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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended September 28, 2013.

**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

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**LEAR CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**13-3386776**  
(I.R.S. Employer  
Identification No.)

**48033**  
(Zip code)

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

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

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

As of October 21, 2013, the number of shares outstanding of the registrant's common stock was 80,696,111 shares.

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LEAR CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 28, 2013

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**LEAR CORPORATION**

**PART I — FINANCIAL INFORMATION**

**ITEM 1 — CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**INTRODUCTION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

We have prepared the condensed consolidated financial statements of Lear Corporation and subsidiaries, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, for the year ended December 31, 2012.

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)

	September 28, 2013 <sup>(1)</sup>	December 31, 2012
<b>ASSETS</b>		
<i>CURRENT ASSETS:</i>		
Cash and cash equivalents	\$ 884.0	\$ 1,402.2
Accounts receivable	2,596.9	2,040.7
Inventories	839.2	727.1
Other	683.5	703.5
Total current assets	<u>5,003.6</u>	<u>4,873.5</u>
<i>LONG-TERM ASSETS:</i>		
Property, plant and equipment, net	1,540.0	1,403.1
Goodwill	753.1	746.5
Other	1,167.5	1,171.0
Total long-term assets	<u>3,460.6</u>	<u>3,320.6</u>
Total assets	<u>\$ 8,464.2</u>	<u>\$ 8,194.1</u>
<b>LIABILITIES AND EQUITY</b>		
<i>CURRENT LIABILITIES:</i>		
Accounts payable and drafts	\$ 2,554.9	\$ 2,233.0
Accrued liabilities	1,194.7	983.9
Total current liabilities	<u>3,749.6</u>	<u>3,216.9</u>
<i>LONG-TERM LIABILITIES:</i>		
Long-term debt	1,057.0	626.3
Other	737.6	738.7
Total long-term liabilities	<u>1,794.6</u>	<u>1,365.0</u>
<i>EQUITY:</i>		
Preferred stock, 100,000,000 shares authorized (including 10,896,250 Series A convertible preferred stock authorized); no shares outstanding	—	—
Common stock, \$0.01 par value, 300,000,000 shares authorized; 108,014,771 and 107,863,310 shares issued as of September 28, 2013 and December 31, 2012, respectively	1.1	1.1
Additional paid-in capital, including warrants to purchase common stock	2,023.5	2,155.7
Common stock held in treasury, 27,321,026 and 11,921,235 shares as of September 28, 2013 and December 31, 2012, respectively, at cost	(1,353.0)	(517.9)
Retained earnings	2,462.8	2,149.0
Accumulated other comprehensive loss	(320.9)	(300.8)
Lear Corporation stockholders' equity	<u>2,813.5</u>	<u>3,487.1</u>
Noncontrolling interests	106.5	125.1
Equity	<u>2,920.0</u>	<u>3,612.2</u>
Total liabilities and equity	<u>\$ 8,464.2</u>	<u>\$ 8,194.1</u>

(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**  
**(Unaudited; in millions, except per share data)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 28, 2013</b>	<b>September 29, 2012</b>	<b>September 28, 2013</b>	<b>September 29, 2012</b>
Net sales	\$ 3,917.7	\$ 3,538.6	\$ 11,977.9	\$ 10,847.6
Cost of sales	3,587.5	3,247.3	10,997.6	9,931.9
Selling, general and administrative expenses	128.6	113.4	386.1	346.8
Amortization of intangible assets	8.6	8.3	25.8	22.5
Interest expense	17.5	13.7	51.6	40.2
Other expense, net	16.8	1.5	37.8	12.0
Consolidated income before provision for income taxes and equity in net income of affiliates	158.7	154.4	479.0	494.2
Provision for income taxes	51.2	29.3	130.2	100.4
Equity in net income of affiliates	(9.2)	(3.0)	(27.1)	(33.3)
Consolidated net income	116.7	128.1	375.9	427.1
Less: Net income attributable to noncontrolling interests	3.9	6.7	17.3	26.2
<b>Net income attributable to Lear</b>	<b>\$ 112.8</b>	<b>\$ 121.4</b>	<b>\$ 358.6</b>	<b>\$ 400.9</b>
<b>Basic net income per share attributable to Lear</b>	<b>\$ 1.40</b>	<b>\$ 1.25</b>	<b>\$ 4.14</b>	<b>\$ 4.05</b>
<b>Diluted net income per share attributable to Lear</b>	<b>\$ 1.38</b>	<b>\$ 1.23</b>	<b>\$ 4.09</b>	<b>\$ 3.99</b>
Consolidated comprehensive income (Note 12)	\$ 148.3	\$ 174.3	\$ 356.7	\$ 461.1
Less: Comprehensive income attributable to noncontrolling interests	4.1	7.9	18.2	26.5
Comprehensive income attributable to Lear	<u>\$ 144.2</u>	<u>\$ 166.4</u>	<u>\$ 338.5</u>	<u>\$ 434.6</u>

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)

	Nine Months Ended	
	September 28, 2013	September 29, 2012
<b>Cash Flows from Operating Activities:</b>		
Consolidated net income	\$ 375.9	\$ 427.1
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	208.3	173.6
Net change in recoverable customer engineering, development and tooling	(17.2)	(66.6)
Net change in working capital items (see below)	(157.7)	(167.1)
Other, net	20.3	(6.3)
Net cash provided by operating activities	<u>429.6</u>	<u>360.7</u>
<b>Cash Flows from Investing Activities:</b>		
Additions to property, plant and equipment	(329.2)	(300.5)
Insurance proceeds	7.1	11.4
Cash paid for acquisitions, net of cash acquired	—	(243.9)
Other, net	40.7	(3.1)
Net cash used in investing activities	<u>(281.4)</u>	<u>(536.1)</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from the issuance of senior notes	500.0	—
Repurchase of senior notes	(72.1)	(72.1)
Payment of debt issuance and other financing costs	(13.4)	—
Repurchase of common stock	(1,000.1)	(172.6)
Dividends paid to Lear Corporation stockholders	(44.8)	(40.9)
Dividends paid to noncontrolling interests	(33.4)	(4.3)
Other	(9.7)	(15.4)
Net cash used in financing activities	<u>(673.5)</u>	<u>(305.3)</u>
Effect of foreign currency translation	7.1	(4.0)
<b>Net Change in Cash and Cash Equivalents</b>	<u>(518.2)</u>	<u>(484.7)</u>
<b>Cash and Cash Equivalents as of Beginning of Period</b>	1,402.2	1,754.3
<b>Cash and Cash Equivalents as of End of Period</b>	<u>\$ 884.0</u>	<u>\$ 1,269.6</u>
<b>Changes in Working Capital Items:</b>		
Accounts receivable	\$ (567.3)	\$ (276.8)
Inventories	(121.8)	(99.6)
Accounts payable	320.1	223.8
Accrued liabilities and other	211.3	(14.5)
Net change in working capital items	<u>\$ (157.7)</u>	<u>\$ (167.1)</u>
<b>Supplementary Disclosure:</b>		
Cash paid for interest	\$ 63.3	\$ 58.6
Cash paid for income taxes	<u>\$ 121.4</u>	<u>\$ 59.9</u>

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

**LEAR CORPORATION AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Basis of Presentation**

Lear Corporation (“Lear,” and together with its consolidated subsidiaries, the “Company”) and its affiliates design and manufacture automotive seats and related components, as well as 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 variable interest entities in which it has a controlling financial interest. Investments in affiliates in which Lear does not have control, but does have the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method.

In the second quarter of 2012, the Company completed the acquisition of Guilford Mills (“Guilford”) for \$243.9 million, net of cash acquired. The acquisition was accounted for as a purchase, and accordingly, the assets acquired and liabilities assumed are included in accompanying condensed consolidated financial statements from the date of acquisition. For further information on the acquisition of Guilford, see Note 3, “Acquisition,” to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

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

Certain amounts in the prior period’s financial statements have been reclassified to conform to the presentation used in the quarter ended September 28, 2013.

*Cost of Sales and Selling, General and Administrative Expenses*

Cost of sales includes material, labor and overhead costs associated with the manufacture and distribution of the Company’s products. Distribution costs include inbound freight costs, purchasing and receiving costs, inspection costs, warehousing costs and other costs of the Company’s distribution network. Selling, general and administrative expenses include selling, engineering and development and administrative costs not directly associated with the manufacture and distribution of the Company’s products.

**(2) Restructuring**

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

In the first nine months of 2013, the Company recorded charges of \$42.9 million in connection with its restructuring actions. These charges consist of \$30.7 million recorded as cost of sales and \$12.2 million recorded as selling, general and administrative expenses. The restructuring charges consist of employee termination benefits of \$28.1 million, asset impairment charges of \$4.6 million and contract termination costs of \$0.3 million, as well as other related costs of \$9.9 million. Employee termination benefits were recorded based on existing union and employee contracts, statutory requirements, completed negotiations and Company policy. Asset impairment charges relate to the disposal of buildings, leasehold improvements and machinery and/or equipment with carrying values of \$4.6 million in excess of related estimated fair values. The Company expects to incur approximately \$15 million of additional restructuring costs related to activities initiated as of September 28, 2013, 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.

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

A summary of 2013 activity is shown below (in millions):

	Accrual as of January 1, 2013	2013 Charges	Utilization		Accrual as of September 28, 2013
			Cash	Non- cash	
Employee termination benefits	\$ 38.5	\$ 28.1	\$(29.6)	\$—	\$ 37.0
Contract termination costs	5.7	0.3	(0.2)	—	5.8
Asset impairment charges	—	4.6	—	(4.6)	—
Other related costs	—	9.9	(9.9)	—	—
Total	\$ 44.2	\$ 42.9	\$(39.7)	\$(4.6)	\$ 42.8

**(3) Inventories**

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs. A summary of inventories is shown below (in millions):

	September 28, 2013	December 31, 2012
Raw materials	\$ 665.5	\$ 582.2
Work-in-process	50.1	37.4
Finished goods	123.6	107.5
Inventories	\$ 839.2	\$ 727.1

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

The Company incurs pre-production engineering and development (“E&D”) and tooling costs related to the products produced for its customers under long-term supply agreements. The Company expenses all pre-production E&D costs for which reimbursement is not contractually guaranteed by the customer. In addition, the Company expenses all pre-production tooling costs related to customer-owned tools for which reimbursement is not contractually guaranteed by the customer or for which the Company does not have a non-cancelable right to use the tooling. During the first nine months of 2013 and 2012, the Company capitalized \$139.8 million and \$161.0 million, respectively, of pre-production E&D costs for which reimbursement is contractually guaranteed by the customer. During the first nine months of 2013 and 2012, the Company also capitalized \$164.3 million and \$121.6 million, respectively, of pre-production tooling costs related to customer-owned tools for which reimbursement is contractually guaranteed by the customer or for which the Company has a non-cancelable right to use the tooling. These amounts are included in other current and long-term assets in the accompanying condensed consolidated balance sheets. During the first nine months of 2013 and 2012, the Company collected \$296.5 million and \$209.4 million, respectively, of cash related to E&D and tooling costs.

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

	September 28, 2013	December 31, 2012
Current	\$ 155.1	\$ 141.8
Long-term	51.4	55.0
Recoverable customer engineering, development and tooling	\$ 206.5	\$ 196.8

**(5) Long-Term Assets**

*Property, Plant and Equipment*

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



## LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

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

	September 28, 2013	December 31, 2012
Land	\$ 115.6	\$ 114.0
Buildings and improvements	513.4	475.1
Machinery and equipment	1,549.6	1,306.6
Construction in progress	161.0	139.6
Total property, plant and equipment	2,339.6	2,035.3
Less — accumulated depreciation	(799.6)	(632.2)
Net property, plant and equipment	<u>\$ 1,540.0</u>	<u>\$ 1,403.1</u>

Depreciation expense was \$64.4 million and \$54.9 million for the three months ended September 28, 2013 and September 29, 2012, respectively, and \$182.5 million and \$151.0 million for the nine months ended September 28, 2013 and September 29, 2012, respectively.

The Company monitors its long-lived assets for impairment indicators on an ongoing basis in accordance with GAAP. If impairment indicators exist, the Company performs the required impairment analysis by comparing the undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. If the net book value exceeds the undiscounted cash flows, an impairment loss is measured and recognized. The Company does not believe that there were any indicators that would have resulted in long-lived asset impairment charges as of September 28, 2013. The Company will, however, continue to assess the impact of any significant industry events and long-term automotive production estimates on the realization of its long-lived assets.

In the first nine months of 2013, the Company recognized asset impairment charges of \$4.6 million in conjunction with its restructuring actions (Note 2, "Restructuring").

*Investments in Affiliates*

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

**(6) Goodwill**

A summary of the changes in the carrying amount of goodwill, all of which relates to the seating segment, for the nine months ended September 28, 2013, is shown below (in millions):

Balance as of January 1, 2013	\$746.5
Foreign currency translation and other	6.6
Balance as of September 28, 2013	<u>\$753.1</u>

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

The Company does not believe that there were any indicators that would have resulted in goodwill impairment charges as of September 28, 2013. The Company will, however, continue to assess the impact of significant events or circumstances on its recorded goodwill.

## LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)**(7) Long-Term Debt**

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

	September 28, 2013		December 31, 2012	
	Long-Term Debt	Weighted Average Interest Rate	Long-Term Debt	Weighted Average Interest Rate
7.875% Senior Notes due 2018	\$ 278.7	8.00%	\$ 313.4	8.00%
8.125% Senior Notes due 2020	278.3	8.25%	312.9	8.25%
4.75% Senior Notes due 2023	500.0	4.75%	—	
Long-term debt	<u>\$ 1,057.0</u>		<u>\$ 626.3</u>	

*Senior Notes*

As of September 28, 2013, the Company's long-term debt consists of \$280 million in aggregate principal amount at maturity of senior unsecured notes due 2018 at a stated coupon rate of 7.875% (the "2018 Notes"), \$280 million in aggregate principal amount at maturity of senior unsecured notes due 2020 at a stated coupon rate of 8.125% (the "2020 Notes") and \$500 million in aggregate principal amount of senior unsecured notes due 2023 at a stated coupon rate of 4.75% (the "2023 Notes" and together with the 2018 Notes and the 2020 Notes, the "Notes").

The 2018 Notes were priced at 99.276% of par, resulting in a yield to maturity of 8.00%, and the 2020 Notes were priced at 99.164% of par, resulting in a yield to maturity of 8.25%. The 2018 Notes and the 2020 Notes were issued on March 26, 2010, and interest on the 2018 Notes and the 2020 Notes is payable on March 15 and September 15 of each year. The 2018 Notes mature on March 15, 2018, and the 2020 Notes mature on March 15, 2020.

On March 26, 2013, the Company redeemed 10% of the original aggregate principal amount of each of the 2018 Notes and the 2020 Notes at a redemption price equal to 103% of the principal amount redeemed, plus accrued and unpaid interest to the redemption date. In connection with this transaction, the Company paid \$72.1 million and recognized a loss of approximately \$3.6 million on the partial extinguishment of debt in the first quarter of 2013.

The 2023 Notes were issued on January 17, 2013, and interest on the 2023 Notes is payable on January 15 and July 15 of each year. The 2023 Notes were offered and sold in a private transaction to qualified institutional buyers under Rule 144A and, outside of the United States, pursuant to Regulation S of the Securities Act of 1933, as amended (the "Securities Act"). The 2023 Notes have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an exemption from the registration requirements of the Securities Act. In connection with the issuance of the 2023 Notes, the Company entered into a registration rights agreement providing, among other things, customary registration rights with respect to the exchange of the 2023 Notes for a new issue of registered notes with substantially identical terms to the 2023 Notes on or before June 2, 2014. The proceeds from the offering of \$500 million, net of related issuance costs of \$7.4 million, together with the Company's existing sources of liquidity, were used for general corporate purposes, including, without limitation, the redemption of \$70 million in aggregate principal amount of the 2018 Notes and the 2020 Notes during 2013 (see above), investments in additional component capabilities and emerging markets and share repurchases under the Company's common stock share repurchase program (see Note 12, "Comprehensive Income and Equity"). The 2023 Notes mature on January 15, 2023.

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

The indenture governing the 2018 Notes and the 2020 Notes contains restrictive covenants that, among other things, limit the ability of the Company and its subsidiaries to: (i) incur additional debt, (ii) pay dividends and make other restricted payments, (iii) create or permit certain liens, (iv) issue or sell capital stock of the Company's restricted subsidiaries, (v) use the proceeds from sales of assets and subsidiary stock, (vi) create or permit restrictions on the ability of the Company's restricted subsidiaries to pay dividends or make other distributions to the Company, (vii) enter into transactions with affiliates, (viii) enter into sale and leaseback transactions and (ix) consolidate or merge or sell all or substantially all of the Company's assets. The foregoing limitations are subject to exceptions as set forth in the 2018 Notes and the 2020 Notes. In addition, if in the future the 2018 Notes and the 2020 Notes have an investment grade credit rating from both Moody's Investors Service and Standard & Poor's Ratings Services and no default has occurred and is continuing, certain of these covenants will, thereafter, no longer apply to the Notes for so long as the 2018 Notes and the 2020 Notes have an investment grade credit rating by both rating agencies. The indenture governing the 2018 Notes and the 2020 Notes also contains customary events of default.

## LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

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

As of September 28, 2013, the Company was in compliance with all covenants under the indentures governing the Notes.

*Revolving Credit Facility*

On January 30, 2013, the Company amended and restated its senior secured credit agreement ("revolving credit facility") to, among other things, increase the borrowing capacity from \$500 million to \$1.0 billion, extend the maturity date to January 30, 2018, and reduce interest rates payable on outstanding borrowings under the facility. As of September 28, 2013, there were no borrowings outstanding under the revolving credit facility.

Advances under the revolving credit facility generally bear interest at a variable rate per annum equal to (i) the Eurocurrency Rate (as defined) plus an adjustable margin of 1.0% to 2.25% based on the Company's corporate rating (1.5% as of September 28, 2013), payable on the last day of each applicable interest period but in no event less frequently than quarterly, or (ii) the Adjusted Base Rate (as defined) plus an adjustable margin of 0.0% to 1.25% based on the Company's corporate rating (0.50% as of September 28, 2013), payable quarterly. An annual facility fee is payable which ranges from 0.25% to 0.50% of the total amount committed under the revolving credit facility.

The Company's obligations under the revolving credit facility are secured on a first priority basis by a lien on substantially all of the U.S. assets of the Company and its domestic subsidiaries, as well as 100% of the stock of the Company's domestic subsidiaries and 65% of the stock of certain of the Company's foreign subsidiaries. In addition, obligations under the revolving credit facility are guaranteed, jointly and severally, on a first priority basis, by certain domestic subsidiaries, which are directly or indirectly 100% owned by Lear. See Note 17, "Supplemental Guarantor Condensed Consolidating Financial Statements."

The revolving credit facility contains various customary representations, warranties and covenants by the Company, including, without limitation, (i) covenants regarding maximum leverage and minimum interest coverage, (ii) limitations on fundamental changes involving the Company or its subsidiaries and (iii) limitations on indebtedness, liens, investments and restricted payments. As of September 28, 2013, the Company was in compliance with all covenants under the agreement governing the revolving credit facility.

For further information on the Notes and the revolving credit facility, see Note 7, "Long-Term Debt," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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

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

	Three Months Ended				Nine Months Ended			
	September 28, 2013		September 29, 2012		September 28, 2013		September 29, 2012	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Service cost	\$ 0.8	\$ 2.4	\$ 0.8	\$ 1.9	\$ 2.2	\$ 7.4	\$ 2.4	\$ 5.8
Interest cost	6.5	5.1	6.6	4.7	19.6	15.5	18.3	14.1
Expected return on plan assets	(8.1)	(6.2)	(7.5)	(5.5)	(24.3)	(18.9)	(20.6)	(16.5)
Amortization of actuarial loss	1.0	1.6	1.0	1.4	3.1	4.8	2.9	4.2
Settlement loss	—	—	—	—	—	—	0.6	—
Net periodic benefit cost	<u>\$ 0.2</u>	<u>\$ 2.9</u>	<u>\$ 0.9</u>	<u>\$ 2.5</u>	<u>\$ 0.6</u>	<u>\$ 8.8</u>	<u>\$ 3.6</u>	<u>\$ 7.6</u>

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

	Three Months Ended				Nine Months Ended			
	September 28, 2013		September 29, 2012		September 28, 2013		September 29, 2012	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Service cost	\$ —	\$ 0.3	\$ 0.1	\$ 0.3	\$ 0.1	\$ 0.8	\$ 0.3	\$ 0.8
Interest cost	0.9	0.7	1.1	0.9	2.7	2.3	3.3	2.4
Amortization of actuarial (gain) loss	—	0.1	0.1	0.1	(0.1)	0.3	0.3	0.2
Amortization of prior service credit	—	(0.1)	—	(0.1)	—	(0.3)	—	(0.1)
Special termination benefits	—	0.1	—	0.1	—	0.3	—	0.3
Net periodic benefit cost	<u>\$ 0.9</u>	<u>\$ 1.1</u>	<u>\$ 1.3</u>	<u>\$ 1.3</u>	<u>\$ 2.7</u>	<u>\$ 3.4</u>	<u>\$ 3.9</u>	<u>\$ 3.6</u>

**Contributions**

Employer contributions to the Company's domestic and foreign pension plans for the nine months ended September 28, 2013, were \$15.9 million. The Company expects contributions to its domestic and foreign pension plans of \$20 to \$25 million in 2013. The Company may elect to make contributions in excess of minimum funding requirements in response to investment performance or changes in interest rates or when the Company believes that it is financially advantageous to do so and based on its other cash requirements.

Employer contributions to the Company's defined contribution retirement program for its salaried employees, determined as a percentage of each covered employee's eligible compensation, for the nine months ended September 28, 2013, were \$11.5 million. The Company expects total contributions of approximately \$15 million to this program in 2013.

**(9) Other Expense, Net**

Other expense, net includes non-income related taxes, foreign exchange gains and losses, gains and losses related to certain derivative instruments and hedging activities, gains and losses on the extinguishment of debt (Note 7, "Long-Term Debt"), gains and losses on the disposal of fixed assets and other miscellaneous income and expense. A summary of other expense, net is shown below (in millions):

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Other expense	\$ 17.3	\$ 9.3	\$ 38.8	\$ 25.5
Other income	(0.5)	(7.8)	(1.0)	(13.5)
Other expense, net	<u>\$ 16.8</u>	<u>\$ 1.5</u>	<u>\$ 37.8</u>	<u>\$ 12.0</u>

For the nine months ended September 28, 2013, other expense includes a loss of \$3.6 million on the partial extinguishment of debt. For the three and nine months ended September 29, 2012, other expense includes a loss of \$3.7 million on the partial extinguishment of debt. See Note 7, "Long-Term Debt."

