020	July 3, 2021	July 4, 2020
Costs related to restructuring actions, including manufacturing inefficiencies of $4 million and $7 million, respectively, in the three and six months ended July 3, 2021, and $1 million and $3 million, respectively, in the three and six months ended July 4, 2020	$ 15	$ 39	$ 39	$ 73
Intangible asset impairment	9	—	9	—
Favorable indirect tax ruling in a foreign jurisdiction	47	—	47	—
Loss related to affiliate	1	—	1	—
Loss on extinguishment of debt	—	—	—	21
Tax (benefit) expense, net	(5)	2	(11)	(9)

For further information regarding these items, see Note 3, "Restructuring," Note 6, "Long-Lived Assets," Note 8, "Debt," and Note 13, "Income Taxes," to the condensed consolidated financial statements included in this Report.

This Item 2, "Management’s Discussion and Analysis of Financial Condition and Results of Operations," includes forward-looking statements that are subject to risks and uncertainties. For further information regarding other factors that have had, or may have in the future, a significant impact on our business, financial condition or results of operations, see "— Forward-Looking Statements" below and Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2020, as supplemented and updated by Part II — Item 1A, "Risk Factors," in this Report.

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				Six Months Ended			
	July 3, 2021		July 4, 2020		July 3, 2021		July 4, 2020	
Net sales								
Seating	$ 3,608.2	75.8 %	$ 1,754.9	71.8 %	$ 7,604.2	75.2 %	$ 5,121.5	74.2 %
E-Systems	1,152.5	24.2	689.6	28.2	2,510.9	24.8	1,780.7	25.8
Net sales	4,760.7	100.0	2,444.5	100.0	10,115.1	100.0	6,902.2	100.0
Cost of sales	4,359.3	91.6	2,571.9	105.2	9,220.9	91.2	6,695.4	97.0
Gross profit (loss)	401.4	8.4	(127.4)	(5.2)	894.2	8.8	206.8	3.0
Selling, general and administrative expenses	170.8	3.6	150.9	6.2	339.7	3.4	294.6	4.3
Amortization of intangible assets	25.1	0.5	16.0	0.6	41.6	0.4	33.1	0.5
Interest expense	22.3	0.5	27.2	1.1	44.6	0.4	51.6	0.7
Other (income) expense, net	(46.1)	(1.0)	(3.2)	(0.1)	(39.8)	(0.4)	37.3	0.5
Provision (benefit) for income taxes	39.3	0.8	(41.0)	(1.7)	98.2	1.0	(14.5)	(0.2)
Equity in net income of affiliates	(4.9)	(0.1)	(7.8)	(0.3)	(10.8)	(0.1)	(9.4)	(0.1)
Net income attributable to noncontrolling interests	19.7	0.4	24.4	1.0	41.8	0.4	31.6	0.5
Net income (loss) attributable to Lear	$ 175.2	3.7 %	$ (293.9)	(12.0)%	$ 378.9	3.7 %	$ (217.5)	(3.2)%

Three Months Ended July 3, 2021 vs. Three Months Ended July 4, 2020

Net sales in the second quarter of 2021 were $4.8 billion, as compared to $2.4 billion in the second quarter of 2020, an increase of $2.3 billion or 95%. Higher production volumes on Lear platforms globally increased net sales by $1.8 billion, largely due to the COVID-19-related production shutdowns in the second quarter of 2020. Net sales also benefited by $0.4 billion as a result of foreign exchange rate fluctuations and the impact of new business in North America and Europe.

(in millions)	Cost of Sales
Second quarter 2020	$ 2,571.9
Material cost	1,515.9
Labor and other	261.7
Depreciation	9.8
Second quarter 2021	$ 4,359.3

Cost of sales in the second quarter of 2021 was $4.4 billion, as compared to $2.6 billion in the second quarter of 2020. Higher production volumes on Lear platforms globally increased cost of sales, largely due to the COVID-19-related production shutdowns in the second quarter of 2020. Cost of sales also increased as a result of foreign exchange rate fluctuations and the impact of new business in North America and Europe.