For the three and nine months ended September 29, 2012, other income includes gains of \$7.2 million and \$12.3 million, respectively, resulting from insurance recoveries related to the destruction of property, plant and equipment. See Note 13, "Legal and Other Contingencies."

**(10) Income Taxes**

The provision for income taxes was \$51.2 million for the third quarter of 2013, representing an effective tax rate of 32.3% on pretax income before equity in net income of affiliates of \$158.7 million, as compared to \$29.3 million for the third quarter of 2012, representing an effective tax rate of 19.0% on pretax income before equity in net income of affiliates of \$154.4 million. The provision for income taxes was \$130.2 million for the nine months ended September 28, 2013, representing an effective tax rate of 27.2% on pretax income before equity in net income of affiliates of \$479.0 million, as compared to \$100.4 million for the nine months ended September 29, 2012, representing an effective tax rate of 20.3% on pretax income before equity in net income of affiliates of \$494.2 million.

**LEAR CORPORATION AND SUBSIDIARIES**

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The effective tax rate increased in 2013 as compared to 2012 primarily due to the reversal of a substantial portion of the Company's U.S. valuation allowance in the fourth quarter of 2012. As a result of the reversal, the provision for income taxes in the first nine months of 2013 includes U.S. federal income tax expense at a rate of 35% with respect to the Company's earnings in the United States. The provision for income taxes in the first nine months of 2012 includes no U.S. federal income tax expense with respect to the Company's earnings in the United States.

In the first nine months of 2013, the Company recognized tax benefits of \$3.4 million primarily related to the retroactive reinstatement of the U.S. research and development tax credit by the American Taxpayer Relief Act of 2012, which was signed into law on January 2, 2013, and net tax benefits of \$21.7 million related to net changes in valuation allowances with respect to the deferred tax assets of certain foreign subsidiaries. In the first nine months of 2013 and 2012, the provision for income taxes was impacted by the level and mix of earnings among tax jurisdictions. The provision was also impacted by a portion of the Company's restructuring charges and other expenses, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. Excluding these items, the effective tax rate in the first nine months of 2013 and 2012 approximated the U.S. federal statutory income tax rate of 35% adjusted for income taxes on foreign earnings, losses and remittances, valuation allowances, tax credits, income tax incentives and other permanent items.

The Company's current and future provision for income taxes is impacted by the initial recognition of and changes in valuation allowances in certain countries. The Company's future provision for income taxes will include no tax benefit with respect to losses incurred and no tax expense with respect to income generated in these countries until the respective valuation allowances are eliminated. 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 decisions regarding the need for a valuation allowance could change, resulting in either the initial recognition or reversal of a valuation allowance in that jurisdiction, which could have a significant impact on income tax expense in the period recognized and subsequent periods.

For further information, see Note 8, "Income Taxes," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

**(11) Net Income Per Share Attributable to Lear**

Basic net income per share attributable to Lear is computed by dividing net income attributable to Lear by the average number of common shares outstanding during the period. Common shares issuable upon the satisfaction of certain conditions pursuant to a contractual agreement, such as those shares contemplated as part of the Company's emergence from Chapter 11 bankruptcy proceedings, are considered common shares outstanding and are included in the computation of basic net income per share attributable to Lear.

Diluted net income per share attributable to Lear is computed using the treasury stock method by dividing net income attributable to Lear by the average number of common shares outstanding, including the dilutive effect of common stock equivalents using the average share price during the period.

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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A summary of information used to compute basic and diluted net income per share attributable to Lear is shown below (in millions, except share data):

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Net income attributable to Lear	\$ 112.8	\$ 121.4	\$ 358.6	\$ 400.9
Average common shares outstanding	80,674,338	97,482,353	86,609,304	98,975,335
Dilutive effect of common stock equivalents	1,079,825	1,382,520	1,041,134	1,493,131
Average diluted shares outstanding	81,754,163	98,864,873	87,650,438	100,468,466
Basic net income per share attributable to Lear	\$ 1.40	\$ 1.25	\$ 4.14	\$ 4.05
Diluted net income per share attributable to Lear	\$ 1.38	\$ 1.23	\$ 4.09	\$ 3.99

**(12) Comprehensive Income and Equity**
*Comprehensive Income*

Comprehensive income is defined as all changes in the Company's net assets except changes resulting from transactions with stockholders. It differs from net income in that certain items recorded in equity are included in comprehensive income.

A summary of comprehensive income and reconciliations of equity, Lear Corporation stockholders' equity and noncontrolling interests for the three and nine months ended September 28, 2013 and September 29, 2012, are shown below (in millions):

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

- (1) Includes comprehensive income of \$2.6 million and \$7.8 million for the three and nine months ended September 28, 2013, respectively, reclassified from accumulated other comprehensive loss. See Note 8, "Pension and Other Postretirement Benefit Plans."
- (2) Includes comprehensive loss of \$8.3 million and \$27.1 million for the three and nine months ended September 28, 2013, respectively, reclassified from accumulated other comprehensive loss. See Note 15, "Financial Instruments."

In the three months ended September 28, 2013, foreign currency translation adjustments relate primarily to the Euro. In the nine months ended September 28, 2013, foreign currency translation adjustments relate primarily to the Euro, the Brazilian real, the Chinese renminbi and the Indian rupee.

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	Three Months Ended September 29, 2012			Nine Months Ended September 29, 2012		
	Equity	Attributable to Lear Corporation Stockholders	Non-controlling Interests	Equity	Attributable to Lear Corporation Stockholders	Non-controlling Interests
Beginning equity balance	\$2,700.5	\$ 2,565.5	\$ 135.0	\$2,561.1	\$ 2,436.4	\$ 124.7
Stock-based compensation transactions	8.8	8.8	—	22.8	22.8	—
Repurchase of common stock	(50.1)	(50.1)	—	(172.6)	(172.6)	—
Dividends declared to Lear Corporation stockholders	(13.9)	(13.9)	—	(42.3)	(42.3)	—
Dividends paid to noncontrolling interests	—	—	—	(4.3)	—	(4.3)
Acquisition of noncontrolling interests	(17.4)	(9.3)	(8.1)	(23.6)	(11.5)	(12.1)
Comprehensive income:						
Net income	128.1	121.4	6.7	427.1	400.9	26.2
Other comprehensive income (loss), net of tax:						
Defined benefit plan adjustments (3)	2.6	2.6	—	0.8	0.8	—
Derivative instruments and hedging activities (4)	18.0	18.0	—	54.0	54.0	—
Foreign currency translation adjustments	25.6	24.4	1.2	(20.8)	(21.1)	0.3
Other comprehensive income	46.2	45.0	1.2	34.0	33.7	0.3
Comprehensive income	174.3	166.4	7.9	461.1	434.6	26.5
Ending equity balance	<u>\$2,802.2</u>	<u>\$ 2,667.4</u>	<u>\$ 134.8</u>	<u>\$2,802.2</u>	<u>\$ 2,667.4</u>	<u>\$ 134.8</u>

(3) Includes comprehensive income of \$2.5 million and \$8.1 million for the three and nine months ended September 29, 2012, respectively, reclassified from accumulated other comprehensive loss. See Note 8, "Pension and Other Postretirement Benefit Plans."

(4) Includes comprehensive income (loss) of (\$0.3) million and \$5.8 million for the three and nine months ended September 29, 2012, respectively, reclassified from accumulated other comprehensive loss. See Note 15, "Financial Instruments."

In the three months ended September 29, 2012, foreign currency translation adjustments relate primarily to the Euro, the Chinese renminbi and the British pound sterling. In the nine months ended September 29, 2012, foreign currency translation adjustments relate primarily to the Euro and the Brazilian real.

#### Lear Corporation Stockholders' Equity

##### Common Stock Share Repurchase Program —

In January 2013, the Company's Board of Directors authorized an increase of \$800 million to the Company's existing common stock share repurchase program, which permits the discretionary repurchase of the Company's common stock, to provide for aggregate repurchases of \$1.5 billion and extended the term of the program to January 10, 2016. In February 2013, the Board of Directors authorized the Company to increase the pace of its common stock share repurchase program in order to complete \$600 million of share repurchases in 2013. Subsequent to this action, the Company received notice from certain of its stockholders, Marcato Capital Management LLC, Oskie Capital Management and their affiliates (together, the "Marcato-Oskie Group"), that they intended to nominate three directors for election and propose certain other business at the Company's 2013 annual meeting of stockholders. Following discussions with the Marcato-Oskie Group and continued review of the Company's capital structure by the Board of Directors, in April 2013, the Company and the Marcato-Oskie Group entered into an agreement pursuant to which, among other things, the Marcato-Oskie Group agreed to withdraw its director nominees, the Company agreed to appoint a ninth director who is mutually acceptable to the Company and the Marcato-Oskie Group, as promptly as practicable following the Company's 2013 annual meeting of stockholders, and the Board of Directors authorized a further acceleration of the Company's existing common stock share repurchase program so that the program will be completed no later than March 2014. In addition, under the terms of the agreement, the Board of Directors approved a new two-year common stock share repurchase authorization of \$750 million to commence immediately following the completion of the current authorization.

Pursuant to the agreement reached with the Marcato-Oskie Group described above, on April 25, 2013, the Company entered into an accelerated stock repurchase ("ASR") agreement with a third-party financial institution to repurchase \$800 million of its common stock. In the second quarter of 2013, the Company paid \$800 million to the financial institution, using cash on-hand, and received an initial delivery of 11,862,836 shares. This initial share delivery represented 80% of the ASR transaction's value at the then-current

LEAR CORPORATION AND SUBSIDIARIES

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price of \$53.95 per share. These shares have been included in common stock held in treasury as of the applicable delivery date. The remaining 20% of the ASR transaction's value, or \$160 million, has been included in additional paid-in-capital in the accompanying condensed consolidated balance sheet as of September 28, 2013, and will be transferred to common stock held in treasury upon settlement of the ASR transaction. The ultimate number of shares to be repurchased and the final price paid per share under the ASR transaction will be based on the daily volume weighted average price of the Company's common stock during the term of the ASR agreement, less an agreed upon discount. At settlement, if the ultimate number of shares to be repurchased exceeds the 11,862,836 shares initially delivered, the Company will receive additional shares from the financial institution. If the ultimate number of shares to be repurchased is less than the 11,862,836 shares initially delivered, the Company has the contractual right to either deliver additional shares or cash equal to the value of those shares to the financial institution. The ASR transaction is expected to be completed no later than March 2014. For further information regarding the Company's ASR program, see Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capitalization — Common Stock Share Repurchase Program."

After completion of the ASR transaction, the Company will have a remaining repurchase authorization of \$750 million under its common stock share repurchase program. The Company may implement these share repurchases through a variety of methods, including open market purchases, accelerated stock repurchase programs and structured repurchase transactions. The extent to which the Company will repurchase its outstanding common stock and the timing of such repurchases will depend upon its financial condition, prevailing market conditions, alternative uses of capital and other factors. In addition, the Company's amended and restated credit facility and the indenture governing the 2018 Notes and the 2020 Notes place certain limitations on the Company's ability to repurchase its common shares.

Inclusive of the \$800 million ASR transaction, the Company has paid \$1.5 billion, in aggregate, for repurchases of its outstanding common stock, excluding commissions and related fees, since the first quarter of 2011. In the first nine months of 2013, the Company paid \$1.0 billion, in aggregate, for repurchases of its outstanding common stock (15,533,758 shares repurchased, including the initial delivery of shares under the ASR transaction, at an average purchase price of \$54.08, excluding commissions and fees). In the first nine months of 2012, the Company paid \$172.6 million, in aggregate, for repurchases of its outstanding common stock (4,200,151 shares repurchased at an average purchase price of \$41.10 per share, excluding commissions).

In addition to shares repurchased under the Company's common stock share repurchase program described above, the Company classified shares withheld from the settlement of the Company's restricted stock unit awards to cover minimum tax withholding requirements as common stock held in treasury in the accompanying condensed consolidated balance sheets as of September 28, 2013 and December 31, 2012.

Pursuant to the agreement reached with the Marcato-Oskie Group described above, on September 26, 2013, the Company appointed Richard H. Bott to the Board of Directors of the Company.

**Quarterly Dividend** — In the first nine months of 2013 and 2012, the Company's Board of Directors declared quarterly cash dividends of \$0.17 and \$0.14 per share of common stock, respectively. In the first nine months of 2013, dividends declared and paid totaled \$44.8 million. In the first nine months of 2012, declared dividends totaled \$42.3 million, and dividends paid totaled \$40.9 million. Dividends payable on common shares to be distributed under the Company's stock-based compensation program and common shares contemplated as part of the Company's emergence from Chapter 11 bankruptcy proceedings will be paid when such common shares are distributed.

*Noncontrolling Interests*

In the first nine months of 2013 and 2012, the Company acquired noncontrolling interests in certain of its consolidated subsidiaries.

**(13) Legal and Other Contingencies**

As of September 28, 2013 and December 31, 2012, the Company had recorded reserves for pending legal disputes, including commercial disputes and other matters, of \$14.5 million and \$12.8 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.



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On October 5, 2011, a plaintiff filed a putative class action complaint in the United States District Court for the Eastern District of Michigan against the Company and several other global suppliers of automotive wire harnesses alleging violations of federal and state antitrust and related laws. Since that time, a number of other plaintiffs have filed substantially similar class action complaints against the Company and these and other suppliers and individuals in a number of different federal district courts, and it is possible that additional similar lawsuits may be filed in the future. Plaintiffs purport to be direct and indirect purchasers of automotive wire harnesses supplied by the Company and/or the other defendants during the relevant period. The complaints allege that the defendants conspired to fix prices at which automotive wire harnesses were sold and that this had an anticompetitive effect upon interstate commerce in the United States. The complaints further allege that defendants fraudulently concealed their alleged conspiracy. The plaintiffs in these proceedings seek injunctive relief and recovery of an unspecified amount of damages, as well as costs and expenses relating to the proceedings, including attorneys' fees. On February 7, 2012, the Judicial Panel on Multidistrict Litigation entered an order transferring and coordinating the various civil actions, for pretrial purposes, into one proceeding in the United States District Court for the Eastern District of Michigan. On May 14, 2012, three purported classes of plaintiffs — direct purchasers of automotive wire harnesses; automotive dealers that indirectly purchased automotive wire harnesses or vehicles containing such harnesses; and indirect purchasers that purchased or leased vehicles containing automotive wire harnesses (or purchased replacement automotive wire harnesses for their vehicles) — filed consolidated amended complaints in the consolidated proceeding. With respect to the Company, the consolidated amended complaints are substantially similar to the individual complaints that had been filed in the various jurisdictions. On July 13, 2012, the Company filed a motion to have these actions dismissed. On June 6, 2013, the District Court entered an order denying the Company's motion to dismiss and, on September 6, 2013, denied the Company's motion to certify the June 6, 2013 order for interlocutory appeal.

Beginning in early 2012, single putative class action complaints were filed in the Superior Courts of Justice in Ontario, Quebec and British Columbia against the Company and several other global suppliers of automotive wire harnesses alleging violations of Canadian laws related to competition. The allegations in the complaints are substantially similar to those complaints that have been filed in the United States.

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

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

*Commercial Disputes*

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

*Product Liability and Warranty Matters*

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

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

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

A summary of the changes in reserves for product liability and warranty claims for the nine months ended September 28, 2013, is shown below (in millions):

Balance as of January 1, 2013	\$22.7
Expense, net (including changes in estimates)	9.1
Settlements	(5.1)
Foreign currency translation and other	(0.1)
Balance as of September 28, 2013	<u>\$26.6</u>

*Environmental Matters*

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

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

As of September 28, 2013 and December 31, 2012, the Company had recorded environmental reserves of \$5.1 million and \$5.2 million, respectively. The Company does not believe that the environmental liabilities associated with its current and former properties will have a material adverse impact on its business, financial condition, results of operations or cash flows; however, no assurances can be given in this regard.

*Other Matters*

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

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

## LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)*Insurance Recoveries*

The Company has incurred losses and incremental costs related to the destruction of assets caused by a fire at one of its European production facilities in the third quarter of 2011. During the fourth quarter of 2012, the Company reached a settlement for the recovery of such costs under applicable insurance policies. Anticipated proceeds from insurance recoveries related to losses and incremental costs that have been incurred (“loss recoveries”) are recognized when receipt is probable. Anticipated proceeds from insurance recoveries in excess of the net book value of destroyed property, plant and equipment (“insurance gain contingencies”) are recognized when all contingencies related to the claim have been resolved. Loss recoveries related to the destruction of inventory and incremental costs are included in costs of sales, and loss recoveries and insurance gain contingencies related to the destruction of property, plant and equipment are included in other expense, net. Cash proceeds related to the destruction of inventory and incremental costs are included in cash flows from operating activities, and cash proceeds related to the destruction of property, plant and equipment are included in cash flows from investing activities.

Since the fire in the third quarter of 2011, the Company incurred cumulative losses and incremental costs of \$65.7 million (\$7.3 million incurred in the nine months ended September 28, 2013; and \$9.6 million and \$27.4 million incurred in the three and nine months ended September 29, 2012, respectively). The Company also recognized in cost of sales cumulative recoveries of \$59.1 million (\$5.8 million and \$26.0 million recognized in the three and nine months ended September 29, 2012, respectively) and in other expense cumulative recoveries and gains of \$29.9 million (\$7.2 million and \$12.3 million recognized in the three and nine months ended September 29, 2012, respectively). In addition, the Company received cumulative cash proceeds of \$89.0 million (\$10.0 million and \$37.8 million received in the first nine months of 2013 and 2012, respectively), of which \$59.1 million (\$2.9 million and \$26.4 million received in the first nine months of 2013 and 2012, respectively) has been reflected in cash flows from operating activities and \$29.9 million (\$7.1 million and \$11.4 million received in the first nine months of 2013 and 2012, respectively) has been reflected in cash flows from investing activities.

**(14) Segment Reporting**

The Company has two reportable operating segments: seating, which includes seats and related components, such as seat structures and mechanisms, seat covers, seat foam and headrests, and electrical power management systems (“EPMS”), which includes electrical distribution systems for both traditional powertrain vehicles, as well as high-power for hybrid and electric vehicles. Key components of electrical distribution systems include wiring harnesses, terminals and connectors, junction boxes, electronic control modules and wireless control devices, such as key fobs. The other category includes unallocated costs related to corporate headquarters, regional headquarters and the elimination of intercompany activities, none of which meets the requirements for being classified as an operating segment.

The Company evaluates the performance of its operating segments based primarily on (i) revenues from external customers, (ii) pretax income before equity in net income of affiliates, interest expense and other expense (“segment earnings”) and (iii) cash flows, being defined as segment earnings less capital expenditures plus depreciation and amortization. A summary of revenues from external customers and other financial information by reportable operating segment is shown below (in millions):

	Three Months Ended September 28, 2013			
	Seating	EPMS	Other	Consolidated
Revenues from external customers	\$2,891.7	\$1,026.0	\$ —	\$ 3,917.7
Segment earnings (1)	142.8	111.6	(61.4)	193.0
Depreciation and amortization	46.7	24.1	2.1	72.9
Capital expenditures	67.3	33.9	1.6	102.8
Total assets	4,862.5	1,728.9	1,872.8	8,464.2

  

	Three Months Ended September 29, 2012			
	Seating	EPMS	Other	Consolidated
Revenues from external customers	\$2,661.6	\$ 877.0	\$ —	\$ 3,538.6
Segment earnings (1)	154.8	65.2	(50.4)	169.6
Depreciation and amortization	40.7	20.3	2.3	63.3
Capital expenditures	83.7	35.6	0.8	120.1
Total assets	4,414.6	1,476.8	1,570.9	7,462.3

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

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

  

	Nine Months Ended September 29, 2012			
	Seating	EPMS	Other	Consolidated
Revenues from external customers	\$8,268.8	\$2,578.8	\$ —	\$ 10,847.6
Segment earnings (1)	524.2	176.4	(154.2)	546.4
Depreciation and amortization	109.9	57.2	6.5	173.6
Capital expenditures	186.4	108.8	5.3	300.5
Total assets	4,414.6	1,476.8	1,570.9	7,462.3

(1) See definition above.

For the three months ended September 28, 2013, segment earnings include restructuring charges of \$10.9 million, \$0.6 million and \$0.2 million in the seating and EPMS segments and in the other category, respectively. For the nine months ended September 28, 2013, segment earnings include restructuring charges of \$29.8 million, \$7.8 million and \$5.3 million in the seating and EPMS segments and in the other category, respectively. For the three months ended September 29, 2012, segment earnings include restructuring charges (credits) of \$2.2 million, \$0.8 million and (\$0.1) million in the seating and EPMS segments and in the other category, respectively. For the nine months ended September 29, 2012, segment earnings include restructuring charges of \$8.5 million, \$2.4 million and \$0.2 million in the seating and EPMS segments and in the other category, respectively. See Note 2, "Restructuring."

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

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Segment earnings	\$ 193.0	\$ 169.6	\$ 568.4	\$ 546.4
Interest expense	17.5	13.7	51.6	40.2
Other expense, net	16.8	1.5	37.8	12.0
Consolidated income before provision for income taxes and equity in net income of affiliates	<u>\$ 158.7</u>	<u>\$ 154.4</u>	<u>\$ 479.0</u>	<u>\$ 494.2</u>

**(15) Financial Instruments**

The carrying values of the Company's debt instruments vary from their fair values. The fair values were determined by reference to the quoted market prices of these securities (Level 2 input based on the GAAP fair value hierarchy). As of September 28, 2013, the aggregate carrying value of the Company's Notes was \$1,057.0 million, as compared to an estimated aggregate fair value of \$1,070.6 million. As of December 31, 2012, the aggregate carrying value of the Notes was \$626.3 million, as compared to an estimated aggregate fair value of \$696.6 million.

*Derivative Instruments and Hedging Activities*

The Company has used derivative financial instruments, including forwards, futures, options, swaps and other derivative contracts to reduce the effects of fluctuations in foreign exchange rates, interest rates and commodity prices and the resulting variability of the Company's operating results. The Company is not a party to leveraged derivatives. On the date that a derivative contract is entered into, the Company designates the derivative as either (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or of an unrecognized firm commitment (a fair value hedge), (2) a hedge of the exposure of a forecasted transaction or of the variability in the cash flows of a recognized asset or liability (a cash flow hedge) or (3) a hedge of a net investment in a foreign operation (a net investment hedge).

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

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.

**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, Thai baht and the Canadian dollar. As of September 28, 2013 and December 31, 2012, contracts designated as cash flow hedges with \$762.2 million and \$836.4 million, respectively, of notional amount were outstanding with maturities of less than 18 months and 17 months, respectively. As of September 28, 2013 and December 31, 2012, the fair value of these contracts was approximately \$0.2 million and \$19.9 million, respectively. As of September 28, 2013 and December 31, 2012, other foreign currency derivative contracts that did not qualify for hedge accounting with \$124.2 million and \$23.4 million, respectively, of notional amount were outstanding. These foreign currency derivative contracts consist principally of hedges of cash transactions of up to 12 months, hedges of intercompany loans and hedges of certain other balance sheet exposures. As of September 28, 2013 and December 31, 2012, the fair value of these contracts was approximately \$1.3 million and approximately zero, respectively.

The fair value of outstanding foreign currency derivative contracts and the related classification in the accompanying condensed consolidated balance sheets as of September 28, 2013 and December 31, 2012, are shown below (in millions):

	September 28, 2013	December 31, 2012
Contracts qualifying for hedge accounting:		
Other current assets	\$ 8.1	\$ 22.3
Other long-term assets	0.9	0.5
Other current liabilities	(6.9)	(2.8)
Other long-term liabilities	(1.9)	(0.1)
	<u>0.2</u>	<u>19.9</u>
Contracts not qualifying for hedge accounting:		
Other current assets	1.7	0.1
Other current liabilities	(0.4)	(0.1)
	<u>1.3</u>	<u>—</u>
	<u>\$ 1.5</u>	<u>\$ 19.9</u>

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

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Contracts qualifying for hedge accounting:				
Gains recognized in accumulated other comprehensive loss	\$ 1.0	\$ 18.3	\$ 7.4	\$ 48.1
(Gains) losses reclassified from accumulated other comprehensive loss	(8.3)	(0.3)	(27.1)	5.6
Comprehensive income (loss)	<u>\$ (7.3)</u>	<u>\$ 18.0</u>	<u>\$ (19.7)</u>	<u>\$ 53.7</u>

For the three and nine months ended September 28, 2013, net sales includes gains of \$1.3 million and \$2.7 million, respectively, reclassified from accumulated other comprehensive loss related to foreign currency derivative contracts. For the three and nine months ended September 29, 2012, net sales includes gains of \$0.2 million and \$0.7 million, respectively, reclassified from accumulated other comprehensive loss related to foreign currency derivative contracts. For the three and nine months ended September 28, 2013, cost of sales includes gains of \$7.0 million and \$24.4 million, respectively, reclassified from accumulated other comprehensive loss related to foreign currency derivative contracts. For the three and nine months ended September 29, 2012, cost of sales includes gains (losses) of \$0.1 million and (\$6.3) million, respectively, reclassified from accumulated other comprehensive loss related to foreign currency derivative contracts.

## LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

**Interest rate** — Historically, the Company used interest rate swap and other derivative contracts to manage its exposure to fluctuations in interest rates. As of September 28, 2013 and December 31, 2012, there were no interest rate contracts outstanding. The Company will continue to evaluate, and may use, derivative financial instruments, including forwards, futures, options, swaps and other derivative contracts to manage its exposures to fluctuations in interest rates in the future.

**Commodity prices** — Historically, the Company used derivative instruments to reduce its exposure to fluctuations in certain commodity prices. These derivative instruments are utilized to hedge forecasted inventory purchases and to the extent that they qualify and meet hedge accounting criteria, they are accounted for as cash flow hedges. Commodity swap contracts that are not designated as cash flow hedges are marked to market with changes in fair value recognized immediately in the condensed consolidated statements of comprehensive income. As of September 28, 2013 and December 31, 2012, there were no commodity swap contracts outstanding.

Pretax amounts related to commodity swap contracts that were recognized in and reclassified from accumulated other comprehensive loss are shown below (in millions):

	<b>Nine Months Ended September 29, 2012</b>
Contracts qualifying for hedge accounting:	
Gains recognized in accumulated other comprehensive loss	\$ 0.1
Losses reclassified from accumulated other comprehensive loss	0.2
Comprehensive income	<u>\$ 0.3</u>

For the nine months ended September 29, 2012, cost of sales includes losses of \$0.2 million reclassified from accumulated other comprehensive loss related to commodity swap contracts.

As of September 28, 2013 and December 31, 2012, pretax net gains of approximately \$0.2 million and \$19.9 million, respectively, related to the Company's derivative instruments and hedging activities were recorded in accumulated other comprehensive loss. During the twelve month period ending September 27, 2014, the Company expects to reclassify into earnings net gains of approximately \$1.2 million recorded in accumulated other comprehensive loss as of September 28, 2013. Such gains will be reclassified at the time that the underlying hedged transactions are realized. During the three and nine months ended September 28, 2013 and September 29, 2012, amounts recognized in the accompanying condensed consolidated statements of comprehensive income related to changes in the fair value of cash flow and fair value hedges excluded from the Company's effectiveness assessments and the ineffective portion of changes in the fair value of cash flow and fair value hedges were not material.

**Fair Value Measurements**

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

- Market:** This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- Income:** This approach uses valuation techniques to convert future amounts to a single present value amount based on current market expectations.
- Cost:** This approach is based on the amount that would be required to replace the service capacity of an asset (replacement cost).

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

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 September 28, 2013 and December 31, 2012, are shown below (in millions):

	September 28, 2013					
	Frequency	Asset	Valuation Technique	Level 1	Level 2	Level 3
Foreign currency derivative contracts, net	Recurring	\$ 1.5	Market/Income	\$ —	\$ 1.5	\$ —

  

	December 31, 2012					
	Frequency	Asset	Valuation Technique	Level 1	Level 2	Level 3
Foreign currency derivative contracts, net	Recurring	\$19.9	Market/Income	\$ —	\$ 19.9	\$ —

The Company determines the fair value of its derivative contracts using quoted market prices to calculate the forward values and then discounts such forward values to the present value. The discount rates used are based on quoted bank deposit or swap interest rates. If a derivative contract is in a net liability position, the Company adjusts these discount rates, if required, by an estimate of the credit spread that would be applied by market participants purchasing these contracts from the Company’s counterparties. To estimate this credit spread, the Company uses significant assumptions and factors other than quoted market rates, which would result in the classification of its derivative liabilities within Level 3 of the fair value hierarchy. As of September 28, 2013 and December 31, 2012, there were no derivative contracts that were classified within Level 3 of the fair value hierarchy. In addition, there were no transfers in or out of Level 3 of the fair value hierarchy during the first nine months of 2013.

Items measured at fair value on a non-recurring basis — The Company measures certain assets and liabilities at fair value on a non-recurring basis, which are not included in the table above. As these non-recurring fair value measurements are generally determined using unobservable inputs, these fair value measurements are classified within Level 3 of the fair value hierarchy. As of September 28, 2013, there were no significant assets or liabilities measured at fair value on a non-recurring basis. As a result of the Guilford acquisition in 2012, Level 3 fair value estimates related to property, plant and equipment of \$89.9 million and intangible assets of \$56.0 million were recorded in the accompanying condensed consolidated balance sheet as of December 31, 2012. For further information on these fair value measurements, see Note 3, “Acquisition,” to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012. For further information on assets measured at fair value on a non-recurring basis, see Note 2, “Restructuring.”

**(16) Accounting Pronouncements**

*Comprehensive Income*

The Financial Accounting Standards Board (“FASB”) amended ASC 220, “Comprehensive Income,” with ASU 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,” which requires additional disclosures regarding reclassifications out of accumulated other comprehensive income. The provisions of this update were effective as of January 1, 2013. The effects of adoption were not significant, and the additional required disclosures are included in Note 12, “Comprehensive Income and Equity.”

**LEAR CORPORATION AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)**

*Offsetting*

The FASB issued ASU 2011-11, "Disclosures about Offsetting Assets and Liabilities," which requires additional disclosures regarding offsetting and related arrangements. The issuance of ASU 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities," limited the scope of ASU 2011-11 to derivatives, repurchase agreements and securities lending transactions to the extent that they are offset in the financial statements or subject to an enforceable master netting or similar agreement. The provisions of these updates were effective as of January 1, 2013. The effects of adoption were not significant, and the additional required disclosures are included in Note 15, "Financial Instruments."

*Cumulative Translation Adjustments*

The FASB issued ASU 2013-05, "Parent's Accounting for Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity," which amends ASC 830, "Foreign Currency Matters." This ASU clarifies the accounting for cumulative translation adjustments when an entity ceases to have a controlling financial interest in a foreign subsidiary. The provisions of this update are effective as of January 1, 2014. The Company is currently evaluating the impact of this update.

*Presentation of Unrecognized Tax Benefits*

The FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," which amends ASC 740, "Income Taxes." This ASU requires that a liability related to an unrecognized tax benefit be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if certain criteria are met. The provisions of this update are effective as of January 1, 2014. The Company is currently evaluating the impact of this update.



**LEAR CORPORATION AND SUBSIDIARIES**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**
**(17) Supplemental Guarantor Condensed Consolidating Financial Statements**

	September 28, 2013				Consolidated
	Lear	Guarantors	Non-guarantors	Eliminations	
(Unaudited; in millions)					
<b>ASSETS</b>					
<i>CURRENT ASSETS:</i>					
Cash and cash equivalents	\$ 210.8	\$ 0.1	\$ 673.1	\$ —	\$ 884.0
Accounts receivable	60.5	488.7	2,047.7	—	2,596.9
Inventories	5.6	285.2	548.4	—	839.2
Other	133.9	69.6	480.0	—	683.5
Total current assets	<u>410.8</u>	<u>843.6</u>	<u>3,749.2</u>	<u>—</u>	<u>5,003.6</u>
<i>LONG-TERM ASSETS:</i>					
Property, plant and equipment, net	94.7	309.7	1,135.6	—	1,540.0
Goodwill	23.5	401.0	328.6	—	753.1
Investments in subsidiaries	1,652.4	1,291.7	—	(2,944.1)	—
Other	726.2	75.1	366.2	—	1,167.5
Total long-term assets	<u>2,496.8</u>	<u>2,077.5</u>	<u>1,830.4</u>	<u>(2,944.1)</u>	<u>3,460.6</u>
Total assets	<u>\$ 2,907.6</u>	<u>\$ 2,921.1</u>	<u>\$ 5,579.6</u>	<u>\$ (2,944.1)</u>	<u>\$ 8,464.2</u>
<b>LIABILITIES AND EQUITY</b>					
<i>CURRENT LIABILITIES:</i>					
Accounts payable and drafts	\$ 110.4	\$ 652.3	\$ 1,792.2	\$ —	\$ 2,554.9
Accrued liabilities	104.7	157.1	932.9	—	1,194.7
Total current liabilities	<u>215.1</u>	<u>809.4</u>	<u>2,725.1</u>	<u>—</u>	<u>3,749.6</u>
<i>LONG-TERM LIABILITIES:</i>					
Long-term debt	1,057.0	—	—	—	1,057.0
Intercompany accounts, net	(1,367.0)	467.5	899.5	—	—
Other	189.0	240.4	308.2	—	737.6
Total long-term liabilities	<u>(121.0)</u>	<u>707.9</u>	<u>1,207.7</u>	<u>—</u>	<u>1,794.6</u>
<i>EQUITY:</i>					
Lear Corporation stockholders' equity	2,813.5	1,403.8	1,540.3	(2,944.1)	2,813.5
Noncontrolling interests	—	—	106.5	—	106.5
Equity	<u>2,813.5</u>	<u>1,403.8</u>	<u>1,646.8</u>	<u>(2,944.1)</u>	<u>2,920.0</u>
Total liabilities and equity	<u>\$ 2,907.6</u>	<u>\$ 2,921.1</u>	<u>\$ 5,579.6</u>	<u>\$ (2,944.1)</u>	<u>\$ 8,464.2</u>

**LEAR CORPORATION AND SUBSIDIARIES**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**
**(17) Supplemental Guarantor Condensed Consolidating Financial Statements – (continued)**

	December 31, 2012				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
	(In millions)				
<b>ASSETS</b>					
<i>CURRENT ASSETS:</i>					
Cash and cash equivalents	\$ 481.4	\$ 0.1	\$ 920.7	\$ —	\$ 1,402.2
Accounts receivable	47.7	358.4	1,634.6	—	2,040.7
Inventories	5.2	264.3	457.6	—	727.1
Other	162.9	70.2	470.4	—	703.5
Total current assets	<u>697.2</u>	<u>693.0</u>	<u>3,483.3</u>	<u>—</u>	<u>4,873.5</u>
<i>LONG-TERM ASSETS:</i>					
Property, plant and equipment, net	91.5	273.3	1,038.3	—	1,403.1
Goodwill	23.5	400.8	322.2	—	746.5
Investments in subsidiaries	1,494.7	1,287.8	—	(2,782.5)	—
Other	769.9	67.5	333.6	—	1,171.0
Total long-term assets	<u>2,379.6</u>	<u>2,029.4</u>	<u>1,694.1</u>	<u>(2,782.5)</u>	<u>3,320.6</u>
Total assets	<u>\$ 3,076.8</u>	<u>\$ 2,722.4</u>	<u>\$ 5,177.4</u>	<u>\$ (2,782.5)</u>	<u>\$ 8,194.1</u>
<b>LIABILITIES AND EQUITY</b>					
<i>CURRENT LIABILITIES:</i>					
Accounts payable and drafts	\$ 114.3	\$ 555.2	\$ 1,563.5	\$ —	\$ 2,233.0
Accrued liabilities	124.7	192.8	666.4	—	983.9
Total current liabilities	<u>239.0</u>	<u>748.0</u>	<u>2,229.9</u>	<u>—</u>	<u>3,216.9</u>
<i>LONG-TERM LIABILITIES:</i>					
Long-term debt	626.3	—	—	—	626.3
Intercompany accounts, net	(1,471.3)	447.6	1,023.7	—	—
Other	195.7	179.5	363.5	—	738.7
Total long-term liabilities	<u>(649.3)</u>	<u>627.1</u>	<u>1,387.2</u>	<u>—</u>	<u>1,365.0</u>
<i>EQUITY:</i>					
Lear Corporation stockholders' equity	3,487.1	1,347.3	1,435.2	(2,782.5)	3,487.1
Noncontrolling interests	—	—	125.1	—	125.1
Equity	<u>3,487.1</u>	<u>1,347.3</u>	<u>1,560.3</u>	<u>(2,782.5)</u>	<u>3,612.2</u>
Total liabilities and equity	<u>\$ 3,076.8</u>	<u>\$ 2,722.4</u>	<u>\$ 5,177.4</u>	<u>\$ (2,782.5)</u>	<u>\$ 8,194.1</u>

**LEAR CORPORATION AND SUBSIDIARIES**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)**
**(17) Supplemental Guarantor Condensed Consolidating Financial Statements – (continued)**

	<b>For the Three Months Ended September 28, 2013</b>				
	<b>Lear</b>	<b>Guarantors</b>	<b>Non- guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	(Unaudited; in millions)				
Net sales	\$ 105.2	\$ 1,557.8	\$ 3,351.6	\$ (1,096.9)	\$ 3,917.7
Cost of sales	132.6	1,411.2	3,140.6	(1,096.9)	3,587.5
Selling, general and administrative expenses	43.0	17.3	68.3	—	128.6
Amortization of intangible assets	0.5	1.2	6.9	—	8.6
Intercompany charges	0.2	—	(0.2)	—	—
Interest expense	11.9	6.0	(0.4)	—	17.5
Other intercompany (income) expense, net	(45.7)	33.6	12.1	—	—
Other expense, net	0.6	0.2	16.0	—	16.8
Consolidated income before income taxes and equity in net income of affiliates and subsidiaries	(37.9)	88.3	108.3	—	158.7
Provision for income taxes	(11.2)	31.7	30.7	—	51.2
Equity in net income of affiliates	(0.1)	(0.3)	(8.8)	—	(9.2)
Equity in net income of subsidiaries	(139.4)	(39.1)	—	178.5	—
Consolidated net income	112.8	96.0	86.4	(178.5)	116.7
Less: Net income attributable to noncontrolling interests	—	—	3.9	—	3.9
Net income attributable to Lear	<u>\$ 112.8</u>	<u>\$ 96.0</u>	<u>\$ 82.5</u>	<u>\$ (178.5)</u>	<u>\$ 112.8</u>
Consolidated comprehensive income	\$ 144.2	\$ 91.0	\$ 122.8	\$ (209.7)	\$ 148.3
Less: Comprehensive income attributable to noncontrolling interests	—	—	4.1	—	4.1
Comprehensive income attributable to Lear	<u>\$ 144.2</u>	<u>\$ 91.0</u>	<u>\$ 118.7</u>	<u>\$ (209.7)</u>	<u>\$ 144.2</u>

	<b>For the Three Months Ended September 29, 2012</b>				
	<b>Lear</b>	<b>Guarantors</b>	<b>Non- guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	(Unaudited; in millions)				
Net sales	\$ 119.1	\$ 1,431.4	\$ 2,992.7	\$ (1,004.6)	\$ 3,538.6
Cost of sales	126.6	1,282.8	2,842.5	(1,004.6)	3,247.3
Selling, general and administrative expenses	35.9	43.7	33.8	—	113.4
Amortization of intangible assets	0.4	1.4	6.5	—	8.3
Intercompany charges	0.5	0.3	(0.8)	—	—
Interest expense	0.8	4.1	8.8	—	13.7
Other intercompany (income) expense, net	(67.5)	45.1	22.4	—	—
Other expense, net	3.5	0.1	(2.1)	—	1.5
Consolidated income before income taxes and equity in net income of affiliates and subsidiaries	18.9	53.9	81.6	—	154.4
Provision for income taxes	2.5	(1.3)	28.1	—	29.3
Equity in net income of affiliates	4.5	(0.6)	(6.9)	—	(3.0)
Equity in net income of subsidiaries	(109.5)	(24.0)	—	133.5	—
Consolidated net income	121.4	79.8	60.4	(133.5)	128.1
Less: Net income attributable to noncontrolling interests	—	—	6.7	—	6.7
Net income attributable to Lear	<u>\$ 121.4</u>	<u>\$ 79.8</u>	<u>\$ 53.7</u>	<u>\$ (133.5)</u>	<u>\$ 121.4</u>
Consolidated comprehensive income	\$ 166.4	\$ 104.8	\$ 91.9	\$ (188.8)	\$ 174.3
Less: Comprehensive income attributable to noncontrolling interests	—	—	7.9	—	7.9
Comprehensive income attributable to Lear	<u>\$ 166.4</u>	<u>\$ 104.8</u>	<u>\$ 84.0</u>	<u>\$ (188.8)</u>	<u>\$ 166.4</u>

**LEAR CORPORATION AND SUBSIDIARIES**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)**
**(17) Supplemental Guarantor Condensed Consolidating Financial Statements – (continued)**

	<b>For the Nine Months Ended September 28, 2013</b>				
	<b>Lear</b>	<b>Guarantors</b>	<b>Non- guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(Unaudited; in millions)</b>				
Net sales	\$ 352.4	\$ 4,701.3	\$ 10,326.7	\$ (3,402.5)	\$ 11,977.9
Cost of sales	429.9	4,277.4	9,692.8	(3,402.5)	10,997.6
Selling, general and administrative expenses	121.7	49.2	215.2	—	386.1
Amortization of intangible assets	1.3	3.6	20.9	—	25.8
Intercompany charges	0.9	0.3	(1.2)	—	—
Interest expense	36.0	18.1	(2.5)	—	51.6
Other intercompany (income) expense, net	(170.8)	97.7	73.1	—	—
Other expense, net	6.8	1.0	30.0	—	37.8
Consolidated income before income taxes and equity in net income of affiliates and subsidiaries	(73.4)	254.0	298.4	—	479.0
Provision for income taxes	(23.6)	92.3	61.5	—	130.2
Equity in net income of affiliates	(0.8)	(0.4)	(25.9)	—	(27.1)
Equity in net income of subsidiaries	(407.6)	(120.3)	—	527.9	—
Consolidated net income	358.6	282.4	262.8	(527.9)	375.9
Less: Net income attributable to noncontrolling interests	—	—	17.3	—	17.3
Net income attributable to Lear	<u>\$ 358.6</u>	<u>\$ 282.4</u>	<u>\$ 245.5</u>	<u>\$ (527.9)</u>	<u>\$ 358.6</u>
Consolidated comprehensive income	\$ 338.5	\$ 270.4	\$ 254.7	\$ (506.9)	\$ 356.7
Less: Comprehensive income attributable to noncontrolling interests	—	—	18.2	—	18.2
Comprehensive income attributable to Lear	<u>\$ 338.5</u>	<u>\$ 270.4</u>	<u>\$ 236.5</u>	<u>\$ (506.9)</u>	<u>\$ 338.5</u>

	<b>For the Nine Months Ended September 29, 2012</b>				
	<b>Lear</b>	<b>Guarantors</b>	<b>Non- guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(Unaudited; in millions)</b>				
Net sales	\$ 379.9	\$ 4,320.2	\$ 9,340.6	\$ (3,193.1)	\$ 10,847.6
Cost of sales	423.9	3,931.2	8,769.9	(3,193.1)	9,931.9
Selling, general and administrative expenses	108.8	68.5	169.5	—	346.8
Amortization of intangible assets	1.2	1.9	19.4	—	22.5
Intercompany charges	3.6	1.3	(4.9)	—	—
Interest expense	3.0	15.9	21.3	—	40.2
Other intercompany (income) expense, net	(255.3)	168.9	86.4	—	—
Other expense, net	2.4	0.6	9.0	—	12.0
Consolidated income before income taxes and equity in net income of affiliates and subsidiaries	92.3	131.9	270.0	—	494.2
Provision for income taxes	8.4	0.2	91.8	—	100.4
Equity in net income of affiliates	(13.1)	(2.0)	(18.2)	—	(33.3)
Equity in net income of subsidiaries	(303.9)	(129.8)	—	433.7	—
Consolidated net income	400.9	263.5	196.4	(433.7)	427.1
Less: Net income attributable to noncontrolling interests	—	—	26.2	—	26.2
Net income attributable to Lear	<u>\$ 400.9</u>	<u>\$ 263.5</u>	<u>\$ 170.2</u>	<u>\$ (433.7)</u>	<u>\$ 400.9</u>
Consolidated comprehensive income	\$ 434.6	\$ 324.6	\$ 186.7	\$ (484.8)	\$ 461.1
Less: Comprehensive income attributable to noncontrolling interests	—	—	26.5	—	26.5
Comprehensive income attributable to Lear	<u>\$ 434.6</u>	<u>\$ 324.6</u>	<u>\$ 160.2</u>	<u>\$ (484.8)</u>	<u>\$ 434.6</u>

**LEAR CORPORATION AND SUBSIDIARIES**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)**
**(17) Supplemental Guarantor Condensed Consolidating Financial Statements – (continued)**