Gross profit (loss) and gross margin were $401 million and 8.4% of net sales, respectively, in the second quarter of 2021, as compared to ($127) million and (5.2)% of net sales, respectively, in the second quarter of 2020. Higher production volumes on Lear platforms, largely due to the COVID-19-related production shutdowns in the second quarter of 2020, and the impact of new business increased gross profit by $396 million. Favorable operating performance, including the benefit of operational restructuring actions, was partially offset by the impact of selling price reductions and increased commodity costs. These factors had a corresponding impact on gross margin.

Selling, general and administrative expenses, including engineering and development expenses, were $171 million in the second quarter of 2021, as compared to $151 million in the second quarter of 2020, primarily reflecting increases in engineering costs to support our sales backlog and compensation-related costs reflecting our 2020 salary reduction and deferral actions. These increases were partially offset by a decrease in restructuring costs. As a percentage of net sales, selling, general and administrative expenses were 3.6% in the second quarter of 2021, as compared to 6.2% in the second quarter of 2020.

Amortization of intangible assets was $25 million, including an impairment charge of $9 million, in the second quarter of 2021, as compared to $16 million in the second quarter of 2020.

Interest expense was $22 million in the second quarter of 2021, as compared to $27 million in the second quarter of 2020.

Other income, 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, gains and losses on the consolidation and deconsolidation of affiliates, the non-service cost components of net periodic benefit cost and other miscellaneous income and expense, was $46 million in the second quarter of 2021, as compared to $3 million in the second quarter of 2020. In the second quarter of 2021, we recognized a gain of $47 million related to a favorable indirect tax ruling in a foreign jurisdiction and a loss of $1 million related to the impairment of an affiliate.

In the second quarter of 2021, the provision for income taxes was $39 million, representing an effective tax rate of 17.1% on pretax income before equity in net income of affiliates of $229 million. In the second quarter of 2020, the benefit for income taxes was $41 million, representing an effective tax rate of 12.9% on pretax losses before equity in net income of affiliates of $318 million, for the reasons described below. In the second quarter of 2021, we measured our tax expense based on the estimated annual effective rate. In the second quarter of 2020, we measured our tax expense based on the discrete effective tax rate method, as allowed by Accounting Standards Codification ("ASC") 740, "Income Taxes." For further information, see Note 13 "Income Taxes," to the condensed consolidated financial statements included in this Report.

In the second quarters of 2021 and 2020, the provision (benefit) for income taxes was primarily impacted by the level and mix of earnings among tax jurisdictions. In the second quarter of 2021, we recognized net tax benefits of $21 million related to the release of a valuation allowance on deferred tax assets of a foreign subsidiary, the release of tax reserves at several foreign subsidiaries, restructuring charges and various other items, offset by tax expense of $16 million related to a favorable indirect tax ruling in a foreign jurisdiction. In the second quarter of 2020, we recognized tax expense of $23 million related to the establishment of a valuation allowance on deferred tax assets of a foreign subsidiary and net tax benefits of $21 million related to restructuring charges and various other items. The benefit for income taxes in the second quarter of 2020 includes a tax benefit of $28 million related to changes in the U.S. net operating loss carryback rules provided under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which include the positive and negative tax rate impact of various U.S. permanent and temporary differences, including the negative tax rate impact from the inclusion of foreign branch income. Excluding these items, the effective tax rate for the second quarters of 2021 and 2020 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 $5 million in the second quarter of 2021, as compared to $8 million in the second quarter of 2020.

Net income (loss) attributable to Lear was $175 million, or $2.89 per diluted share, in the second quarter of 2021, as compared to ($294) million, or ($4.89) per diluted share, in the second quarter of 2020. Net income and diluted net income per share increased for the reasons described above.

Reportable Operating Segments

We have two reportable operating segments: Seating and E-Systems. For a description of our reportable operating segments, see "Executive Overview" above.