	For the Nine Months Ended September 28, 2013				
	Lear	Guarantors	Non-guarantors (Unaudited; in millions)	Eliminations	Consolidated
Net cash provided by operating activities	\$ 0.8	\$ 161.6	\$ 267.2	\$ —	\$ 429.6
<b>Cash Flows from Investing Activities:</b>					
Additions to property, plant and equipment	(13.4)	(83.7)	(232.1)	—	(329.2)
Insurance proceeds	—	—	7.1	—	7.1
Other, net	44.1	0.1	(3.5)	—	40.7
Net cash used in investing activities	30.7	(83.6)	(228.5)	—	(281.4)
<b>Cash Flows from Financing Activities:</b>					
Proceeds from the issuance of senior notes	500.0	—	—	—	500.0
Repurchase of senior notes	(72.1)	—	—	—	(72.1)
Payment of debt issuance and other financing costs	(13.4)	—	—	—	(13.4)
Repurchase of common stock	(1,000.1)	—	—	—	(1,000.1)
Dividends paid to Lear Corporation stockholders	(44.8)	—	—	—	(44.8)
Dividends paid to noncontrolling interests	—	—	(33.4)	—	(33.4)
Other	(6.3)	—	(3.4)	—	(9.7)
Change in intercompany accounts	334.6	(78.0)	(256.6)	—	—
Net cash used in financing activities	(302.1)	(78.0)	(293.4)	—	(673.5)
Effect of foreign currency translation	—	—	7.1	—	7.1
<b>Net Change in Cash and Cash Equivalents</b>	(270.6)	—	(247.6)	—	(518.2)
<b>Cash and Cash Equivalents as of Beginning of Period</b>	481.4	0.1	920.7	—	1,402.2
<b>Cash and Cash Equivalents as of End of Period</b>	\$ 210.8	\$ 0.1	\$ 673.1	\$ —	\$ 884.0

	For the Nine Months Ended September 29, 2012				
	Lear	Guarantors	Non-guarantors (Unaudited; in millions)	Eliminations	Consolidated
Net cash provided by operating activities	\$ 70.1	\$ 250.1	\$ 40.5	\$ —	\$ 360.7
<b>Cash Flows from Investing Activities:</b>					
Additions to property, plant and equipment	(7.7)	(75.2)	(217.6)	—	(300.5)
Insurance proceeds	—	—	11.4	—	11.4
Cash paid for acquisitions, net of cash acquired	(243.9)	—	—	—	(243.9)
Other, net	(2.1)	3.8	(4.8)	—	(3.1)
Net cash used in investing activities	(253.7)	(71.4)	(211.0)	—	(536.1)
<b>Cash Flows from Financing Activities:</b>					
Repurchase of senior notes	(72.1)	—	—	—	(72.1)
Repurchase of common stock	(172.6)	—	—	—	(172.6)
Dividends paid to Lear Corporation stockholders	(40.9)	—	—	—	(40.9)
Dividends paid to noncontrolling interests	—	—	(4.3)	—	(4.3)
Other	2.2	—	(17.6)	—	(15.4)
Change in intercompany accounts	48.8	(178.2)	129.4	—	—
Net cash used in financing activities	(234.6)	(178.2)	107.5	—	(305.3)
Effect of foreign currency translation	—	—	(4.0)	—	(4.0)
<b>Net Change in Cash and Cash Equivalents</b>	(418.2)	0.5	(67.0)	—	(484.7)
<b>Cash and Cash Equivalents as of Beginning of Period</b>	820.3	0.1	933.9	—	1,754.3
<b>Cash and Cash Equivalents as of End of Period</b>	\$ 402.1	\$ 0.6	\$ 866.9	\$ —	\$ 1,269.6

**LEAR CORPORATION AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)****(17) Supplemental Guarantor Condensed Consolidating Financial Statements – (continued)**

Basis of Presentation — Certain of the Company's domestic 100% owned subsidiaries (the "Guarantors") have jointly and severally unconditionally guaranteed, on a senior unsecured basis, the performance and the full and punctual payment when due, whether at stated maturity, by acceleration or otherwise, of the Company's obligations under its revolving credit facility and the indentures governing the Notes, including the Company's obligations to pay principal, premium, if any, and interest with respect to the Notes. The Notes consist of \$280 million in aggregate principal amount at maturity of 7.875% senior unsecured notes due 2018, \$280 million in aggregate principal amount at maturity of 8.125% senior unsecured notes due 2020 and \$500 million in aggregate principal amount of 4.75% senior unsecured notes due 2023. The Guarantors include Guilford Mills, Inc., Lear Corporation EEDS and Interiors, Lear Mexican Seating Corporation and Lear Operations Corporation. In lieu of providing separate financial statements for the Guarantors, the Company has included the supplemental guarantor condensed consolidating financial statements above. These financial statements reflect the Guarantors listed above for all periods presented. Management does not believe that separate financial statements of the Guarantors are material to investors. Therefore, separate financial statements and other disclosures concerning the Guarantors are not presented.

The 2012 supplemental guarantor condensed consolidating financial statements have been restated to reflect certain changes to the equity investments of the Guarantors.

Distributions — There are no significant restrictions on the ability of the Guarantors to make distributions to the Company.

Selling, General and Administrative Expenses — Corporate and division selling, general and administrative expenses are allocated to the operating subsidiaries based on various factors, which estimate usage of particular corporate and division functions, and in certain instances, other relevant factors, such as the revenues or the number of employees of the Company's subsidiaries. During the three months ended September 28, 2013 and September 29, 2012, \$31.7 million and \$23.7 million, respectively, of selling, general and administrative expenses were allocated from Lear. During the nine months ended September 28, 2013 and September 29, 2012, \$93.3 million and \$73.2 million, respectively, of selling, general and administrative expenses were allocated from Lear.

Long-Term Debt of Lear and the Guarantors — A summary of long-term debt of Lear and the Guarantors on a combined basis is shown below (in millions):

	September 28, 2013	December 31, 2012
Senior notes	<u>\$ 1,057.0</u>	<u>\$ 626.3</u>

## LEAR CORPORATION

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

#### EXECUTIVE OVERVIEW

We were incorporated in Delaware in 1987 and are a leading Tier 1 supplier to the global automotive industry. We supply seating and electrical distribution systems and related components to virtually every major automotive manufacturer in the world.

Our seating business consists of the design, engineering, just-in-time assembly and delivery of complete seat systems, as well as the manufacture of all major seat components, including seat structures and mechanisms, seat covers, seat foam and headrests. Our electrical distribution business consists of the design, engineering and manufacturing of systems that route electrical signals and manage electrical power within a vehicle for both traditional powertrain vehicles, as well as high-power for hybrid and electric vehicles. Key components of electrical distribution systems include: wiring harnesses, terminals and connectors, junction boxes, electronic control modules and wireless control devices, such as key fobs.

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

#### *Industry Overview*

Our sales are driven by the number of vehicles produced by the automotive manufacturers, which is ultimately dependent on consumer demand for automotive vehicles and our content per vehicle. Automotive sales and production can be affected by general economic or industry conditions, 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 and other factors. Our operating results are also significantly impacted by the overall commercial success of the vehicle platforms for which we supply particular products, as well as the profitability of the products that we supply for these platforms. In addition, it is possible that our customers could elect to manufacture our products internally. The loss of business with respect to any vehicle model for which we are a significant supplier, or a decrease in the production levels of any such models, could adversely affect our operating results. In addition, larger cars and light trucks, as well as vehicle platforms that offer more features and functionality, such as luxury, sport utility and crossover vehicles, typically have more content and, therefore, tend to have a more significant impact on our operating results.

In the first nine months of 2013, global industry production volumes increased 2% from a year ago levels to 61.1 million units. Although North American industry production increased 5% from a year ago levels to 12.2 million units, business conditions in Europe remain challenging and European industry production decreased 1% from a year ago levels to 14.7 million units.

Sales in Europe (including Africa) and North America each accounted for approximately 38% (or 76% combined) of our net sales in the first nine months of 2013. Our ability to reduce the risks inherent in certain concentrations of business, and thereby maintain our financial performance in the future, will depend, in part, on our ability to continue to diversify our sales on a customer, product, platform and geographic basis to reflect the market overall.

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

Our material cost as a percentage of net sales was 67.1% in the first nine months of 2013, as compared to 67.8% in 2012. Raw material, energy and commodity costs can be volatile. We have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, such as the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments, financial hedges for certain commodities and the selective expansion of low-cost country sourcing and engineering, as well as value engineering and product benchmarking. However, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. In addition, the availability of raw materials, commodities and product components fluctuates from time to time due to factors outside of our control. If these costs increase or availability is restricted, it could have an adverse impact on our operating results in the foreseeable future.

## LEAR CORPORATION

See “— Forward-Looking Statements” below and Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2012.

### *Financial Measures*

In evaluating our financial condition and operating performance, we focus primarily on earnings, operating margins, cash flows and return on invested capital. In addition to maintaining and expanding our business with our existing customers in our more established markets, our expansion plans are focused primarily on emerging markets. Asia, in particular, continues to present significant growth opportunities, as major global automotive manufacturers implement production expansion plans and local automotive manufacturers aggressively expand their operations to meet demand in this region. We currently have 19 joint ventures with operations in Asia, as well as three joint ventures in North America and Europe dedicated to serving Asian automotive manufacturers. In addition, we have aggressively pursued this strategy by selectively increasing our vertical integration capabilities globally, as well as expanding our component manufacturing capacity in Africa, Asia, Eastern Europe, Mexico and South America. Furthermore, we have expanded our low-cost engineering capabilities in India and the Philippines.

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

### *Operational Restructuring*

In the first nine months of 2013, we incurred pretax restructuring costs of approximately \$43 million and related manufacturing inefficiency charges of approximately \$4 million. Any future restructuring actions will depend upon market conditions, customer actions and other factors.

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

### *Financing Transactions*

#### Senior Notes

In January 2013, we issued \$500 million in aggregate principal amount of 4.75% senior notes due 2023. For further information, see “— Liquidity and Capital Resources — Capitalization — Senior Notes” and Note 7, “Long-Term Debt,” to the condensed consolidated financial statements included in this Report.

In March 2013, we paid \$72 million to redeem 10% of the original aggregate principal amount of our outstanding senior notes due 2018 and 2020. In connection with this transaction, we recognized a loss of approximately \$4 million on the partial extinguishment of debt.

#### Revolving Credit Facility

In January 2013, we amended and restated our revolving credit facility to, among other things, increase the borrowing capacity from \$500 million to \$1.0 billion, extend the maturity date to January 2018 and reduce interest rates payable on outstanding borrowings under the facility. For further information, see “— Liquidity and Capital Resources — Capitalization — Revolving Credit Facility” and Note 7, “Long-Term Debt,” to the condensed consolidated financial statements included in this Report.

### *Share Repurchase Program and Quarterly Cash Dividend*

Since the first quarter of 2011, our Board of Directors has authorized \$2.25 billion in share repurchases under our common stock share repurchase program. On April 25, 2013, we entered into an accelerated stock repurchase (“ASR”) agreement to repurchase \$800 million of our common stock. After the completion of the ASR program, we will have completed \$1.5 billion of share repurchases and have a remaining repurchase authorization of \$750 million under our common stock share repurchase program.

In February, May and August 2013, our Board of Directors declared a quarterly cash dividend of \$0.17 per share of common stock.



**LEAR CORPORATION**

For further information regarding our common stock share repurchase program, the ASR program and our quarterly dividends, see “— Liquidity and Capital Resources — Capitalization” and Note 12, “Comprehensive Income and Equity,” to the condensed consolidated financial statements included in this Report.

*Other Matters*

We have incurred losses and incremental costs related to the destruction of assets caused by a fire at one of our European production facilities in the third quarter of 2011. During 2012, we reached a settlement for the recovery of such costs under applicable insurance policies. In the nine months ended September 28, 2013, we recognized losses and incremental costs of \$7 million. In the three and nine months ended September 29, 2012, we recognized losses and incremental costs of \$10 million and \$27 million, respectively, and loss recoveries and insurance gains of \$13 million and \$38 million, respectively. For further information, see Note 13, “Legal and Other Contingencies — Insurance Recoveries,” to the condensed consolidated financial statements included in this Report.

In the nine months ended September 28, 2013, we incurred costs of \$3 million related to a proxy contest. For further information, see Note 12, “Comprehensive Income and Equity,” to the condensed consolidated financial statements included in this Report.

In the three and nine months ended September 28, 2013, we recognized net tax benefits of \$6 million and \$23 million, respectively, primarily related to net changes in valuation allowances with respect to the deferred tax assets of certain foreign subsidiaries. In the nine months ended September 28, 2013, we also recognized net tax benefits of \$3 million related to the retroactive reinstatement of the U.S. research and development tax credit.

In the three and nine months ended September 29, 2012, we recognized income of \$2 million and \$17 million, respectively, related to our portion of an affiliate’s reversal of a valuation allowance with respect to its deferred tax assets.

As discussed above, our results for the three and nine months ended September 28, 2013 and September 29, 2012, reflect the following items (in millions):

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 28, 2013</u>	<u>September 29, 2012</u>	<u>September 28, 2013</u>	<u>September 29, 2012</u>
Costs related to restructuring actions, including manufacturing inefficiencies of \$1 million and \$4 million in the three and nine months ended September 28, 2013, respectively	\$ 13	\$ 3	\$ 47	\$ 11
Costs related to proxy contest	—	—	3	—
Acquisition and other related costs	—	1	—	6
Losses and incremental costs (insurance recoveries), net related to the destruction of assets	—	(3)	7	(11)
Labor-related litigation claims	—	—	5	—
Loss on extinguishment of debt	—	4	4	4
Gain related to an affiliate	—	(2)	—	(17)
Tax benefits, net	(6)	—	(26)	—

For further information regarding these items, see Note 2, “Restructuring,” Note 7, “Long-Term Debt,” Note 9, “Other Expense, Net,” Note 10, “Income Taxes,” Note 12, “Comprehensive Income and Equity,” and Note 13, “Legal and Other Contingencies,” 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, 2012.

## LEAR CORPORATION

### RESULTS OF OPERATIONS

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

	Three Months Ended				Nine Months Ended			
	September 28, 2013		September 29, 2012		September 28, 2013		September 29, 2012	
Net sales								
Seating	\$2,891.7	73.8%	\$2,661.6	75.2%	\$ 8,872.6	74.1%	\$ 8,268.8	76.2%
Electrical power management systems	1,026.0	26.2	877.0	24.8	3,105.3	25.9	2,578.8	23.8
Net sales	3,917.7	100.0	3,538.6	100.0	11,977.9	100.0	10,847.6	100.0
Cost of sales	3,587.5	91.6	3,247.3	91.8	10,997.6	91.8	9,931.9	91.6
Gross profit	330.2	8.4	291.3	8.2	980.3	8.2	915.7	8.4
Selling, general and administrative expenses	128.6	3.3	113.4	3.2	386.1	3.2	346.8	3.2
Amortization of intangible assets	8.6	0.2	8.3	0.2	25.8	0.2	22.5	0.2
Interest expense	17.5	0.4	13.7	0.4	51.6	0.4	40.2	0.4
Other expense, net	16.8	0.4	1.5	0.1	37.8	0.3	12.0	0.1
Provision for income taxes	51.2	1.3	29.3	0.8	130.2	1.1	100.4	0.9
Equity in net income of affiliates	(9.2)	(0.2)	(3.0)	(0.1)	(27.1)	(0.2)	(33.3)	(0.3)
Net income attributable to noncontrolling interests	3.9	0.1	6.7	0.2	17.3	0.2	26.2	0.2
Net income attributable to Lear	<u>\$ 112.8</u>	<u>2.9%</u>	<u>\$ 121.4</u>	<u>3.4%</u>	<u>\$ 358.6</u>	<u>3.0%</u>	<u>\$ 400.9</u>	<u>3.7%</u>

#### Three Months Ended September 28, 2013 vs. Three Months Ended September 29, 2012

Net sales in the third quarter of 2013 were \$3.9 billion, as compared to \$3.5 billion in the third quarter of 2012, an increase of \$379 million or 10.7%. New business and improved production volumes on key Lear platforms positively impacted net sales by \$237 million and \$89 million, respectively.

Cost of sales in the third quarter of 2013 was \$3.6 billion, as compared to \$3.2 billion in the third quarter of 2012. The increase is primarily due to the impact of new business and improved production volumes on key Lear platforms, as described in the preceding paragraph.

Gross profit and gross margin were \$330 million and 8.4%, respectively, in the quarter ended September 28, 2013, as compared to \$291 million and 8.2%, respectively, in the quarter ended September 29, 2012. Gross profit and gross margin were positively impacted by \$43 million as a result of new business and improved production volumes on key Lear platforms. Selling price reductions and the impact of the changeover of key Lear platforms of \$58 million negatively impacted both gross profit and gross margin and were offset by the impact of favorable operating performance and the benefit of operational restructuring actions of \$54 million.

Selling, general and administrative expenses, including engineering and development expenses, were \$129 million in the three months ended September 28, 2013, as compared to \$113 million in the three months ended September 29, 2012. Selling, general and administrative expenses increased \$7 million due to higher engineering and development costs to support new business and restructuring costs. Higher compensation related costs, together with infrastructure costs to support the growth of our business in emerging markets, also contributed to the increase between quarters. As a percentage of net sales, selling, general and administrative expenses were 3.3% in the third quarter of 2013, as compared to 3.2% in the third quarter of 2012.

Amortization of intangible assets was \$9 million in the third quarter of 2013, as compared to \$8 million in the third quarter of 2012.

Interest expense was \$18 million in the third quarter of 2013, as compared to \$14 million in the third quarter of 2012, reflecting interest of \$6 million related to our senior notes due 2023 issued in January 2013, offset by \$2 million related to the partial redemption of our senior notes due 2018 and 2020.

Other expense, net, which includes non-income related taxes, foreign exchange gains and losses, gains and losses related to certain derivative instruments and hedging activities, gains and losses on the extinguishment of debt, gains and losses on the disposal of fixed assets and other miscellaneous income and expense, was \$17 million in the third quarter of 2013, as compared to \$2 million in the third quarter of 2012. In the third quarter of 2012, we recognized a gain of \$7 million related to insurance recoveries and a loss of \$4 million related to the redemption of 10% of the original aggregate principal amount of our outstanding senior notes. In the third quarter of 2013, other expense, net was negatively impacted by an increase of \$8 million in foreign exchange losses.

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The provision for income taxes was \$51 million for the third quarter of 2013, representing an effective tax rate of 32.3% on pretax income before equity in net income of affiliates of \$159 million, as compared to \$29 million for the third quarter of 2012, representing an effective tax rate of 19.0% on pretax income before equity in net income of affiliates of \$154 million.

The effective tax rate increased in 2013 as compared to 2012 primarily due to the reversal of a substantial portion of our U.S. valuation allowance in the fourth quarter of 2012. As a result of the reversal, the provision for income taxes in the third quarter of 2013 includes U.S. federal income tax expense at a rate of 35% with respect to our earnings in the United States. The provision for income taxes in the third quarter of 2012 includes no U.S. federal income tax expense with respect to our earnings in the United States.

In the third quarter of 2013, we recognized net tax benefits of \$6 million primarily related to net changes in valuation allowances with respect to the deferred tax assets of certain foreign subsidiaries. In the third quarters of 2013 and 2012, the provision for income taxes was impacted by the level and mix of earnings among tax jurisdictions. The provision was also impacted by a portion of our restructuring charges and other expenses, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. Excluding these items, the effective tax rate in the third quarters of 2013 and 2012 approximated the U.S. federal statutory income tax rate of 35% adjusted for income taxes on foreign earnings, losses and remittances, valuation allowances, tax credits, income tax incentives and other permanent items.

Our current and future provision for income taxes is impacted by the initial recognition of and changes in valuation allowances in certain countries. Our future provision for income taxes will include no tax benefit with respect to losses incurred and no tax expense with respect to income generated in these countries until the respective valuation allowances are eliminated. Accordingly, income taxes are impacted by changes in valuation allowances and the mix of earnings among jurisdictions. We evaluate the realizability of our deferred tax assets on a quarterly basis. In completing this evaluation, we consider all available evidence in order to determine whether, based on the weight of the evidence, a valuation allowance for our deferred tax assets is necessary. Such evidence includes historical results, future reversals of existing taxable temporary differences and expectations for future taxable income (exclusive of the reversal of temporary differences and carryforwards), as well as the implementation of feasible and prudent tax planning strategies. If, based on the weight of the evidence, it is more likely than not that all or a portion of our deferred tax assets will not be realized, a valuation allowance is recorded. If operating results improve or decline on a continual basis in a particular jurisdiction, our decisions 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.

Equity in net income of affiliates was \$9 million in the third quarter of 2013, as compared to \$3 million in the third quarter of 2012, reflecting the improved performance of our equity affiliates.

Net income attributable to Lear in the third quarter of 2013 was \$113 million, or \$1.38 per diluted share, as compared to \$121 million, or \$1.23 per diluted share, in the third quarter of 2012. Net income decreased for the reasons described in the preceding paragraphs, and diluted net income per share increased as a result of the decrease in the average shares outstanding during the quarter.

### *Reportable Operating Segments*

We have two reportable operating segments: seating, which includes seats and related components, such as seat structures and mechanisms, seat covers, seat foam and headrests, and electrical power management systems ("EPMS"), which includes electrical distribution systems for both traditional powertrain vehicles, as well as high-power for hybrid and electric vehicles. Key components of electrical distribution systems include wiring harnesses, terminals and connectors, junction boxes, electronic control modules and wireless control devices, such as key fobs. The financial information presented below is for our two reportable operating segments and our other category for the periods presented. The other category includes unallocated costs related to corporate headquarters, regional headquarters and the elimination of intercompany activities, none of which meets the requirements for being classified as an operating segment. Corporate and regional headquarters costs include various support functions, such as information technology, corporate finance, legal, executive administration and human resources. Financial measures regarding each segment's pretax income before equity in net income of affiliates, interest expense and other expense ("segment earnings") and segment earnings divided by net sales ("margin") are not measures of performance under accounting principles generally accepted in the United States ("GAAP"). Segment earnings and the related margin are used by management to evaluate the performance of our reportable operating segments. Segment earnings should not be considered in isolation or as a substitute for net income attributable to Lear, net cash provided by

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operating activities or other income statement or cash flow statement data prepared in accordance with GAAP or as measures of profitability or liquidity. In addition, segment earnings, as we determine it, may not be comparable to related or similarly titled measures reported by other companies. For a reconciliation of consolidated segment earnings to consolidated income before provision for income taxes and equity in net income of affiliates, see Note 14, "Segment Reporting," to the condensed consolidated financial statements included in this Report.

**Seating**

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

	<b>Three months ended</b>	
	<b>September 28, 2013</b>	<b>September 29, 2012</b>
Net sales	\$ 2,891.7	\$ 2,661.6
Segment earnings (1)	142.8	154.8
Margin	4.9%	5.8%

(1) See definition above.