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, advanced research and development, corporate finance, legal, executive administration and human resources. Financial measures regarding each segment’s pretax income (loss) 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 (loss) attributable to Lear, net cash provided by (used in) 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 (loss) before provision (benefit) for income taxes and equity in net income of affiliates, see Note 17, "Segment Reporting," to the condensed consolidated financial statements included in this Report.

Seating

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

	Three Months Ended	
	July 3, 2021	July 4, 2020
Net sales	$ 3,608.2	$ 1,754.9
Segment earnings [1]	252.2	(116.4)
Margin	7.0 %	(6.6)%

[1] See definition above

Seating net sales were $3.6 billion in the second quarter of 2021, as compared to $1.8 billion in the second quarter of 2020, reflecting an increase of $1.9 billion or 106%. Higher production volumes on Lear platforms increased net sales by $1.5 billion, largely due to the COVID-19-related production shutdowns in the second quarter of 2020. Net sales also benefited by $0.3 billion as a result of foreign exchange rate fluctuations and the impact of new business.

Segment earnings, including restructuring costs, and the related margin on net sales were $252 million and 7.0% in the second quarter of 2021, as compared to ($116) million and (6.6)% in the second quarter of 2020. Higher production volumes on Lear platforms increased segment earnings by $302 million, largely due to the COVID-19-related production shutdowns in the second quarter of 2020. Favorable operating performance, including the benefit of operational restructuring actions, was partially offset by the impact of selling price reductions and increased commodity costs.

E-Systems

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

	Three Months Ended	
	July 3, 2021	July 4, 2020
Net sales	$ 1,152.5	$ 689.6
Segment earnings[1]	26.6	(113.4)
Margin	2.3 %	(16.4)%

[1] See definition above

E-Systems net sales were $1.2 billion in the second quarter of 2021, as compared to $0.7 billion in the second quarter of 2020, an increase of $0.5 billion or 67%. Higher production volumes on Lear platforms, largely due to the COVID-19-related production shutdowns in the second quarter of 2020, and the impact of new business increased net sales by $0.2 billion and $0.1 billion, respectively. Net sales also benefited by $0.1 billion as a result of foreign exchange rate fluctuations.

Segment earnings, including restructuring costs, and the related margin on net sales were $27 million and 2.3% in the second quarter of 2021, as compared to ($113) million and (16.4)% in the second quarter of 2020. Higher production volumes on Lear platforms, largely due to the COVID-19-related production shutdowns in the second quarter of 2020, and the impact of new business increased segment earnings by $82 million. Improved operating performance and lower restructuring costs were partially offset by the impact of selling price reductions.

Other

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

	Three Months Ended	
	July 3, 2021	July 4, 2020
Net sales	$ —	$ —
Segment earnings [1]	(73.3)	(64.5)
Margin	N/A	N/A

[1] See definition above

Segment earnings related to our other category were ($73) million in the second quarter of 2021, as compared to ($65) million in the second quarter of 2020, primarily reflecting an increase in compensation-related costs related to our 2020 salary reduction and deferral actions, as well as 2020 reductions in discretionary spending.

Six Months Ended July 3, 2021 vs. Six Months Ended July 4, 2020

Net sales for the six months ended July 3, 2021 were $10.1 billion, as compared to $6.9 billion for the six months ended July 4, 2020, an increase of $3.2 billion or 47%. Higher production volumes on Lear platforms globally increased net sales by $2.3 billion, largely due to the COVID-19-related production shutdowns in the first half of 2020. Net sales also benefited by $0.8 billion as a result of foreign exchange rate fluctuations and the impact of new business in Europe and North America.

(in millions)	Cost of Sales	
First six months of 2020	$	6,695.4
Material cost		2,129.1
Labor and other		375.9
Depreciation		20.5
First six months of 2021	$	9,220.9

Cost of sales in the first six months of 2021 was $9.2 billion, as compared to $6.7 billion in the first six months of 2020. Higher production volumes on Lear platforms globally increased cost of sales, largely due to the COVID-19-related production shutdowns in the first half of 2020. Cost of sales also increased as a result of foreign exchange rate fluctuations and the impact of new business in Europe and North America.