Seating net sales were \$2.9 billion in the third quarter of 2013, as compared to \$2.7 billion in the third quarter of 2012, an increase of \$230 million or 8.6%. New business and improved production volumes on key Lear platforms positively impacted net sales by \$116 million and \$62 million, respectively. Segment earnings, including restructuring costs, and the related margin on net sales were \$143 million and 4.9%, respectively, in the third quarter of 2013, as compared to \$155 million and 5.8%, respectively, in the third quarter of 2012. Segment earnings were negatively impacted by \$44 million due to the impact of the changeover of key Lear platforms and selling price reductions and \$10 million due to higher restructuring costs. These decreases were partially offset by the impact of favorable operating performance and the benefit of operational restructuring actions, new business and improved production volumes on key Lear platforms of \$37 million.

**EPMS**

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

	<b>Three months ended</b>	
	<b>September 28, 2013</b>	<b>September 29, 2012</b>
Net sales	\$ 1,026.0	\$ 877.0
Segment earnings (1)	111.6	65.2
Margin	10.9%	7.4%

(1) See definition above.

EPMS net sales were \$1.0 billion in the third quarter of 2013, as compared to \$877 million in the third quarter of 2012, an increase of \$149 million or 17.0%. New business and improved production volumes on key Lear platforms positively impacted net sales by \$121 million and \$27 million, respectively. Segment earnings, including restructuring costs, and the related margin on net sales were \$112 million and 10.9%, respectively, in the third quarter of 2013, as compared to \$65 million and 7.4%, respectively, in the third quarter of 2012. Segment earnings were favorably impacted by \$22 million as a result of new business and improved production volumes on key Lear platforms. Favorable operating performance of \$36 million was partially offset by selling price reductions of \$14 million.

**Other**

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

	<b>Three months ended</b>	
	<b>September 28, 2013</b>	<b>September 29, 2012</b>
Net sales	\$ —	\$ —
Segment earnings (1)	(61.4)	(50.4)
Margin	N/A	N/A

(1) See definition above.

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Segment earnings related to our other category were (\$61) million in the third quarter of 2013, as compared (\$50) million in the third quarter of 2012, reflecting higher compensation related costs and infrastructure costs to support the growth of our business in emerging markets.

### **Nine Months Ended September 28, 2013 vs. Nine Months Ended September 29, 2012**

Net sales in the first nine months of 2013 were \$12.0 billion, as compared to \$10.8 billion in the first nine months of 2012, an increase of \$1.1 billion or 10.4%. New business, improved production volumes on key Lear platforms and the acquisition of Guilford Mills (“Guilford”) positively impacted net sales by \$575 million, \$412 million and \$141 million, respectively.

Cost of sales in the first nine months of 2013 was \$11.0 billion, as compared to \$9.9 billion in the first nine months of 2012. The increase is primarily due to the impact of new business, improved production volumes on key Lear platforms and the acquisition of Guilford, as described in the preceding paragraph.

Gross profit and gross margin were \$980 million and 8.2%, respectively, in the nine months ended September 28, 2013, as compared to \$916 million and 8.4%, respectively, in the nine months ended September 29, 2012. Gross profit and gross margin were positively impacted by \$123 million as a result of improved production volumes on key Lear platforms and new business. Selling price reductions and the impact of the changeover of key Lear platforms of \$173 million negatively impacted both gross profit and gross margin and were partially offset by the impact of favorable operating performance and the benefit of operational restructuring actions of \$121 million.

Selling, general and administrative expenses, including engineering and development expenses, were \$386 million in the nine months ended September 28, 2013, as compared to \$347 million in the nine months ended September 29, 2012. Selling, general and administrative expenses increased \$32 million due to higher restructuring and engineering and development costs to support new business and the acquisition of Guilford in the second quarter of 2012. Higher compensation related costs, together with infrastructure costs to support the growth of our business in emerging markets, also contributed to the increase between periods. As a percentage of net sales, selling, general and administrative expenses were 3.2% in the first nine months of 2013 and 2012.

Amortization of intangible assets was \$26 million in the first nine months of 2013, as compared to \$23 million in the first nine months of 2012, reflecting the amortization of intangible assets related to the acquisition of Guilford.

Interest expense was \$52 million in the first nine months of 2013, as compared to \$40 million in the first nine months of 2012, reflecting interest of \$17 million related to our senior notes due 2023 issued in January 2013, offset by \$7 million related to the partial redemption of our senior notes due 2018 and 2020.

Other expense, net, which includes non-income related taxes, foreign exchange gains and losses, gains and losses related to certain derivative instruments and hedging activities, gains and losses on the extinguishment of debt, gains and losses on the disposal of fixed assets and other miscellaneous income and expense, was \$38 million in the first nine months of 2013, as compared to \$12 million in the first nine months of 2012. In 2013, other expense, net was negatively impacted by an increase of \$6 million in foreign exchange losses. In 2012, we recognized gains of \$12 million related to our insurance recoveries.

The provision for income taxes was \$130 million for the first nine months of 2013, representing an effective tax rate of 27.2% on pretax income before equity in net income of affiliates of \$479 million, as compared to \$100 million for the first nine months of 2012, representing an effective tax rate of 20.3% on pretax income before equity in net income of affiliates of \$494 million.

The effective tax rate increased in 2013 as compared to 2012 primarily due to the reversal of a substantial portion of our U.S. valuation allowance in the fourth quarter of 2012. As a result of the reversal, the provision for income taxes in the first nine months of 2013 includes U.S. federal income tax expense at a rate of 35% with respect to our earnings in the United States. The provision for income taxes in the first nine months of 2012 includes no U.S. federal income tax expense with respect to our earnings in the United States.

In the first nine months of 2013, we recognized net tax benefits of \$26 million primarily related to net changes in valuation allowances with respect to the deferred tax assets of certain foreign subsidiaries and the retroactive reinstatement of the U.S. research and development tax credit by the American Taxpayer Relief Act of 2012, which was signed into law on January 2, 2013. In the first nine months of 2013 and 2012, the provision for income taxes was impacted by the level and mix of earnings among tax jurisdictions. The provision was also impacted by a portion of our restructuring charges and other expenses, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. Excluding these items, the effective tax rate in the first nine months of 2013 and 2012 approximated the U.S. federal statutory income tax rate of 35% adjusted for income taxes on foreign earnings, losses and remittances, valuation allowances, tax credits, income tax incentives and other permanent items.

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For a description of our valuation allowances, see “Three Months Ended September 28, 2013 vs. Three Months Ended September 29, 2012,” above.

Equity in net income of affiliates was \$27 million in the first nine months of 2013, as compared to \$33 million in the first nine months of 2012. Equity in net income of affiliates in the first nine months of 2013 reflects the improved performance of our equity affiliates. Equity in net income of affiliates in the first nine months of 2012 reflects income of \$17 million related to our portion of an affiliate’s reversal of a valuation allowance with respect to its deferred tax assets.

Net income attributable to Lear in the first nine months of 2013 was \$359 million, or \$4.09 per diluted share, as compared to \$401 million, or \$3.99 per diluted share, in the first nine months of 2012. Net income decreased for the reasons described in the preceding paragraphs, and diluted net income per share increased as a result of the decrease in the average shares outstanding during the current period.

**Reportable Operating Segments**

For a description of our reportable operating segments, see “Three Months Ended September 28, 2013 vs. Three Months Ended September 29, 2012 — Reportable Operating Segments,” above.

**Seating**

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

	Nine months ended	
	September 28, 2013	September 29, 2012
Net sales	\$ 8,872.6	\$ 8,268.8
Segment earnings (1)	450.7	524.2
Margin	5.1%	6.3%

(1) See definition above.

Seating net sales were \$8.9 billion in the first nine months of 2013, as compared to \$8.3 billion in the first nine months of 2012, an increase of \$604 million or 7.3%. Improved production volumes on key Lear platforms, new business and the acquisition of Guilford positively impacted net sales by \$230 million, \$202 million and \$141 million, respectively. Segment earnings, including restructuring costs, and the related margin on net sales were \$451 million and 5.1%, respectively, in the first nine months of 2013, as compared to \$524 million and 6.3%, respectively, in the first nine months of 2012. Segment earnings were negatively impacted by \$125 million due to selling price reductions and the impact of the changeover of key Lear platforms, as well as higher restructuring costs of \$26 million. These decreases were partially offset by the impact of favorable operating performance and the benefit of operational restructuring actions, improved production volumes on key Lear platforms and new business of \$77 million.

**EPMS**

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

	Nine months ended	
	September 28, 2013	September 29, 2012
Net sales	\$ 3,105.3	\$ 2,578.8
Segment earnings (1)	295.5	176.4
Margin	9.5%	6.8%

(1) See definition above.

EPMS net sales were \$3.1 billion in the first nine months of 2013, as compared to \$2.6 billion in the first nine months of 2012, an increase of \$527 million or 20.4%. New business and improved production volumes on key Lear platforms positively impacted net sales by \$373 million and \$182 million, respectively. Segment earnings, including restructuring costs, and the related margin on net sales were \$296 million and 9.5%, respectively, in the first nine months of 2013, compared to \$176 million and 6.8%, respectively, in the first nine months of 2012. Segment earnings were favorably impacted by \$92 million as a result of new business and improved production volumes on key Lear platforms. Favorable operating performance of \$78 million was partially offset by selling price reductions and higher restructuring costs of \$53 million.

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

	Nine months ended	
	September 28, 2013	September 29, 2012
Net sales	\$ —	\$ —
Segment earnings (1)	(177.8)	(154.2)
Margin	N/A	N/A

(1) See definition above.

Segment earnings related to our other category were (\$178) million in the first nine months of 2013, as compared to (\$154) million in the first nine months of 2012, reflecting higher compensation related costs and infrastructure costs to support the growth of our business in emerging markets.

**LIQUIDITY AND CAPITAL RESOURCES**

Our primary liquidity needs are to fund general business requirements, including working capital requirements, capital expenditures, operational restructuring actions and debt service requirements. In addition, we expect to continue to pay quarterly dividends and repurchase shares of our common stock (see “— Capitalization — Common Stock Share Repurchase Program,” below). Our principal sources of liquidity are cash flows from operating activities, borrowings under available credit facilities and our existing cash balance. A substantial portion of our operating income is generated by our subsidiaries. As a result, we are dependent on the earnings and cash flows of and the combination of dividends, royalties, intercompany loan repayments and other distributions and advances from our subsidiaries to provide the funds necessary to meet our obligations. As of September 28, 2013 and December 31, 2012, cash and cash equivalents of \$672 million and \$918 million, respectively, were held in foreign subsidiaries and can be repatriated, primarily through the repayment of intercompany loans, without creating additional income tax expense. There are no significant restrictions on the ability of our subsidiaries to pay dividends or make other distributions to Lear. For further information regarding potential dividends from our non-U.S. subsidiaries, see “— Adequacy of Liquidity Sources,” below and Note 8, “Income Taxes,” to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Cash Flows**

Net cash provided by operating activities was \$430 million in the first nine months of 2013, as compared to \$361 million in the first nine months of 2012. The net change in recoverable customer engineering, development and tooling was a use of cash of \$17 million and \$67 million in the first nine months of 2013 and 2012, respectively, resulting in an incremental increase in operating cash flow of \$49 million between periods, primarily due to cash received related to previously capitalized amounts.

In the first nine months of 2013, increases in accounts receivable, inventories and accounts payable resulted in a use of cash of \$567 million, a use of cash of \$122 million and a source of cash of \$320 million, respectively, reflecting the normal seasonality of our working capital. Changes in accrued liabilities and other resulted in a source of cash of \$211 million, primarily reflecting the timing of payment of accrued liabilities.

Net cash used in investing activities was \$281 million in the first nine months of 2013, as compared to \$536 million in the first nine months of 2012. In 2013, we sold our ownership interest in an equity affiliate for \$50 million. In 2012, we acquired Guilford for \$244 million, net of cash acquired. In addition, capital spending increased \$29 million between periods. Capital spending in 2013 is estimated at approximately \$450 million.

Net cash used in financing activities was \$674 million in the first nine months of 2013, as compared to \$305 million in the first nine months of 2012. In the first nine months of 2013, we issued \$500 million in aggregate principal amount of senior notes due 2023 and paid \$72 million to redeem a portion of our outstanding senior notes due 2018 and 2020. In addition, in the first nine months of 2013, we paid an aggregate of \$1 billion to repurchase our common stock, including \$200 million of open market repurchases and \$800 million of repurchases through an ASR program. In the first nine months of 2012, we repurchased \$173 million of our common stock and paid \$72 million to redeem a portion of our outstanding senior notes due 2018 and 2020. For further information regarding our share repurchase program, see “— Capitalization — Common Stock Share Repurchase Program,” below and Note 12, “Comprehensive Income and Equity,” to the condensed consolidated financial statements included in this Report.

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### Capitalization

From time to time, we utilize uncommitted lines of credit to fund our capital expenditures and working capital requirements at certain of our foreign subsidiaries, in addition to cash provided by operating activities. As of September 28, 2013 and December 31, 2012, there were no short-term debt balances outstanding. The availability of uncommitted lines of credit may be affected by our financial performance, credit ratings and other factors.

#### *Senior Notes*

As of September 28, 2013, our long-term debt consists of \$280 million in aggregate principal amount at maturity of senior unsecured notes due 2018 at a stated coupon rate of 7.875% (the "2018 Notes"), \$280 million in aggregate principal amount at maturity of senior unsecured notes due 2020 at a stated coupon rate of 8.125% (the "2020 Notes") and \$500 million in aggregate principal amount of senior unsecured notes due 2023 at a stated coupon rate of 4.75% (the "2023 Notes" and together with the 2018 Notes and the 2020 Notes, the "Notes").

The 2023 Notes were issued on January 17, 2013. The net proceeds from the offering of \$493 million, together with our existing sources of liquidity, have been or will be used for general corporate purposes, including, without limitation, the redemption of \$70 million in aggregate principal amount of our 2018 Notes and our 2020 Notes (see below), investments in additional component capabilities and emerging markets and share repurchases under our common stock share repurchase program (see below).

On March 26, 2013, we redeemed 10% of the original aggregate principal amount of each of the 2018 Notes and the 2020 Notes at a redemption price equal to 103% of the principal amount redeemed, plus accrued and unpaid interest to the redemption date. In connection with this transaction, we paid \$72 million and recognized a loss of approximately \$4 million on the partial extinguishment of debt in the first quarter of 2013.

There are no scheduled cash interest payments on the Notes in the last three months of 2013. As of September 28, 2013, we were in compliance with all covenants under the indentures governing the Notes.

The Notes are senior unsecured obligations. Our obligations under the Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by certain domestic subsidiaries, which are directly or indirectly 100% owned by Lear.

For further information related to the Notes, including information on early redemption, covenants and events of default, see Note 7, "Long-Term Debt," to the condensed consolidated financial statements included in this Report and Note 7, "Long-Term Debt," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012.

#### *Revolving Credit Facility*

On January 30, 2013, we amended and restated our revolving credit facility to, among other things, increase the borrowing capacity from \$500 million to \$1.0 billion, extend the maturity date to January 30, 2018, and reduce interest rates payable on outstanding borrowings under the facility. The revolving credit facility permits borrowings for general corporate and working capital purposes and the issuance of letters of credit. As of September 28, 2013, there were no borrowings outstanding under the revolving credit facility, and we were in compliance with all covenants under the agreement governing the revolving credit facility.

For further information related to the revolving credit facility, including information on pricing, covenants and events of default, see Note 7, "Long-Term Debt," to the condensed consolidated financial statements included in this Report and Note 7, "Long-Term Debt," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012.

#### *Off-Balance Sheet Arrangements*

##### Guarantees and Commitments

As of December 31, 2012, we guaranteed 49% of certain of the debt of one of our unconsolidated affiliates, Tacle Seating USA, LLC. As of September 28, 2013, the related debt had been repaid by the affiliate, and we were released from our guarantee.

#### *Common Stock Share Repurchase Program*

On April 25, 2013, we entered into an ASR agreement to repurchase \$800 million of our common stock. In the second quarter of 2013, we paid \$800 million to a financial institution, using cash on-hand, and received an initial delivery of 11,862,836 shares. This initial share delivery represented 80% of the ASR transaction's value at the then-current price of \$53.95 per share. The ultimate number of shares to be repurchased and the final price paid per share under the ASR transaction will be based on the daily volume weighted average price of our common stock during the term of the ASR agreement, less an agreed upon discount. The ASR transaction is expected to be completed no later than March 2014. In the first nine months of 2013, we paid \$1.0 billion, in aggregate, for repurchases of our outstanding common stock (15,533,758 shares repurchased, including the initial delivery of shares under the ASR transaction, at an average purchase price of \$54.08, excluding commissions and fees).



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After completion of the ASR transaction, we will have a remaining repurchase authorization of \$750 million under our common stock share repurchase program. We may implement these share repurchases through a variety of methods, including open market purchases, accelerated stock repurchase programs and structured repurchase transactions. The extent to which we will repurchase our outstanding common stock and the timing of such repurchases will depend upon our financial condition, prevailing market conditions, alternative uses of capital and other factors. In addition, our amended and restated credit facility and the indenture governing our 2018 Notes and our 2020 Notes place certain limitations on our ability to repurchase our common shares. See “—Forward-Looking Statements.”

For further information regarding our common stock share repurchase program and the ASR program, see Note 12, “Comprehensive Income and Equity,” to the condensed consolidated financial statements included in this Report.

### *Dividends*

A summary of 2013 dividend declarations is shown below:

<u>Dividend Amount</u>	<u>Declaration Date</u>	<u>Record Date</u>	<u>Payment Date</u>
\$0.17	February 7, 2013	March 1, 2013	March 20, 2013
\$0.17	May 16, 2013	June 7, 2013	June 26, 2013
\$0.17	August 15, 2013	September 6, 2013	September 25, 2013

We currently expect to pay quarterly cash dividends in the future, although the timing and amount of such payments are at the discretion of our Board of Directors and will depend upon our financial condition, results of operations, capital requirements, alternative uses of capital and other factors that our Board of Directors may consider at its discretion. In addition, our amended and restated credit facility and the indenture governing our 2018 Notes and our 2020 Notes place certain limitations on the payment of cash dividends.

### *Adequacy of Liquidity Sources*

As of September 28, 2013, we had \$884 million of cash and cash equivalents on-hand and \$1 billion in available borrowing capacity under our revolving credit facility. Together with cash provided by operating activities, we believe that this will enable us to meet our liquidity needs to satisfy ordinary course business obligations. In addition, we expect to continue to pay quarterly dividends and repurchase shares of our common stock (see “— Common Stock Share Repurchase Program,” above). Our future financial results and our ability to continue to meet our liquidity needs are subject to, and will be affected by, cash flows from operations, including the impact of restructuring activities, automotive industry conditions, the financial condition of our customers and suppliers and other related factors. Additionally, an economic downturn or reduction in production levels could negatively impact our financial condition. For further discussion of the risks and uncertainties affecting our cash flows from operations and our overall liquidity, see “— Executive Overview” above, “— Forward-Looking Statements” below and Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2012.

### **Market Risk Sensitivity**

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

### *Foreign Exchange*

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

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Currently, our most significant foreign currency transactional exposures relate to the Mexican peso, various European currencies, the Chinese renminbi, Thai baht and the Canadian dollar. We have performed a quantitative analysis of our overall currency rate exposure as of September 28, 2013 and December 31, 2012. As of September 28, 2013, the potential adverse earnings impact related to net transactional exposures from a hypothetical 10% strengthening of the U.S. dollar relative to all other currencies to which it is exposed for a twelve-month period is approximately (\$26) million. In addition, the potential earnings benefit related to net transactional exposures from a similar strengthening of the Euro relative to all other currencies to which it is exposed for a twelve-month period is approximately \$18 million. As of December 31, 2012, the potential adverse earnings impact related to net transactional exposures from a hypothetical 10% strengthening of the U.S. dollar relative to all other currencies to which it is exposed for a twelve-month period is approximately (\$26) million. In addition, the potential earnings benefit related to net transactional exposures from a similar strengthening of the Euro relative to all other currencies to which it is exposed for a twelve-month period is approximately \$5 million.

As of September 28, 2013, foreign exchange contracts representing \$886 million of notional amount were outstanding with maturities of less than 18 months. As of September 28, 2013, the fair value of these contracts was approximately \$2 million. A 10% change in the value of the U.S. dollar relative to all other currencies to which it is exposed would result in a \$24 million change in the aggregate fair value of these contracts. A 10% change in the value of the Euro relative to all other currencies to which it is exposed would result in a \$22 million change in the aggregate fair value of these contracts. As of December 31, 2012, foreign exchange contracts representing \$860 million of notional amount were outstanding with maturities of less than 17 months. As of December 31, 2012, the fair value of these contracts was approximately \$20 million. A 10% change in the value of the U.S. dollar relative to all other currencies to which it is exposed would result in a \$12 million change in the aggregate fair value of these contracts. A 10% change in the value of the Euro relative to all other currencies to which it is exposed would result in a \$30 million change in the aggregate fair value of these contracts.

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

In addition to the transactional exposure described above, our operating results are impacted by the translation of our foreign operating income into U.S. dollars (“translational exposure”). In 2012, net sales outside of the United States accounted for 80% of our consolidated net sales, although certain non-U.S. sales are U.S. dollar denominated. We do not enter into foreign exchange contracts to mitigate our translational exposure.

### *Interest Rates*

Historically, we have used interest rate swap and other derivative contracts to manage our exposure to fluctuations in interest rates. As of September 28, 2013 and December 31, 2012, there were no interest rate contracts outstanding. We will continue to evaluate, and may use, derivative financial instruments, including forwards, futures, options, swaps and other derivative contracts to manage our exposures to fluctuations in interest rates in the future.

### *Commodity Prices*

Raw material, energy and commodity costs can be volatile. We have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, such as the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments, financial hedges for certain commodities and the selective expansion of low-cost country sourcing and engineering, as well as value engineering and product benchmarking. However, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. If these costs increase, it could have an adverse impact on our operating results in the foreseeable future. See “— Forward-Looking Statements” below and Item 1A, “Risk Factors — Increases in the costs and restrictions on the availability of raw materials, energy, commodities and product components could adversely affect our financial performance,” in our Annual Report on Form 10-K for the year ended December 31, 2012.

We have commodity price risk with respect to purchases of certain raw materials, including steel, copper, diesel fuel, chemicals, resins and leather. Our main cost exposures relate to steel and copper. The majority of the steel used in our products is comprised of components that are integrated into a seat system, such as seat structures and mechanisms and mechanical components. Therefore, our exposure to steel prices is primarily indirect, through these purchased components. Approximately 85% of our copper purchases are subject to price index agreements with our customers.

Historically, we used commodity swap and other derivative contracts to reduce our exposure to fluctuations in copper prices. As of September 28, 2013 and December 31, 2012, there were no commodity swap contracts outstanding.