Gross profit and gross margin were $894 million and 8.8% of net sales, respectively, for the six months ended July 3, 2021, as compared to $207 million and 3.0% of net sales, respectively, for the six months ended July 4, 2020. Higher production volumes on Lear platforms, largely due to the COVID-19-related production shutdowns in the first half of 2020, and the impact of new business increased gross profit by $521 million. Favorable operating performance, including the benefit of operational restructuring actions, was partially offset by the impact of selling price reductions and increased commodity costs. These factors had a corresponding impact on gross margin.

Selling, general and administrative expenses, including engineering and development expenses, were $340 million in the first six months of 2021, as compared to $295 million in the first six months of 2020, primarily reflecting increases in engineering costs to support our sales backlog and compensation-related costs reflecting our 2020 salary reduction and deferral actions. These increases were partially offset by a decrease in restructuring costs. As a percentage of net sales, selling, general and administrative expenses were 3.4% in the first six months of 2021, as compared to 4.3% in the first six months of 2020.

Amortization of intangible assets was $42 million in the first six months of 2021, including an impairment charge of $9 million, as compared to $33 million in the first six months of 2020.

Interest expense was $45 million in the first six months of 2021, as compared to $52 million in the first six months of 2020.

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, gains and losses on the consolidation and deconsolidation of affiliates, the non-service cost components of net periodic benefit cost and other miscellaneous income and expense, was income of $40 million in the six months ended July 3, 2021, as compared to expense of $37 million in the six months ended July 4, 2020. In the first six months of 2021, we recognized a gain of $47 million related to a favorable indirect tax ruling in a foreign jurisdiction and a loss of $1 million related to the impairment of an affiliate. In the first six months of 2020, we recognized a loss of $21 million on extinguishment of debt.

For the six months ended July 3, 2021, the provision for income taxes was $98 million, representing an effective tax rate of 19.3% on pretax income before equity in net income of affiliates of $508 million. For the six months ended July 4, 2020, the benefit for income taxes was $15 million, representing an effective tax rate of 6.9% on pretax losses before equity in net income of affiliates of $210 million, for reasons described below. In the first six months of 2021, we measured our tax expense based on the estimated annual effective rate. In the first six months of 2020, we measured our tax expense based on the discrete effective tax rate method, as allowed by ASC 740, "Income Taxes." For further information, see Note 13 "Income Taxes," to the condensed consolidated financial statements included in this Report.

In the first six months of 2021 and 2020, the provision and benefit for income taxes was primarily impacted by the level and mix of earnings among tax jurisdictions. In the first six months of 2021, we recognized tax benefits of $27 million related to the release of valuation allowances on deferred tax assets of foreign subsidiaries, the release of tax reserves at several foreign subsidiaries, restructuring charges and various other items, offset by tax expense of $16 million related to a favorable indirect tax ruling in a foreign jurisdiction. In the first six months of 2020, we recognized tax expense of $22 million related to the net increase of valuation allowances on deferred tax assets of foreign subsidiaries and net tax benefits of $31 million related to a loss on the extinguishment of debt, restructuring charges and various other items. The benefit for income taxes in the first six months of 2020 includes a tax benefit of $28 million related to changes in the U.S. net operating loss carryback rules provided under the CARES Act, which include the positive and negative tax rate impact of various U.S. permanent and temporary differences, including the negative tax rate impact from the inclusion of foreign branch income. Excluding these items, the effective tax rate for the second quarters of 2021 and 2020 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 $11 million in the first six months of 2021, as compared to $9 million in the first six months of 2020.

Net income (loss) attributable to Lear was $379 million, or $6.25 per diluted share, for the six months ended July 3, 2021, as compared to ($218) million, or ($3.61) per diluted share, for the six months ended July 4, 2020. Net income and diluted net income per share increased for the reasons described above.

Reportable Operating Segments

We have two reportable operating segments: Seating and E-Systems. For a description of our reportable operating segments, see "Executive Overview" and "Three Months Ended July 3, 2021 vs. Three Months Ended July 4, 2020 — Reportable Operating Segments" above.

Seating

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

	Six Months Ended	
	July 3, 2021	July 4, 2020
Net sales	$ 7,604.2	$ 5,121.5
Segment earnings [(1)]	544.2	69.7
Margin	7.2 %	1.4 %

[(1)] See definition above

Seating net sales were $7.6 billion for the six months ended July 3, 2021, as compared to $5.1 billion for the six months ended July 4, 2020, an increase of $2.5 billion or 48%. Higher production volumes on Lear platforms increased net sales by $2.0 billion, largely due to the COVID-19-related production shutdowns in the first half of 2020. Net sales also benefited by $0.4 billion as a result of foreign exchange rate fluctuations and the impact of new business.

Segment earnings, including restructuring costs, and the related margin on net sales were $544 million and 7.2% for the six months ended July 3, 2021, as compared to $70 million and 1.4% for the six months ended July 4, 2020. Higher production volumes on Lear platforms increased segment earnings by $391 million, largely due to the COVID-19-related production shutdowns in the first half of 2020. Favorable operating performance, including the benefit of operational restructuring actions, was partially offset by the impact of selling price reductions and increased commodity costs.

E-Systems

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

	Six Months Ended	
	July 3, 2021	July 4, 2020
Net sales	$ 2,510.9	$ 1,780.7
Segment earnings [(1)]	115.9	(81.0)
Margin	4.6 %	(4.5)%

[(1)] See definition above

E-Systems net sales were $2.5 billion for the six months ended July 3, 2021, as compared to $1.8 billion for the six months ended July 4, 2020, an increase of $0.7 billion or 41%. Higher production volumes on Lear platforms, largely due to the COVID-19-related production shutdowns in the first half of 2020, and the impact of new business increased net sales by $0.3 billion and $0.2 billion, respectively. Net sales also benefited by $0.1 billion as a result of foreign exchange rate fluctuations.

Segment earnings, including restructuring costs, and the related margin on net sales were $116 million and 4.6% for the six months ended July 3, 2021, as compared to ($81) million and (4.5)% for the six months ended July 4, 2020. Higher production volumes on Lear platforms, largely due to the COVID-19-related production shutdowns in the first half of 2020, and the impact of new business increased segment earnings by $113 million. Improved operating performance and lower restructuring costs were partially offset by the impact of selling price reductions.

Other

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

	Six Months Ended	
	July 3, 2021	July 4, 2020
Net sales	$ —	$ —
Segment earnings[(1)]	(147.2)	(109.6)
Margin	N/A	N/A

[(1)] See definition above

Segment earnings related to our other category were ($147) million in the first six months of 2021, as compared to ($110) million in the first six months of 2020, primarily reflecting an increase in compensation-related costs related to our 2020 salary reduction and deferral actions, as well as 2020 reductions in discretionary spending.

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. Our principal sources of liquidity are cash flows from operating activities, borrowings under available credit facilities and our existing cash balance.

Cash Provided by Subsidiaries

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 July 3, 2021 and December 31, 2020, cash and cash equivalents of $703 million and $780 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 Note 9, "Income Taxes," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020.

Adequacy of Liquidity Sources

As of July 3, 2021, we had $1.4 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 for the foreseeable future and 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, although such actions are at the discretion of our Board of Directors and will depend on our financial condition, results of operations, capital requirements, prevailing market conditions, alternative uses of capital and other factors that our Board of Directors may consider at its discretion.

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 continuing effects of the COVID-19 pandemic, as well as 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, 2020, as supplemented and updated by Part II — Item 1A, "Risk Factors," in this Report.