## LEAR CORPORATION

For further information related to the financial instruments described above, see Note 15, “Financial Instruments,” to the condensed consolidated financial instruments 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 September 28, 2013, we had recorded reserves for pending legal disputes, including commercial disputes and other matters, of \$15 million. In addition, as of September 28, 2013, we had recorded reserves for product liability claims and environmental matters of \$27 million and \$5 million, respectively. Although these reserves were determined in accordance with GAAP, the ultimate outcomes of these matters are inherently uncertain, and actual results may differ significantly from current estimates. For a description of risks related to various legal proceedings and claims, see Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2012. For a more complete description of our outstanding material legal proceedings, see Note 13, “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, 2012. There have been no significant changes in our significant accounting policies or critical accounting estimates during the first nine months of 2013.

#### Recently Issued Accounting Pronouncements

For more information on the impact of recently issued accounting pronouncements, see Note 16, “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 financial condition and restructuring actions of our customers and suppliers;
- changes in actual industry vehicle production levels from our current estimates;
- fluctuations in the production of vehicles or the loss of business with respect to, or the lack of commercial success of, a vehicle model for which we are a significant supplier;
- disruptions in the relationships with our suppliers;
- labor disputes involving us or our significant customers or suppliers or that otherwise affect us;
- the outcome of customer negotiations and the impact of customer-imposed price reductions;
- the impact and timing of program launch costs and our management of new program launches;
- the costs, timing and success of restructuring actions;
- increases in our warranty, product liability or recall costs;
- risks associated with conducting business in foreign countries;

## LEAR CORPORATION

- the impact of regulations on our foreign operations;
- the operational and financial success of our joint ventures;
- competitive conditions impacting us and our key customers and suppliers;
- disruptions to our information technology systems;
- the cost and availability of raw materials, energy, commodities and product components and our ability to mitigate such costs;
- the outcome of legal or regulatory proceedings to which we are or may become a party;
- the impact of pending legislation and regulations or changes in existing federal, state, local or foreign laws or regulations;
- unanticipated changes in cash flow, including our ability to align our vendor payment terms with those of our customers;
- limitations imposed by our existing indebtedness and our ability to access capital markets on commercially reasonable terms;
- impairment charges initiated by adverse industry or market developments;
- our ability to execute our strategic objectives;
- changes in discount rates and the actual return on pension assets;
- costs associated with compliance with environmental laws and regulations;
- developments or assertions by or against us relating to intellectual property rights;
- our ability to utilize our net operating loss, capital loss and tax credit carryforwards;
- global sovereign fiscal matters and creditworthiness, including potential defaults and the related impacts on economic activity, including the possible effects on credit markets, currency values, monetary unions, international treaties and fiscal policies; and
- other risks, described in Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2012, and from time to time in 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) as of the end of the period covered by this Report. The Company’s disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Based on the evaluation described above, the Company’s President and Chief Executive Officer along with the Company’s Senior Vice President and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective to provide reasonable assurance that the desired control objectives were achieved as of the end of the period covered by this Report.

#### (b) Changes in Internal Controls over Financial Reporting

There was no change in the Company’s internal control over financial reporting that occurred during the fiscal quarter ended September 28, 2013, 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 and contractual disputes, product liability claims and environmental and other matters. For a description of risks related to various legal proceedings and claims, see Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2012. For a description of our outstanding material legal proceedings, see Note 13, “Legal and Other Contingencies,” to the condensed consolidated financial statements included in this Report.

**LEAR CORPORATION**  
**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, 2012.

**ITEM 2 — UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

As discussed in Part I — Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capitalization — Common Stock Share Repurchase Program,” and Note 12, “Comprehensive Income and Equity,” to the condensed consolidated financial statements included in this Report, we will have a remaining repurchase authorization of \$750 million under our common stock share repurchase program after completion of our accelerated stock repurchase (“ASR”) program. There were no repurchases of our common stock during the quarter ended September 28, 2013.

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in millions) (1)</u>
June 30, 2013 through July 27, 2013	—	N/A	N/A	\$ 750.0 (2)
July 28, 2013 through August 24, 2013	—	N/A	N/A	750.0
August 25, 2013 through September 28, 2013	—	N/A	N/A	750.0
Total	<u>—</u>	N/A	<u>N/A</u>	\$ 750.0

- (1) Including the two-year common stock share repurchase authorization of \$750 million to commence immediately following the completion of the ASR program referred to above.
- (2) Remaining authorization is net of amounts paid under the ASR program in the second quarter of 2013.

**ITEM 6 — EXHIBITS**

The exhibits listed on the “Index to Exhibits” on page 47 are filed with this Form 10-Q or incorporated by reference as set forth below.

**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: October 25, 2013

By: /s/ Matthew J. Simoncini

Matthew J. Simoncini  
President and Chief Executive Officer

By: /s/ Jeffrey H. Vanneste

Jeffrey H. Vanneste  
Senior Vice President and Chief Financial Officer

**LEAR CORPORATION**

**Index to Exhibits**

<u>Exhibit Number</u>	<u>Exhibit</u>
**10.1*	Amended and Restated Lear Corporation 2009 Long-Term Stock Incentive Plan (amended and restated as of September 11, 2013).
**10.2*	Amended and Restated Employment Agreement, dated as of September 11, 2013, between the Company and Raymond E. Scott.
**10.3*	Amended and Restated Employment Agreement, dated as of September 11, 2013, between the Company and Terrence B. Larkin.
**10.4*	Amended and Restated Employment Agreement, dated as of September 11, 2013, between the Company and Melvin L. Stephens.
**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.

\* Compensatory plan or arrangement.

\*\* Filed herewith.

\*\*\* Submitted electronically with the Report.

**LEAR CORPORATION**  
**2009 LONG-TERM STOCK INCENTIVE PLAN**  
**(Amended and Restated as of September 11, 2013)**



LEAR CORPORATION

2009 LONG-TERM STOCK INCENTIVE PLAN

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**LEAR CORPORATION**  
**2009 LONG-TERM STOCK INCENTIVE PLAN**

Article 1. Establishment, Objectives and Duration

**1.1 Establishment of the Plan.** Lear Corporation, a Delaware corporation, hereby establishes its long-term stock incentive compensation plan, to be known as the “2009 Lear Corporation Long-Term Stock Incentive Plan” as set forth in this document. Capitalized terms used but not otherwise defined herein will have the meanings given to them in Article 2. The Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Units, Restricted Stock Units, Performance Shares, Performance Units and other cash and equity incentive awards.

The Plan is effective as of November 9, 2009, and will remain in effect as provided in Section 1.3 hereof. The Plan was most recently amended and restated as of September 11, 2013.

**1.2 Objectives of the Plan.** The objectives of the Plan are to optimize the profitability and growth of the Company through long-term incentives that are consistent with the Company’s objectives and that link the interests of Participants to those of the Company’s shareholders; to provide Participants with an incentive for excellence in individual performance; to promote teamwork among Participants; and to give the Company a significant advantage in attracting and retaining officers, key employees and directors.

The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract and retain the services of Participants who make significant contributions to the Company’s success, and to allow Participants to share in the success of the Company.

**1.3 Duration of the Plan.** The Plan will commence on the Effective Date, as defined in Article 2, and will remain in effect, subject to the right of the Committee to amend or terminate the Plan at any time pursuant to Article 15, until all Shares subject to it pursuant to Article 4 have been issued or transferred according to the Plan’s provisions. In no event may an Award be granted under the Plan on or after the ten year anniversary of the Effective Date.

Article 2. Definitions

Whenever used in the Plan, the following terms have the meanings set forth below, and when the meaning is intended, the initial letter of the word is capitalized:

“**Affiliates**” means any corporation (or partnership, limited liability company, joint venture, or other enterprise) of which the Company owns or controls, directly or indirectly, at least fifty percent of the outstanding shares of stock normally entitled to vote for the election of directors (or comparable equity participation and voting power). Notwithstanding the foregoing, for purposes of determining whether an employee has terminated employment with the Company and all Affiliates, “Affiliates” means any corporation (or partnership, limited liability company, joint venture, or other enterprise) of which the Company owns or controls, directly or indirectly,

at least ten percent of the outstanding shares of stock normally entitled to vote for the election of directors (or comparable equity participation and voting power). The minimum percentage of ownership or control in the previous sentence shall be raised from ten percent to twenty percent for purposes of determining timing of payment of an Award, or amount payable with respect to an Award, that is “deferred compensation” for purposes of Code Section 409A, if payment of such Award or amount would be accelerated or otherwise triggered by the employee’s termination of employment.

“**Award**” means, individually or collectively, a grant under this Plan to a Participant of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Units, Restricted Stock Units, Performance Shares, Performance Units or other types of equity-based or cash-based incentives hereafter approved by the Committee.

“**Award Agreement**” means an agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award or Awards granted to the Participant.

“**Beneficial Owner**” or “**Beneficial Ownership**” has the meaning ascribed to that term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

“**Board**” or “**Board of Directors**” means the Board of Directors of the Company.

“**Cause**” has the meaning set forth in any unexpired employment or severance agreement between the Participant and the Company or an Affiliate. If there is no such agreement, “Cause” means:

- (a) the willful and continued failure of the Participant substantially to perform his or her duties with or for the Company or an Affiliate;
- (b) the Participant’s engaging in conduct that is significantly injurious to the Company or an Affiliate, monetarily or otherwise;
- (c) the Participant’s commission of a crime that is significantly injurious to the Company or an Affiliate, monetarily, reputationally or otherwise;
- (d) the Participant’s abuse of illegal drugs or other controlled substances; or
- (e) the Participant’s habitual intoxication.

Unless otherwise defined in the Participant’s employment or severance agreement, an act or omission is “willful” for the purpose of determining whether a termination of employment was made for “cause” if it was knowingly done, or knowingly omitted to be done, by the Participant not in good faith and without reasonable belief that the act or omission was in the best interest of the Company or an Affiliate. For purposes of this Plan, if a Participant is convicted of a crime or pleads *nolo contendere* to a criminal charge, he or she will conclusively be deemed to have committed the crime. The Committee has the discretion, in other circumstances, to determine in good faith, from all the facts and circumstances reasonably available to it, whether a Participant who is under investigation for, or has been charged with, a crime will be deemed to have committed it for purposes of this Plan.

**“Change in Control”** of the Company will be deemed to have occurred (as of a particular day, as specified by the Board) as of the first day any one or more of the following paragraphs is satisfied.

- (a) Any Person (other than the Company or a trustee or other fiduciary holding securities under an employee benefit plan of the Company, or a corporation owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company) becomes the Beneficial Owner, directly or indirectly, of securities of the Company, representing more than twenty percent of the combined voting power of the Company’s then outstanding securities.
- (b) During any period of twenty-six consecutive months beginning on or after the Effective Date, individuals who at the beginning of the period constituted the Board cease for any reason (other than death, Disability or voluntary Retirement) to constitute a majority of the Board. For this purpose, any new Director whose election by the Board, or nomination for election by the Company’s shareholders, was approved by a vote of at least two-thirds of the Directors then still in office, and who either were Directors at the beginning of the period or whose election or nomination for election was so approved, will be deemed to have been a Director at the beginning of any twenty-six month period under consideration.
- (c) Consummation of: (i) an agreement for the sale or disposition of all or substantially all the Company’s assets; or (ii) a merger, consolidation or reorganization of the Company with or involving any other corporation, other than a merger, consolidation or reorganization that results in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such merger, consolidation, or reorganization.
- (d) The shareholders of the Company approve a plan of complete liquidation or dissolution of the Company.

Notwithstanding the foregoing, if an Award, or amount payable with respect to an Award, is “deferred compensation” for purposes of Code Section 409A, and if a payment of such Award or amount would be accelerated or otherwise triggered upon a “Change in Control,” then the foregoing definition is modified, to the extent necessary to avoid the imposition of an excise tax under Code Section 409A, to mean a “change in control event” as such term is defined for purposes of Code Section 409A. For purposes of clarity, if an Award would, for example, vest and be paid on a “Change in Control” as defined herein but payment of such Award would violate the provisions of Code Section 409A, then the Award shall vest but will be paid only in compliance with its terms and Code Section 409A (*i.e.*, upon a permissible payment event).

**“Code”** means the Internal Revenue Code of 1986, as amended from time to time.

**“Committee”** means, as specified in Article 3, the Compensation Committee of the Board or such other committee as may be appointed by the Board to administer the Plan.

**“Company”** means Lear Corporation, a Delaware corporation, and any successor thereto as provided in Article 18.

**“Director”** means any individual who is a member of the Board of Directors.

**“Disability”** means (a) long-term disability as defined under the long-term disability plan of the Company or an Affiliate that covers that individual, or (b) if the individual is not covered by such a long-term disability plan, disability as defined for purposes of eligibility for a disability award under the Social Security Act. Notwithstanding the foregoing, for purposes of determining the period of time after termination of employment during which a Participant may exercise an ISO, “Disability” will have the meaning set forth in Section 22(e)(3) of the Code, which is, generally, that the Participant is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of at least twelve months.

Notwithstanding the foregoing, if an Award, or amount payable with respect to an Award, is “deferred compensation” for purposes of Code Section 409A, and if a payment of such Award or amount would be accelerated or otherwise triggered upon a “Disability,” then the foregoing definition is modified, to the extent necessary to avoid the imposition of an excise tax under Code Section 409A, to refer to a Participant who is “disabled,” as such term is defined for purposes of Code Section 409A. For purposes of clarity, if an Award would, for example, vest and be paid on a “Disability” as defined herein but payment of such Award would violate the provisions of Code Section 409A, then the Award shall vest but will be paid only in compliance with its terms and Code Section 409A (*i.e.*, upon a permissible payment event).

**“Effective Date”** means November 9, 2009.

**“Eligible Employee”** or **“Employee”** means any employee of the Company or any of its Affiliates. Directors who are not employed by the Company or its Affiliates will also be considered Eligible Employees and Employees under this Plan.

**“Exchange Act”** means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

**“Exercise Price”** means the price at which a Share may be purchased by a Participant pursuant to an Option.

**“Fair Market Value”** means:

- (a) the closing trading price of the Shares on the New York Stock Exchange or, if the Shares are not traded on the New York Stock Exchange, on the NASDAQ Stock Market or any other exchange on which they are traded; or

- (b) if the Shares are not traded on any exchange, the mean between the closing bid and asked prices of the Shares in the over-the-counter market; or
- (c) if those bid and asked prices are not available, then the fair market value as reported by any nationally recognized quotation service selected by the Committee or as determined in good faith by the Committee.

Notwithstanding the foregoing, for purposes of Awards intended to be exempt from Code Section 409A, the Fair Market Value shall be no less than the “fair market value,” as such term is defined for purposes of Code Section 409A.

**“Freestanding SAR”** means an SAR that is granted independently of any Options, as described in Article 7.

**“Grandfathered Award”** means an Award granted prior to September 11, 2013, other than an Award which by its terms expressly provides that the Award is not to be treated as a Grandfathered Award.

**“Incentive Stock Option”** or **“ISO”** means an option to purchase Shares granted under Article 6 that is designated as an Incentive Stock Option and that is intended to meet the requirements of Code Section 422.

**“Nonqualified Stock Option”** or **“NQSO”** means an option to purchase Shares granted under Article 6 that is not intended to meet the requirements of Code Section 422.

**“Option”** means an Incentive Stock Option or a Nonqualified Stock Option, as described in Article 6.

**“Participant”** means an Eligible Employee who has been selected by the Committee to participate in the Plan pursuant to Section 5.2 and who has outstanding an Award granted under the Plan. The term “Participant” will also include Directors who are not employees of the Company or an Affiliate for purposes of Awards under the Plan.

**“Performance-Based Exception”** means the performance-based exception from the tax deductibility limitations of Code Section 162(m) and any regulations promulgated thereunder.

**“Performance Period”** means the time period during which performance objectives must be met in order for a Participant to earn Performance Units or Performance Shares granted under Article 9.

**“Performance Share”** means an award with an initial value equal to the Fair Market Value on the date of grant which is based on the Participant’s attainment of performance objectives, as described in Article 9.

**“Performance Unit”** means an award with an initial value established by the Committee at the time of grant which is based on the Participant’s attainment of performance objectives, as described in Article 9.

**“Person”** has the meaning ascribed to that term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d) thereof.

**“Plan”** means the Lear Corporation 2009 Long-Term Stock Incentive Plan, as set forth in this document.

**“Replacement Award”** means an Award resulting from the exchange or substitution specified in Section 14.2 upon a Change in Control and meeting the applicable conditions specified in Section 14.2, provided that such Award is issued by a company (foreign or domestic) the majority of the equity of which is listed under and in compliance with the domestic company listing rules of the New York Stock Exchange or with a similarly liquid exchange which has comparable standards to the domestic listing standards of the New York Stock Exchange.

**“Restriction Period”** means the period during which the transfer of Shares of Restricted Stock is limited in some way (based on the passage of time, the achievement of performance objectives, or the occurrence of other events as determined by the Committee, at its discretion) or the Restricted Stock is not vested.

**“Restricted Stock”** means a contingent grant of stock awarded to a Participant pursuant to Article 8.

**“Restricted Stock Unit”** means a Restricted Unit granted to a Participant, as described in Article 8, that is payable in Shares.

**“Restricted Unit”** means a notional account established pursuant to an Award granted to a Participant, as described in Article 8, that is (a) credited with amounts equal to Shares or some other unit of measurement specified in the Award Agreement, (b) subject to restrictions and (c) payable in cash or Shares.

**“Retirement”** means termination of employment on or after (a) reaching the age established by the Company as the normal retirement age in any unexpired employment or severance agreement between the Participant and the Company or an Affiliate, or, in the absence of such an agreement, the normal retirement age under the tax-qualified defined benefit retirement plan or, if none, the tax-qualified defined contribution retirement plan, sponsored by the Company or an Affiliate in which the Participant participates, or (b) reaching age fifty-five with ten years of service with the Company or an Affiliate.

**“Shares”** means the shares of common stock, \$0.01 par value, of the Company, including their associated preferred share purchase rights, if applicable.

**“Stock Appreciation Right”** or **“SAR”** means an Award, granted alone or in connection with a related Option, designated as an SAR pursuant to the terms of Article 7.

**“Tandem SAR”** means an SAR that is granted in connection with a related Option pursuant to Article 7, the exercise of which requires forfeiture of the right to purchase a Share under the related Option (and when a Share is purchased under the Option, the Tandem SAR will similarly be canceled).

### Article 3. Administration

**3.1 The Committee.** The Plan will be administered by the Compensation Committee of the Board, or by any other Committee appointed by the Board, which Committee (unless otherwise determined by the Board) will satisfy the “nonemployee director” requirements of Rule 16b-3 under the Exchange Act and the regulations of Rule 16b-3 under the Exchange Act and the “outside director” provisions of Code Section 162(m), or any successor regulations or provisions, so long as the Company is subject to the registration requirements of the Exchange Act. The members of the Committee will be appointed from time to time by, and serve at the discretion of, the Board of Directors. The Committee will act by a majority of its members at the time in office and eligible to vote on any particular matter, and Committee action may be taken either by a vote at a meeting or in writing without a meeting.

**3.2 Authority of the Committee.** Except as limited by law and subject to the provisions of this Plan, the Committee will have full power to: select Eligible Employees to participate in the Plan; determine the sizes and types of Awards; determine the terms and conditions of Awards in a manner consistent with the Plan; construe and interpret the Plan and any agreement or instrument entered into under the Plan; establish, amend or waive rules and regulations for the Plan’s administration; and (subject to the provisions of Article 15) amend the terms and conditions of any outstanding Award to the extent they are within the discretion of the Committee as provided in the Plan. Further, the Committee will make all other determinations that may be necessary or advisable to administer the Plan. As permitted by law and consistent with Section 3.1, the Committee may delegate some or all of its authority under the Plan.

**3.3 Decisions Binding.** All determinations and decisions made by the Committee pursuant to the provisions of the Plan will be final, conclusive and binding on all persons, including, without limitation, the Company, its Board of Directors, its shareholders, all Affiliates, employees, Participants and their estates and beneficiaries.

### Article 4. Shares Subject to the Plan and Maximum Awards

**4.1 Number of Shares Available for Grants.** Subject to adjustment as provided in Sections 4.2 and 4.3, the number of Shares that may be issued or transferred to Participants under the Plan is 11,815,748 [POST-SPLIT]. Subject to adjustment as provided in Section 4.3, the maximum number of Shares and Share equivalent units that may be granted during any calendar year to any one Participant under Options, Freestanding SARs, Restricted Stock, Restricted Units, Restricted Stock Units, Performance Shares or any other Award is 1,000,000 [POST-SPLIT], which limit will apply regardless of whether the compensation is paid in Shares or in cash. The maximum number of Shares that may be issued by Options intended to be ISOs is 5,000,000 [POST-SPLIT]. The maximum aggregate dollar amount that may be paid to any one Participant during any calendar year under Performance Units or any cash incentive Award granted under Section 9.9 is \$7,500,000.



The Shares with respect to which Awards may be made will include authorized but unissued Shares, and Shares that are currently held or subsequently acquired by the Company as treasury Shares, including Shares purchased in the open market or in private transactions.

**4.2 Lapsed Awards.** If any Award granted under this Plan is canceled, terminates, expires or lapses for any reason, any Shares subject to the Award will again be available for the grant of an Award under the Plan. In addition, if a Share subject to an Award is not delivered because the award is settled in cash or because the Share is used to satisfy a tax withholding obligation or used to pay the Exercise Price of an Option, then that Share will thereafter be deemed to be available for grant. The number of Shares subject to a SAR in excess of the number of Shares that are delivered to the Participant upon exercise of the SAR will not be treated as having been issued under the Plan and will be available for grant under the Plan.

**4.3 Adjustments in Authorized Shares.**

- (a) If the Shares, as currently constituted, are changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation (whether because of merger, consolidation, recapitalization, reclassification, split, reverse split, combination of shares, or other similar change in the corporate structure of the Company affecting the Shares) or if the number of Shares is increased through the payment of a stock dividend, then the Committee will substitute for or add to each Share previously appropriated, later subject to, or which may become subject to, an Award, the number and kind of shares of stock or other securities into which each outstanding Share was changed for which each such Share was exchanged, or to which each such Share is entitled, as the case may be. Outstanding Awards will also be appropriately adjusted as to price and other terms, to the extent necessary to reflect the events described above.
- (b) Fractional Shares resulting from any adjustment in Awards pursuant to this section may be settled in cash or otherwise as the Committee determines. The Company will give notice of any adjustment to each Participant who holds an Award that has been adjusted and the adjustment (whether or not that notice is given) will be effective and binding for all Plan purposes.

**Article 5. Eligibility and Participation**

**5.1 Eligibility.** All Eligible Employees, including Eligible Employees who are members of the Board, are eligible to participate in this Plan.

**5.2 Actual Participation.** Subject to the provisions of the Plan, the Committee will, from time to time, select those Eligible Employees to whom Awards will be granted, and will determine the nature and amount of each Award.

## Article 6. Stock Options

**6.1 Grant of Options.** Subject to the terms and provisions of the Plan, Options may be granted to Eligible Employees in the number, and upon the terms, and at any time and from time to time, as determined by the Committee.

**6.2 Award Agreement.** Each Option grant will be evidenced by an Award Agreement that specifies the Exercise Price, the duration of the Option, the number of Shares to which the Option pertains, the manner, time and rate of exercise or vesting of the Option, and such other provisions as the Committee determines. The Award Agreement will also specify whether the Option is intended to be an ISO or an NQSO.

**6.3 Exercise Price.** The Exercise Price for each share subject to an Option will be at least one hundred percent of the Fair Market Value on the date the Option is granted.

**6.4 Duration of Options.** Each Option will expire at the time determined by the Committee at the time of grant, but no later than the tenth anniversary of the date of its grant.

**6.5 No Dividend Equivalents.** Subject to Section 4.3, the Committee may not grant payments in connection with Options that are equivalent to dividends declared and paid on the Shares underlying the Options.

**6.6 Exercise of Options.** Options will be exercisable at such times and be subject to such restrictions and conditions as the Committee in each instance approves, which need not be the same for each Award or for each Participant.

**6.7 Payment.** The holder of an Option may exercise the Option only by delivering a written notice of exercise to the Company setting forth the number of Shares as to which the Option is to be exercised, together with full payment at the Exercise Price for the Shares and any withholding tax relating to the exercise of the Option.

The Exercise Price and any related withholding taxes will be payable to the Company in full either: (a) in cash, or its equivalent, in United States dollars; (b) by tendering Shares owned by the Participant and duly endorsed for transfer to the Company, Shares issuable to the Participant upon exercise of the Option, or any combination of cash, certified or cashier's check and Shares described in this clause (b); or (c) by any other means the Committee determines to be consistent with the Plan's purposes and applicable law. Cashless exercise must meet the requirements of the Federal Reserve Board's Regulation T and any applicable securities law restrictions. For this purpose, "cashless" exercise will mean that the Participant notifies the Company it will exercise, and the Company is instructed to deliver the Share issuable on exercise to a broker, who sells the Shares and holds back the exercise price (and, often, the federal and state withholdings). No more than the minimum required withholding may be satisfied by the tender of Shares.

**6.8 Restrictions on Share Transferability.** The Committee may impose such restrictions on any Shares acquired through exercise of an Option as it deems necessary or advisable, including, without limitation, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which the Shares are then listed or traded, and under any blue sky or state securities laws applicable to the Shares.

**6.9 Termination of Employment.** Each Option Award Agreement will set forth the extent to which the Participant has the right to exercise the Option after his or her termination of employment with the Company and all Affiliates. These terms will be determined by the Committee in its sole discretion, need not be uniform among all Options, and may reflect, among other things, distinctions based on the reasons for termination of employment.

**6.10 Nontransferability of Options.** Except as otherwise provided in a Participant's Award Agreement, no Option granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, or pursuant to a domestic relations order (as defined in Code Section 414(p)). Further, except as otherwise provided in a Participant's Award Agreement, all Options will be exercisable during the Participant's lifetime only by the Participant or his or her guardian or legal representative. The Committee may, in its discretion, require a Participant's guardian or legal representative to supply it with the evidence the Committee deems necessary to establish the authority of the guardian or legal representative to act on behalf of the Participant.

#### Article 7. Stock Appreciation Rights

**7.1 Grant of SARs.** Subject to the terms and conditions of the Plan, SARs may be granted to Participants at any time and from time to time, as determined by the Committee. The Committee may grant Freestanding SARs, Tandem SARs or any combination of the two.

Within the limits of Article 4, the Committee will have sole discretion to determine the number of SARs granted to each Participant and, consistent with the provisions of the Plan, to determine the terms and conditions pertaining to SARs.

The grant price of a SAR will equal the Fair Market Value on the date of grant of the SAR.

**7.2 Exercise of Tandem SARs.** Tandem SARs may be exercised for all or part of the Shares subject to the related Option, upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable.

**7.3 Exercise of Freestanding SARs.** Freestanding SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes.

**7.4 Award Agreement.** Each SAR grant will be evidenced by an Award Agreement that specifies the grant price, the term of the SAR and such other provisions as the Committee determines.

**7.5 Term of SARs.** The term of an SAR will be determined by the Committee, in its sole discretion, but may not exceed ten years.

**7.6 Payment of SAR Amount.** Upon exercise of an SAR, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

- (a) the excess (or some portion of the excess as determined at the time of the grant by the Committee) if any, of the Fair Market Value on the date of exercise of the SAR over the grant price specified in the Award Agreement; by
- (b) the number of Shares as to which the SAR is exercised.

The payment upon SAR exercise may be made in cash, in Shares of equivalent Fair Market Value or in some combination of the two, as specified in the Award Agreement.

**7.7 Termination of Employment.** Each SAR Award Agreement will set forth the extent to which the Participant has the right to exercise the SAR after his or her termination of employment with the Company and all Affiliates. These terms will be determined by the Committee in its sole discretion, need not be uniform among all SARs issued under the Plan, and may reflect, among other things, distinctions based on the reasons for termination of employment.

**7.8 Nontransferability of SARs.** Except as otherwise provided in a Participant's Award Agreement, no SAR may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, or pursuant to a domestic relations order (as defined in Code Section 414(p)). Further, except as otherwise provided in a Participant's Award Agreement, all SARs will be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative. The Committee may, in its discretion, require a Participant's guardian or legal representative to supply it with evidence the Committee deems necessary to establish the authority of the guardian or legal representative to act on behalf of the Participant.

**7.9 No Dividend Equivalents.** Subject to Section 4.3, the Committee may not grant payments in connection with SARs that are equivalent to dividends declared and paid on the Shares underlying the SARs.

#### Article 8. Restricted Stock, Restricted Stock Units and Restricted Units

**8.1 Grant of Restricted Stock, Restricted Stock Units or Restricted Units.** Subject to the terms and provisions of the Plan, the Committee may, at any time and from time to time, grant Restricted Stock, Restricted Stock Units or Restricted Units to Participants in such amounts as it determines.

**8.2 Award Agreement.** Each grant of Restricted Stock, Restricted Units or Restricted Stock Units will be evidenced by an Award Agreement that specifies the Restriction Periods, the number of Shares or Share equivalent units granted, and such other provisions as the Committee determines.

**8.3 Nontransferability.** Restricted Stock, Restricted Units and Restricted Stock Units granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, or pursuant to a

domestic relations order (as defined in Code Section 414(p)), until the end of the applicable Restriction Period as specified in the Award Agreement, or upon earlier satisfaction of any other conditions specified by the Committee in its sole discretion and set forth in the Award Agreement. All rights with respect to Restricted Stock, Restricted Units and Restricted Stock Units will be available during the Participant's lifetime only to the Participant or the Participant's guardian or legal representative. The Committee may, in its discretion, require a Participant's guardian or legal representative to supply it with evidence the Committee deems necessary to establish the authority of the guardian or legal representative to act on behalf of the Participant.

**8.4 Other Restrictions.** Subject to Article 11, the Committee may impose such other conditions or restrictions on any Restricted Stock, Restricted Units or Restricted Stock Units as it deems advisable including, without limitation, restrictions based upon the achievement of specific performance objectives (Company-wide, business unit, individual, or any combination of them), time-based restrictions on vesting following the attainment of the performance objectives, and restrictions under applicable federal or state securities laws. The Committee may provide that restrictions established under this Section 8.4 as to any given Award will lapse all at once or in installments.

The Company will retain the certificates representing Shares of Restricted Stock in its possession until all conditions and restrictions applicable to the Shares have been satisfied.

**8.5 Payment of Awards.** Except as otherwise provided in this Article 8, Shares covered by each Restricted Stock grant will become freely transferable by the Participant after the last day of the applicable Restriction Period, and Share equivalent units covered by a Restricted Unit or Restricted Stock Unit will be paid out in cash or Shares to the Participant following the last day of the applicable Restriction Period, or on a later date provided in the Award Agreement.

**8.6 Voting Rights.** During the Restriction Period, Participants holding Shares of Restricted Stock may exercise full voting rights with respect to those Shares.

**8.7 Dividends and Other Distributions.** During the Restriction Period, Participants awarded Shares of Restricted Stock, Restricted Units or Restricted Stock Units hereunder will be credited with regular cash dividends or dividend equivalents paid on those Shares or with respect to those Share equivalent units. Dividends may be paid currently, accrued as contingent cash obligations, or converted into additional Shares of Restricted Stock, upon such terms as the Committee establishes.

The Committee may apply any restrictions it deems advisable to the crediting and payment of dividends and other distributions. Without limiting the generality of the preceding sentence, if the grant or vesting of Restricted Stock is designed to qualify for the Performance-Based Exception, the Committee may apply any restrictions it deems appropriate to the payment of dividends declared with respect to the Restricted Stock, so that the dividends and the Restricted Stock continue to be eligible for the Performance-Based Exception.

**8.8 Termination of Employment.** Each Award Agreement will set forth the extent to which the Participant has the right to retain unvested Restricted Stock, Restricted Stock Units or Restricted Units after his or her termination of employment with the Company or an Affiliate. These terms will be determined by the Committee in its sole discretion, need not be uniform among all Awards of Restricted Stock, and may reflect, among other things, distinctions based on the reasons for termination of employment.

#### Article 9. Performance Units, Performance Shares and Other Awards

**9.1 Grant of Performance Units or Performance Shares.** Subject to the terms of the Plan, Performance Units or Performance Shares may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as the Committee determines.

**9.2 Value of Performance Units and Performance Shares.** Each Performance Unit will have an initial value established by the Committee at the time of grant. Each Performance Share will have an initial value equal to the Fair Market Value on the date of grant. The Committee will set performance objectives in its discretion which, depending on the extent to which they are met, will determine the number or value (or both) of Performance Units or Performance Shares that will be paid out to the Participant. For purposes of this Article 9, the time period during which the performance objectives must be met will be called a "Performance Period" and will be set by the Committee in its discretion.

**9.3 Earning of Performance Units and Performance Shares.** Subject to the terms of this Plan, after the applicable Performance Period has ended, the holder of Performance Units or Performance Shares will be entitled to receive payout on the number and value of Performance Units or Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives have been achieved.

**9.4 Award Agreement.** Each grant of Performance Units or Performance Shares will be evidenced by an Award Agreement specifying the material terms and conditions of the Award (including the form of payment of earned Performance Units or Performance Shares), and such other provisions as the Committee determines.

**9.5 Form and Timing of Payment of Performance Units and Performance Shares.** Except as provided in Article 12, payment of earned Performance Units and Performance Shares will be made as soon as practicable after the close of the applicable Performance Period, in a manner determined by the Committee in its sole discretion. The Committee will pay earned Performance Units and Performance Shares in the form of cash, in Shares, or in a combination of cash and Shares, as specified in the Award Agreement. Performance Shares may be paid subject to any restrictions deemed appropriate by the Committee.

**9.6 Termination of Employment Due to Death or Disability.** Unless determined otherwise by the Committee and set forth in the Participant's Award Agreement, if a Participant's employment is terminated by reason of death or Disability during a Performance Period, the Participant will receive a prorated payout of the Performance Units or Performance Shares, as specified by the Committee in its discretion in the Award Agreement. Payment of earned Performance Units and Performance Shares will be made at a time specified by the Committee in its sole discretion and set forth in the Participant's Award Agreement.

**9.7 Termination of Employment for Other Reasons.** If a Participant's employment terminates during a Performance Period for any reason other than death or Disability, the Participant will forfeit all Performance Units and Performance Shares to the Company, unless the Participant's Award Agreement provides otherwise.

**9.8 Nontransferability.** Except as otherwise provided in a Participant's Award Agreement, Performance Units and Performance Shares may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, or pursuant to a domestic relations order (as defined in Code Section 414(p)). Further, except as otherwise provided in a Participant's Award Agreement, a Participant's rights under the Plan will be exercisable during the Participant's lifetime only by the Participant or Participant's guardian or legal representative. The Committee may, in its discretion, require a Participant's guardian or legal representative to supply it with evidence the Committee deems necessary to establish the authority of the guardian or legal representative to act on behalf of the Participant.

**9.9 Other Awards.** In addition to the Awards described in Articles 6 through 8 and Sections 9.1 through 9.8 above, and subject to the terms of the Plan, the Committee may grant other incentives payable in cash or Shares under the Plan as it determines to be in the best interests of the Company and subject to such other terms and conditions as it deems appropriate.

#### Article 10. Performance Measures

Unless and until the Committee proposes and the Company's shareholders approve a change in the general performance measures set forth in this Article 10, the performance measure(s) to be used for purposes of Awards designed to qualify for the Performance-Based Exception will be chosen from among the following alternatives:

- (a) net earnings;
- (b) operating earnings or income;
- (c) earnings growth;
- (d) net sales growth;
- (e) net income (absolute or competitive growth rates comparative);
- (f) net income applicable to common stock;
- (g) cash flow, including operating cash flow, free cash flow, discounted cash flow return on investment, and cash flow in excess of cost of capital;
- (h) earnings per share of common stock;

- (i) return on shareholders equity (absolute or peer-group comparative);
- (j) stock price (absolute or peer-group comparative);
- (k) absolute and/or relative return on common shareholders equity;
- (l) absolute and/or relative return on capital;
- (m) absolute and/or relative return on assets;
- (n) economic value added (income in excess of cost of capital);
- (o) customer satisfaction;
- (p) quality metrics;
- (q) expense reduction; and
- (r) ratio of operating expenses to operating revenues.

The Committee may specify any reasonable definition of the performance measures it uses. Such definitions may provide for reasonable adjustments and may include or exclude items, including but not limited to: investment gains and losses; extraordinary, unusual or non-recurring items; gains or losses on the sale of assets; effects of changes in accounting principles or the application thereof; asset impairment charges; effects of currency fluctuations; acquisitions, divestitures, or financing activities; recapitalizations, including stock splits and dividends; expenses for restructuring or productivity initiatives; discontinued operations; and other non-operating items.

The Committee will have the discretion to adjust targets set for preestablished performance objectives; however, Awards designed to qualify for the Performance-Based Exception may not be adjusted upward, except to the extent permitted under Code Section 162(m), to reflect accounting changes or other events.

If Code Section 162(m) or other applicable tax or securities laws change to allow the Committee discretion to change the types of performance measures without obtaining shareholder approval, the Committee will have sole discretion to make such changes without obtaining shareholder approval. In addition, if the Committee determines it is advisable to grant Awards that will not qualify for the Performance-Based Exception, the Committee may grant Awards that do not so qualify.

#### Article 11. Beneficiary Designation

Each Participant may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case the Participant should die before receiving any or all of his or her Plan benefits. Each beneficiary designation will revoke all prior designations by the same Participant, must be in a form prescribed by the Committee, and must be made during the Participant's lifetime. If the



Participant's designated beneficiary predeceases the Participant or no beneficiary has been designated, benefits remaining unpaid at the Participant's death will be paid to the Participant's estate or other entity described in the Participant's Award Agreement.

#### Article 12. Deferrals

The Committee may, consistent with the requirements of Code Section 409A, permit a Participant to defer receipt of cash or Shares that would otherwise be due to him or her by virtue of an Option or SAR exercise, the lapse or waiver of restrictions on Restricted Stock, Restricted Stock Units, Restricted Units or other Awards, or the satisfaction of any requirements or objectives with respect to Performance Units, Performance Shares or other Awards. If any such deferral election is permitted, the Committee will, in its sole discretion, establish rules and procedures for such deferrals consistent with the requirements of Code Section 409A.

#### Article 13. Rights of Employees

**13.1 Employment.** Nothing in the Plan will interfere with or limit in any way the right of the Company or any affiliate of the Company (as defined in federal securities laws) to terminate any Participant's employment at any time, or confer upon any Participant any right to continue in the employ of the Company or any Affiliate.

**13.2 Participation.** No Eligible Employee will have the right to receive an Award under this Plan, or, having received any Award, to receive a future Award.

#### Article 14. Change in Control

**14.1 Grandfathered Awards.** With respect to Grandfathered Awards, upon the occurrence of a Change in Control, unless otherwise specifically prohibited under applicable laws, or by the rules and regulations of any governing governmental agencies or national securities exchanges:

- (a) any and all outstanding Options and SARs will become immediately exercisable (and will be deemed to be exercisable immediately prior to the Change in Control), and will remain exercisable throughout their entire term (the "Vested Options and SARs"); provided, however, that, with respect to Vested Options and SARs that are not exercised in connection with the Change in Control, such Vested Options and SARs will be subject to the provisions of Section 14.1(e) below, as applicable;
- (b) any Restriction Periods or other restrictions imposed on Restricted Stock, Restricted Stock Units and Restricted Units will lapse, except that the degree of vesting associated with those awards that is conditioned on the achievement of performance conditions will be determined as set forth in Section 14.1(c) or Section 14.1(d), as applicable;
- (c) except as otherwise provided in the Award Agreement, the vesting of all Performance Units and Performance Shares will be accelerated as of the effective date of the Change in Control, and Participants will be paid in cash, within thirty

days after the effective date of the Change in Control, a pro rata amount based on an assumed achievement of all relevant performance objectives at target levels, and upon the length of time within the Performance Period that elapsed prior to the effective date of the Change in Control;

- (d) notwithstanding the foregoing, if the Committee determines that actual performance to the effective date of the Change in Control exceeds target levels, the prorated payouts made pursuant to Sections 14.1(b) and (c) will be made at levels commensurate with the actual performance (determined by extrapolating the actual performance to the end of the Performance Period) based on the length of time within the Performance Period that elapsed prior to the Change in Control; and
- (e) (i) if the Company is a party to an agreement that is reasonably likely to result in a Change in Control, such agreement may provide for: (A) the continuation of the Vested Options and SARs by the Company, if the Company is the surviving corporation; (B) the assumption of the Vested Options and SARs by the surviving corporation or its parent or subsidiary; (C) the substitution by the surviving corporation or its parent or subsidiary of equivalent awards for the Vested Options and SARs; or (D) settlement of the Vested Options and SARs for the Change in Control Price (less, to the extent applicable, the per share exercise or grant price), or, if the per share exercise or grant price equals or exceeds the Change in Control Price, such Vested Options and SARs shall terminate and be canceled.  
  
(ii) to the extent that Restricted Stock, Restricted Units and Restricted Stock Units settle in Shares in accordance with their terms upon a Change in Control, such Shares shall be entitled to receive as a result of the Change in Control transaction the same consideration as the Shares held by shareholders of the Company as a result of the Change in Control transaction.

For purposes of this Section 14.1(e), Change in Control Price shall mean the Fair Market Value of a Share upon a Change in Control. To the extent that the consideration paid in any such Change in Control transaction consists all or in part of securities or other non-cash consideration, the value of such securities or other non-cash consideration shall be determined in good faith by the Committee.

**14.2 Awards Other than Grandfathered Awards.** Upon the occurrence of a Change in Control, the following provisions of this Section 14.2 shall apply to Awards that are not Grandfathered Awards, unless the Committee shall determine otherwise at the time of grant with respect to a particular Award and unless otherwise specifically prohibited under applicable laws, or by the rules and regulations of any governing governmental agencies or national securities exchanges:

(a) Options and SARs.

(i) Any outstanding Options and SARs, unless exchanged by the Company for a Replacement Award, will become immediately exercisable (and will be deemed to be exercisable immediately prior to the Change in Control), and will remain exercisable throughout the remainder of their term (the "Vested Options and SARs"); provided, however, that, with respect to Vested Options and SARs that are not exercised upon the Change in Control, such Vested Options and SARs will be subject to the provisions of Section 14.2(d) below, as applicable.

(ii) Any Option or SAR may be exchanged by the Company upon the Change in Control for a Replacement Award that satisfies the conditions of this Section 14.2(a)(ii). The Replacement Award shall have equivalent value and vest and become exercisable in accordance with the vesting schedule and term for exercisability, in each case that applied to the corresponding Option or SAR for which it is being exchanged, provided, however, that if within twenty-four (24) months of such Change in Control, the Participant's employment with the Company is terminated by the Company without Cause or by the Participant for Good Reason (as defined in the Participant's employment agreement for Participants who are party to an employment agreement with the Company), such Award, to the extent then outstanding, shall become fully vested and exercisable upon such termination of employment.

(b) Restricted Stock, Restricted Stock Units and Restricted Units.

(i) Any Restriction Periods or other restrictions imposed on Restricted Stock, Restricted Stock Units and Restricted Units that are not exchanged by the Company for a Replacement Award will lapse, except that the degree of vesting associated with those Awards that is conditioned on the achievement of performance conditions will be determined as set forth in Section 14.2(c).

(ii) Any Restricted Stock, Restricted Stock Unit, or Restricted Unit may be exchanged by the Company upon the Change in Control for a Replacement Award that satisfies the conditions of this Section 14.2(b)(ii). The Replacement Award shall have equivalent value to the Award for which it is being exchanged and shall vest in accordance with the vesting schedule that applied to the corresponding Award for which it is being exchanged, provided, however, that if within twenty four (24) months of such Change in Control, the Participant's employment with the Company is terminated by the Company without Cause or by the Participant for Good Reason (as defined in the Participant's employment agreement for Participants who are party to an employment agreement with the Company), such Award, to the extent then outstanding, shall become free of all contingencies, restrictions and limitations and become vested and transferable (or paid) upon such termination of employment.

(c) Performance Shares and Performance Units.

(i) Except as otherwise provided in the Award Agreement, the vesting of all Performance Units and Performance Shares that are not exchanged by the Company for a Replacement Award will be accelerated as of the effective date of the Change in Control, and Participants will be paid, within thirty days after the effective date of the Change in Control, an amount in cash based on an assumed achievement of all relevant performance objectives at target levels.

(ii) Any Performance Share or Performance Unit may be exchanged by the Company upon a Change in Control for a Replacement Award that satisfies the conditions of this Section 14.2(c)(ii). The Replacement Award shall not be subject to any performance condition referred to in Article 10 above or otherwise, but instead shall be subject solely to the restrictions, if any, of the Award for which it is being exchanged that are based on the passage of time through the expiration date of the performance period utilized in the Award for which it is being exchanged. The number or value of such Replacement Award shall be determined based on the assumed achievement of all of the relevant performance objectives of the Award for which it is being exchanged at their target levels. Notwithstanding the foregoing in this Section 14.2(c)(ii), if within twenty four (24) months of such Change in Control, the Participant's employment with the Company is terminated by the Company without Cause or by the Participant for Good Reason (as defined in the Participant's employment agreement for Participants who are party to an employment agreement with the Company), such Replacement Award, to the extent then outstanding, shall become free of all contingencies, restrictions and limitations and become vested and transferable (or paid) upon such termination of employment.

- (d) (i) If the Company is a party to an agreement that is reasonably likely to result in a Change in Control, such agreement may provide for settlement of the Vested Options and SARs for the Change in Control Price (less, to the extent applicable, the per share exercise or grant price), or, if the per share exercise or grant price equals or exceeds the Change in Control Price, such Vested Options and SARs shall terminate and be canceled.