Cash Flows

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

	Six Months Ended		
	July 3, 2021	July 4, 2020	Increase (Decrease) in Operating Cash Flow
Consolidated net income and depreciation and amortization	$ 712	$ 75	$ 637
Net change in working capital items:			
Accounts receivable	284	557	(273)
Inventory	(200)	(12)	(188)
Accounts payable	(233)	(867)	634
Accrued liabilities and other	13	(37)	50
Net change in working capital items	(136)	(359)	223
Other	(68)	(18)	(50)
Net cash provided by (used in) operating activities	$ 508	$ (302)	$ 810

In the first six months of 2021 and 2020, net cash provided by (used in) operating activities was $508 million and ($302) million, respectively. The overall increase in operating cash flows of $810 million was primarily due to higher earnings in 2021, as well as a smaller increase in working capital during first six months of 2021, as compared to the first six months of 2020, which was significantly impacted by the COVID-19 pandemic.

Net cash used in investing activities was $283 million in the first six months of 2021, as compared to $176 million in the first six months of 2020. Capital spending was $253 million in the first six months of 2021, as compared to $195 million in the first six months of 2020. Capital spending is estimated to be approximately $625 million in 2021.

Net cash used in financing activities was $132 million in the first six months of 2021, as compared to net cash provided by financing activities of $801 million in the first six months of 2020. In the first six months of 2021, we paid $29 million for repurchases of our common stock, $31 million of dividends to Lear stockholders and $53 million of dividends to noncontrolling interest holders. In the first six months of 2020, we borrowed $1.0 billion under our revolving credit facility as a proactive measure in response to the COVID-19 pandemic. Also, in 2020, we received net proceeds of $669 million related to the issuance of 3.5% senior notes due 2030 and additional 5.25% senior notes due 2049 and paid $6 million of related issuance costs and $667 million related to the redemption of our outstanding 5.25% senior notes due 2025. In 2020, we paid $70 million for repurchases of our common stock, $48 million of dividends to Lear stockholders and $43 million of dividends to noncontrolling interest holders.

Capitalization

For information related to our senior notes and credit agreement, see Note 8, "Debt," to the condensed consolidated financial statements included in this Report and Note 7, "Debt," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020.

For information related to our common stock share repurchase program and dividends, see "— Executive Overview — Share Repurchase Program and Quarterly Cash Dividends" above, Note 15, "Comprehensive Income (Loss) and Equity," to the condensed consolidated financial statements included in this Report and Note 12, "Capital Stock, Accumulated Other Comprehensive Loss and Equity," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020.

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.

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

	July 3, 2021	December 31, 2020
Notional amount (contract maturities < 24 months)	$ 3,076	$ 2,494
Fair value	58	48

Currently, our most significant foreign currency transactional exposures relate to the Mexican peso, various European currencies, the Chinese renminbi, the Japanese yen, the Thai baht, the Brazilian real and the Honduran lempira.

A sensitivity analysis of our net transactional exposure is shown below (in millions):

		Potential Earnings Benefit (Adverse Earnings Impact)	
	Hypothetical Strengthening % [1]	July 3, 2021	December 31, 2020
U.S. dollar	10%	$ 10	$ 23
Euro	10%	(5)	(4)

[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):

		Estimated Change in Fair Value	
	Hypothetical Change % [2]	July 3, 2021	December 31, 2020
U.S. dollar	10%	$ 74	$ 80
Euro	10%	49	59

[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 2020, net sales outside of the United States accounted for 79% of our consolidated net sales, although certain non-U.S. sales are U.S. dollar denominated. We do not enter into foreign exchange contracts to mitigate our translational exposure.

Commodity Prices and Availability

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. In addition, the availability of raw materials, commodities and product components fluctuates from time to time due to factors outside of our control, including trade laws and tariffs, natural disasters, global pandemics like COVID-19 and resulting supply chain disruptions. Currently, due to a variety of global factors, the insufficient availability of semiconductor chips is adversely affecting, and may continue to adversely affect, a number of industries, including the automotive industry, resulting in reduced levels of automotive production. If the costs of raw materials, commodities and product components increases or the availability thereof 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 — 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, 2020, as supplemented and updated by Part II — Item 1A, "Risk Factors," in this Report.

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 92% of our copper purchases and a significant portion of our leather purchases are subject to price index agreements with our customers and suppliers.

For further information related to the financial instruments described above, see Note 18, "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 July 3, 2021, we had recorded reserves for pending legal disputes, including commercial disputes and other matters, of $17 million. In addition, as of July 3, 2021, we had recorded reserves for product liability claims and environmental matters of $43 million and $9 million, respectively. Although these reserves were determined in accordance with GAAP, the ultimate outcomes of these matters are inherently uncertain, and actual results may differ significantly from current estimates. For a description of risks related to various legal proceedings and claims, see Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2020. For a more complete description of our outstanding material legal proceedings, see Note 16, "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, 2020. There have been no significant changes in our significant accounting policies or critical accounting estimates during the first six months of 2021.

Recently Issued Accounting Pronouncements

For information on the impact of recently issued accounting pronouncements, see Note 19, "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;
- the impact of the ongoing COVID-19 pandemic on our business and the global economy;
- 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;
- 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 operational and financial success of our joint ventures;
- the impact and timing of program launch costs and our management of new program launches;
- 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;
- limitations imposed by our existing indebtedness and our ability to access capital markets on commercially reasonable terms;
- changes affecting the availability of LIBOR;
- disruptions to our information technology systems, or those of our customers or suppliers, 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;
- 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, 2020, as supplemented and updated by Part II — Item 1A, "Risk Factors," in this Report, and our other Securities and Exchange Commission filings.

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

ITEM 4 — CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter ended July 3, 2021, that has materially affected, or is 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, 2020. For a description of our outstanding material legal proceedings, see Note 16, "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, 2020, and our Quarterly Report on Form 10-Q for the quarter ended April 3, 2021.

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 — Executive Overview — Share Repurchase Program and Quarterly Cash Dividends," and Note 15, "Comprehensive Income (Loss) and Equity," to the condensed consolidated financial statements included in this Report, in March 2020, as a proactive measure in response to the COVID-19 pandemic, we suspended our share repurchases. Share repurchases were reinstated in the second quarter of 2021.

A summary of the shares of our common stock repurchased during the quarter ended July 3, 2021, 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)
April 4, 2021 through May 1, 2021	—	—	—	$ 1,430.0
May 2, 2021 through May 29, 2021	53,083	$186.90	53,083	1,420.1
May 30, 2021 through July 3, 2021	116,731	$182.04	116,731	1,398.8
Total	169,814	$183.56	169,814	$ 1,398.8

ITEM 6 — EXHIBITS

Exhibit Index

	Exhibit Number	Exhibit Name
*	31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
*	31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
*	32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**	101.INS	XBRL Instance Document
***	101.SCH	XBRL Taxonomy Extension Schema Document.
***	101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
***	101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
***	101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
***	101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
**	104	Cover Page Interactive Data File

*	Filed herewith.
**	The XBRL Instance Document and Cover Page Interactive Data File do not appear in the Interactive Data File because their XBRL tags are embedded within the Inline XBRL document.
***	Submitted electronically with the Report.

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:	August 6, 2021	By:	/s/ Raymond E. Scott
			Raymond E. Scott President and Chief Executive Officer
		By:	/s/ Jason M. Cardew
			Jason M. Cardew Senior Vice President and Chief Financial Officer

Exhibit 31.1

CERTIFICATION

I, Raymond E. Scott, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lear Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2021 By: /s/ Raymond E. Scott

Raymond E. Scott
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Jason M. Cardew, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lear Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2021 By: /s/ Jason M. Cardew

Jason M. Cardew
Senior Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lear Corporation (the "Company") on Form 10-Q for the period ended July 3, 2021, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, as the Chief Executive Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	August 6, 2021	Signed:	/s/ Raymond E. Scott
			Raymond E. Scott
			Chief Executive Officer

This written statement accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lear Corporation (the "Company") on Form 10-Q for the period ended July 3, 2021, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, as the Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	August 6, 2021	Signed:	/s/ Jason M. Cardew
			Jason M. Cardew
			Chief Financial Officer

This written statement accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.