(ii) To the extent that Restricted Stock, Restricted Units and Restricted Stock Units settle in Shares in accordance with their terms upon a Change in Control, such Shares shall be entitled to receive as a result of the Change in Control transaction the same consideration as the Shares held by shareholders of the Company as a result of the Change in Control transaction.

For purposes of this Section 14.2(d), Change in Control Price shall mean the Fair Market Value of a Share upon a Change in Control. To the extent that the consideration paid in any such Change in Control transaction consists all or in part of securities or other non-cash consideration, the value of such securities or other non-cash consideration shall be determined in good faith by the Committee.

**14.3 Termination, Amendment and Modifications of Change in Control Provisions.** Notwithstanding any other provision of this Plan or any provision in an Award Agreement, this Article 14 may not be terminated, amended or modified on or after the effective date of a Change in Control in a way that would adversely affect any Award in any material way theretofore granted to a Participant, unless the Participant gives his or her prior written consent to the termination, amendment or modification.

**15.1 Amendment, Modification and Termination.** Subject to Section 14.3, the Committee or Board may at any time and from time to time, alter, amend, modify or terminate the Plan in whole or in part. The Committee or Board will not, however, increase the number of Shares that may be issued or transferred to Participants under the Plan, as described in the first sentence of Section 4.1 (and subject to adjustment as provided in Sections 4.2 and 4.3).

Subject to the terms and conditions of the Plan, the Committee may modify, extend or renew outstanding Awards under the Plan, or accept the surrender of outstanding Awards (to the extent not already exercised) and grant new Awards in substitution of them (to the extent not already exercised). Except as provided in Sections 4.3 and 15.2, the Committee will not, however, modify any outstanding Option or SAR so as to specify a lower Exercise Price or grant price (and will not cancel an Option or SAR and substitute for it an Option or SAR with a lower Exercise price or grant price), without the approval of the Company's shareholders. In addition, except as provided in Sections 4.3 and 15.2, the Committee may not cancel an outstanding Option or SAR whose Exercise Price or grant price is equal to or greater than the current Fair Market Value of a Share and substitute for it another Award without the prior approval of the Company's shareholders. Notwithstanding the foregoing, no alteration, modification or termination of an Award will, without the prior written consent of the Participant, adversely alter or impair any rights or obligations under any Award already granted under the Plan.

**15.2 Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events.** The Committee may, using reasonable care, make adjustments in the terms and conditions of, and the criteria included in, Awards in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan (i) in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4.3) affecting the Company or its financial statements, (ii) in recognition of changes in applicable laws, regulations, or accounting principles, or (iii) whenever the Committee determines that such adjustments are necessary, equitable and/or appropriate. In the case of an Award designed to qualify for the Performance-Based Exception, the Committee will take care not to make an adjustment that would disqualify the Award.

**15.3 Awards Previously Granted.** No termination, amendment or modification of the Plan will adversely affect in any material way any Award already granted, without the written consent of the Participant who holds the Award.

**15.4 Compliance with Code Section 162(m) and Code Section 409A.** Awards will comply with the requirements of Code Section 162(m), unless the Committee determines that such compliance is not desired with respect to an Award available for grant under the Plan. In addition, if changes are made to Code Section 162(m) to permit greater flexibility as to any Award available under the Plan, the Committee may, subject to this Article 15, make any adjustments it deems appropriate. The Plan and Awards, and all amounts payable with respect to Awards, are intended to comply with, or be exempt from, Code Section 409A and the interpretative guidance thereunder and shall be construed, interpreted and administered accordingly. If an unintentional operational failure occurs with respect to Code Section 409A, any affected Participant or beneficiary shall fully cooperate with the Company to correct the

failure to the extent possible in accordance with any correction procedure established by the U.S. Department of the Treasury. If a Participant is a “specified employee” (as such term is defined for purposes of Code Section 409A) at the time of his or her termination of employment, no amount that is subject to Code Section 409A and that becomes payable by reason of such termination of employment shall be paid to the Participant before the earlier of (i) the expiration of the six-month period measured from the date of the Participant’s termination of employment, and (ii) the date of the Participant’s death. A termination of employment shall be deemed to occur only if it is a “separation from service” within the meaning of Code Section 409A, and references in the Plan and any Award Agreement to “termination,” “termination of employment,” or like terms shall mean a “separation from service.” A separation from service shall be deemed to occur if it is anticipated that the level of services the Participant will perform after a certain date (whether as an employee or as an independent contractor) will permanently decrease to no more than twenty percent (20%) of the average level of services provided by the Participant in the immediately preceding thirty-six (36) months.

#### Article 16. Withholding

**16.1 Tax Withholding.** The Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising under this Plan. No Award Agreement will permit reload options to be granted in connection with any Shares used to pay a tax withholding obligation.

**16.2 Share Withholding.** With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock, or upon any other taxable event arising as a result of Awards granted hereunder, the Company may satisfy the minimum withholding requirement for supplemental wages, in whole or in part, by withholding Shares having a Fair Market Value (determined on the date the Participant recognizes taxable income on the Award) equal to the minimum withholding tax required to be collected on the transaction. The Participant may elect, subject to the approval of the Committee, to deliver the necessary funds to satisfy the withholding obligation to the Company, in which case there will be no reduction in the Shares otherwise distributable to the Participant.

#### Article 17. Indemnification

Each person who is or has been a member of the Committee or the Board will be indemnified and held harmless by the Company from and against any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or as a result of any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken, or failure to act, under the Plan. Each such person will also be indemnified and held harmless by the Company from and against any and all amounts paid by him or her in a settlement approved by the Company, or paid by him or her in satisfaction of any judgment, of or in a claim, action, suit or proceeding against him or her and described in the previous sentence, so long as he or she gives the Company an opportunity, at its own expense, to handle and defend the claim, action, suit or proceeding before he or she undertakes to handle and defend it. The foregoing right of indemnification will not be exclusive

of any other rights of indemnification to which a person who is or has been a member of the Committee or the Board may be entitled under the Company's Certificate of Incorporation or By-Laws, as a matter of law, or otherwise, or any power that the Company may have to indemnify him or her or hold him or her harmless.

#### Article 18. Successors

All obligations of the Company under the Plan or any Award Agreement will be binding on any successor to the Company, whether the existence of the successor results from a direct or indirect purchase of all or substantially all of the business or assets of the Company or both, or a merger, consolidation, or otherwise.

#### Article 19. Legal Construction

**19.1 Number.** Except where otherwise indicated by the context, any plural term used in this Plan includes the singular and a singular term includes the plural.

**19.2 Severability.** If any provision of the Plan is held illegal or invalid for any reason, the illegality or invalidity will not affect the remaining parts of the Plan, and the Plan will be construed and enforced as if the illegal or invalid provision had not been included.

**19.3 Requirements of Law.** The granting of Awards and the issuance of Share or cash payouts under the Plan will be subject to all applicable laws, rules, and regulations, and to any approvals by governmental agencies or national securities exchanges as may be required.

**19.4 Securities Law Compliance.** As to any individual who is, on the relevant date, an officer, director or ten percent beneficial owner of any class of the Company's equity securities that is registered pursuant to Section 12 of the Exchange Act, all as defined under Section 16 of the Exchange Act, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 under the Exchange Act, or any successor rule. To the extent any provision of the Plan or action by the Committee fails to so comply, it will be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

**19.5 Awards to Foreign Nationals and Employees Outside the United States.** To the extent the Committee deems it necessary, appropriate or desirable to comply with foreign law or practice and to further the purposes of this Plan, the Committee may, without amending the Plan, (i) establish rules applicable to Awards granted to Participants who are foreign nationals, are employed outside the United States, or both, including rules that differ from those set forth in this Plan, and (ii) grant Awards to such Participants in accordance with those rules.

**19.6 Unfunded Status of the Plan.** The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments or deliveries of Shares not yet made to a Participant by the Company, the Participant's rights are no greater than those of a general creditor of the Company. The Committee may authorize the establishment of trusts or other arrangements to meet the obligations created under the Plan, so long as the arrangement does not cause the Plan to lose its legal status as an unfunded plan.

**19.7 Governing Law.** To the extent not preempted by federal law, the Plan and all agreements hereunder will be construed in accordance with and governed by the laws of the State of Michigan without giving effect to principles of conflicts of law.

\* \* \* \* \*



**AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this "Agreement") is dated as of September 11, 2013, between Lear Corporation, a Delaware corporation (the "Company") and Raymond E. Scott ("Executive").

WHEREAS, the Company has employed Executive as Executive Vice President and President, Seating of the Company;

WHEREAS, the Company and Executive are currently parties to an existing employment agreement, dated June 30, 2009 (the "Existing Agreement"), which will expire by its terms upon the effectiveness of this Agreement;

WHEREAS, the Company desires to have the benefit of Executive's continued service and the restrictive covenants contained herein; and

WHEREAS, the parties desire to enter into a new employment agreement reflecting the terms of Executive's continuing employment.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, the parties hereby agree as follows:

1. **Term of Agreement.** This Agreement shall commence on September 11, 2013 (the "Effective Date") and continue until Executive's employment has terminated and the obligations of the parties hereunder have terminated or expired or have been satisfied in accordance with their terms, or if earlier, upon the execution of a new employment agreement by the parties hereto (the "Term"). The Existing Agreement shall hereby terminate as of the Effective Date, and the terms of this Agreement thereupon shall supersede the terms of the Existing Agreement in their entirety.

2. **Terms of Employment.** During the Term, Executive agrees to be a full-time employee of the Company serving in the position of Executive Vice President and President, Seating of the Company. Executive agrees to devote substantially all of his working time and attention to the business and affairs of the Company, to discharge the responsibilities associated with his position with the Company, and to use his best efforts to perform faithfully and efficiently such responsibilities. Nothing herein shall prohibit Executive from devoting his time to civic and community activities, serving as a member of the Board of Directors of other corporations that do not compete with the Company, or managing personal investments, as long as the foregoing do not interfere with the performance of Executive's duties hereunder or violate the terms of the Company's Code of Business Conduct and Ethics, the Company's Corporate Governance Guidelines, or other policies applicable to the Company's executives generally, as those policies may be amended from time to time by the Company.

### 3. Compensation.

(a) As compensation for Executive's services under this Agreement, Executive shall be entitled during the Term to receive an initial base salary the annualized amount of which shall be \$828,223, to be paid in accordance with existing payroll practices for executives of the Company. Increases in Executive's base salary, if any, shall be as approved by the Compensation Committee of the Board of Directors of the Company (the "Board"). In addition, Executive shall be eligible to receive an annual incentive compensation bonus ("Bonus") and awards under the Company's Long-Term Stock Incentive Plan or successor plan (the "LTSIP"), each to be approved from time to time by the Compensation Committee of the Board.

(b) During the Term, Executive shall be eligible for participation in the welfare, retirement, and other benefit plans, practices, policies and programs, as may be in effect from time to time, for senior executives of the Company generally.

(c) During the Term, Executive shall be eligible for prompt reimbursement for business expenses reasonably incurred by Executive in accordance with the Company's policies, as may be in effect from time to time, for its senior executives generally.

### 4. Termination of Employment.

(a) **Notice.** The employment relationship may be terminated by the Company with or without Cause or for Incapacity, or by Executive with or without Good Reason, all as defined below, by giving a Notice of Termination. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon, if any, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated. All notices under this Section 4(a) shall be given in accordance with the requirements of Section 8.

(b) **Incapacity.** If the Company reasonably determines that Executive is unable at any time to perform the duties of Executive's position because of a serious illness, injury, impairment, or physical or mental condition and Executive is not eligible for or has exhausted all leave to which Executive may be entitled under the Family and Medical Leave Act ("FMLA") or, if more generous, other applicable state or local law, the Company may terminate Executive's employment for "Incapacity". In addition, at any time that Executive is on a leave of absence, the Company may temporarily reassign the duties of Executive's position to one or more other executives without creating a basis for Executive's Good Reason resignation, provided that the Company restores such duties to Executive upon Executive's return to work.

(c) **Cause.** Termination of Executive's employment for "Cause" shall mean termination upon:

- (i) an act of fraud, embezzlement or theft by Executive in connection with Executive's duties or in the course of Executive's employment with the Company;
- (ii) Executive's material breach of any provision of this Agreement, provided that in those instances in which Executive's material breach is capable of being cured, Executive has failed to cure within a thirty (30) day period after notice from the Company;
- (iii) an act or omission, which is (x) willful or grossly negligent, (y) contrary to established policies or practices of the Company, and (z) materially harmful to the business or reputation of the Company, or to the business of the Company's customers or suppliers as such relate to the Company; or
- (iv) a plea of *nolo contendere* to, or conviction for, a felony.

(d) **Good Reason.** For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following circumstances or events:

- (i) any reduction by the Company in Executive's base salary or adverse change in the manner of computing Executive's incentive compensation opportunity, as in effect from time to time;
- (ii) the failure by the Company to pay or provide to Executive any amounts of base salary or earned incentive compensation or any benefits which are due, owing and payable to Executive, or to pay to Executive any portion of an installment of deferred compensation due under any deferred compensation program of the Company;
- (iii) the failure by the Company to continue to provide Executive with benefits substantially similar in the aggregate to the Company's life insurance, medical, dental, health, accident or disability plans in which Executive is participating at the date of this Agreement;
- (iv) except on a temporary basis as described in Section 4(b), a material adverse change in Executive's responsibilities, position, reporting relationships, authority or duties. For purposes of clarification, Executive agrees that it will not be a material adverse change for the Company to reassign Executive to a position with at least substantially similar responsibilities and authority;

(v) the transfer of Executive's principal place of employment to a location fifty (50) or more miles from its location immediately preceding the transfer; or

(vi) without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company.

Notwithstanding anything else herein, Good Reason shall not exist if, with regard to the circumstances or events relied upon in Executive's Notice of Termination: (x) Executive failed to provide a Notice of Termination to the Company within sixty (60) days of the date Executive knew or should have known of such circumstances or events, (y) the circumstances or events are fully corrected by the Company prior to the Date of Termination, or (z) Executive gives Executive's express written consent to the circumstances or events.

(e) **Date of Termination.** "Date of Termination" shall mean:

(i) if Executive's employment is terminated by reason of Executive's death, the date of Executive's death;

(ii) if Executive's employment is terminated by the Company for any reason other than because of Executive's death, the date specified in the Notice of Termination (which shall not be prior to the date of the notice);

(iii) if Executive's employment is terminated by Executive for any reason, the Date of Termination shall be not less than thirty (30) nor more than sixty (60) days from the date such Notice of Termination is given, or such earlier date after the date such Notice of Termination is given as may be identified by the Company.

Unless the Company instructs Executive not to do so, Executive shall continue to perform services as provided in this Agreement through the Date of Termination.

(f) **Employee Benefits.** A termination by the Company pursuant to Section 4(c) hereof or by Executive pursuant to Section 4(d) hereof shall not affect any rights which Executive may have pursuant to any other agreement, policy, plan, program or arrangement of the Company providing employee benefits, which rights shall be governed by the terms thereof and by Section 5; provided, however, that if Executive shall have received or shall be receiving benefits under Section 5(b) hereof, Executive shall not be entitled to receive benefits under any other policy, plan, program or arrangement of the Company providing severance compensation to which Executive would otherwise be entitled.

5. **Compensation Upon Termination.** Upon Executive's termination of employment, Executive shall receive:

(a) If Executive's employment shall be terminated by the Company for Incapacity or for Cause, by Executive without Good Reason, or upon Executive's death, the Company shall pay to Executive (or, in the event of Executive's death, to Executive's beneficiary or estate), when the same would otherwise have been due, the base salary and any other accrued amounts then payable through the Date of Termination and shall have no further obligations under this Agreement, other than as set forth in Section 5(c) hereof, as applicable.

(b) If Executive's employment shall be terminated (a) by the Company, except for a termination by the Company for Cause or Incapacity (or due to Executive's death), or (b) by Executive for Good Reason, then Executive shall be entitled to the benefits provided below, in addition to the benefits provided in Section 5(c) hereof, as applicable:

(i) The Company shall pay Executive Executive's full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given (or, if greater, at the rate in effect at any time within 90 days prior to the time Notice of Termination is given), plus all other amounts to which Executive is entitled under any compensation or benefit plans of the Company, including, without limitation, any accrued amounts under any retention or incentive plan, and including incentive compensation prorated for any applicable measurement period occurring prior to the Date of Termination, at the time such payments are due, except as otherwise provided in the LTSIP for a termination of employment following a Change in Control (as defined therein) and as otherwise provided below.

(ii) an amount (the "Severance Payment") equal to two (2) times the sum of:

(A) the greater of (I) Executive's annual base salary rate in effect as of the Effective Date or (II) Executive's annual base salary rate in effect as of the Date of Termination; and

(B) the greater of (I) Executive's annual incentive Bonus target amount in effect as of the Effective Date or (II) Executive's annual incentive Bonus target amount in effect as of the Date of Termination.

The Severance Payment will be paid in a lump sum as soon as practicable following the Date of Termination.

(iii) The Company shall arrange to provide to Executive, Executive's dependents, and beneficiaries, for the two-year period beginning on the Date of Termination, benefits provided under any "welfare benefit plan" of the Company (as the term "welfare benefit plan" is defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended) ("Welfare Benefits"). If

and to the extent that any such Welfare Benefits shall not or cannot be paid or provided under any policy, plan, program or arrangement of the Company (A) solely due to the fact that Executive is no longer an officer or employee of the Company or (B) as a result of the amendment or termination of any plan providing for Welfare Benefits, the Company shall then itself pay or provide for the payment of such Welfare Benefits to Executive, Executive's dependents and beneficiaries. Without otherwise limiting the purposes or effect of the no mitigation obligation in Section 5(f) hereof, Welfare Benefits payable to Executive (including Executive's dependents and beneficiaries) pursuant to this Section 5(b)(iii) shall be reduced to the extent comparable welfare benefits are actually received by Executive (including Executive's dependents and beneficiaries) from another employer during such period, and any such benefits actually received by Executive shall be reported by Executive to the Company.

Executive's right to receive the Severance Payment and Welfare Benefits under this Section 5(b) (collectively, the "Severance Benefits") is conditioned upon the Executive's execution of a general release agreement (a "Release") in form and substance reasonably acceptable to the Company in connection with Executive's termination of employment. Such Severance Benefits shall be payable only if Executive executes and delivers a Release (and any revocation period expires) no later than forty-five (45) calendar days after the Executive's termination of employment. Such amounts shall not become payable until forty-five (45) calendar days after the termination of employment, regardless of when the Release is returned to the Company.

(c) If Executive's employment shall be terminated by the Company for Incapacity or for any reason other than Cause, by Executive for Good Reason, or upon Executive's death, (i) any unvested awards under the LTSIP held by Executive that vest based on the passage of time shall immediately vest in their entirety upon such termination, and (ii) with respect to unvested awards under the LTSIP held by Executive that vest based on the achievement of performance criteria, Executive shall be entitled to receive a pro rata portion (based on the number of full calendar months in the performance period prior to such termination) of the amount Executive would have been entitled to receive under such awards (and at the same time) had he remained employed until the last day of the applicable performance period, except as otherwise provided in the LTSIP for a termination of employment following a Change in Control (as defined therein).

(d) The Company may not set-off or counterclaim losses, fines or damages in respect of any claim, debt or obligation against any payment to or benefit for Executive provided for in this Agreement.

(e) Without limiting Executive's rights at law or in equity, if the Company fails to make any payment or provide any benefit required to be made or provided hereunder within thirty (30) days of the date it is due, the Company will pay interest on the amount or value thereof at an annualized rate of interest equal to the "prime rate" as quoted from

time to time during the relevant period in The Wall Street Journal, plus three percent. Such interest will be payable as it accrues on demand. Any change in such prime rate will be effective on and as of the date of such change.

(f) The Company acknowledges that its severance pay plans and policies applicable in general to its salaried employees do not provide for mitigation, offset or reduction of any severance payment received thereunder. Accordingly, the parties hereto expressly agree that the payment of the severance compensation by the Company to Executive in accordance with the terms of this Agreement shall be liquidated damages and that Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor shall any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of Executive hereunder or otherwise, except as expressly provided in this Section 5.

6. **Travel.** Executive shall be required to travel to the extent reasonably necessary for the performance of Executive's responsibilities under this Agreement.

7. **Successors; Binding Agreement.** The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all the business and/or assets of the Company, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place, and will assign its rights and obligations hereunder to such successor. Failure of the Company to make such an assignment and to obtain such assumption and agreement prior to the effectiveness of any such succession, unless Executive agrees otherwise in writing with the Company or the successor, shall entitle Executive to compensation from the Company in the same amount and on the same terms as Executive would be entitled to hereunder if Executive terminates Executive's employment for Good Reason and the date on which any such succession becomes effective shall be deemed Executive's Date of Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise. This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees and/or legatees. This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign, transfer or delegate this Agreement or any rights or obligations hereunder except as expressly provided in this Section 7. Without limiting the generality of the foregoing, Executive's right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than by a transfer by Executive's will or by the laws of descent and distribution and, in the event of any attempted assignment or transfer contrary to this Section 7, the Company shall have no liability to pay to the purported assignee or transferee any amount so attempted to be assigned or transferred. The Company and Executive recognize that each party will have no adequate remedy at law for any material breach by the other of any of the agreements contained herein and, in the event of any such breach, the Company and Executive hereby agree and consent that the other shall be entitled to a decree of specific performance, mandamus or other appropriate remedy to enforce performance of this Agreement.

**8. Notices.** For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing, and shall be deemed to have been duly given when delivered by hand, or mailed by United States certified mail, return receipt requested, postage prepaid, or sent by Federal Express or similar overnight courier service, addressed to the respective addresses set forth on the signature page of this Agreement, or sent by facsimile with confirmation of receipt to the respective facsimile numbers set forth on the signature page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Secretary of the Company (or, if Executive is the Secretary at the time such notice is to be given, to the Chairman of the Company's Board of Directors), or to such other address or facsimile number as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address or facsimile number shall be effective only upon receipt.

**9. Noncompetition.**

(a) From the Effective Date until the Date of Termination, Executive agrees not to engage in any Competitive Activity. For purposes of this Agreement, the term "Competitive Activity" shall mean Executive's participation as an employee or consultant, without the written consent of the Company's Chief Executive Officer or the Board or any authorized committee thereof, in the management of any business enterprise anywhere in the world if such enterprise is a "Significant Customer" of any product or service of the Company or engages in competition with any product or service of the Company (including without limitation any enterprise that is a supplier to an original equipment automotive vehicle manufacturer) or is planning to engage in such competition. For purposes of this Agreement, the term "Significant Customer" shall mean any customer who represents in excess of 5% of the Company's sales in any of the three calendar years prior to the date of determination. "Competitive Activity" shall not include the mere ownership of, and exercise of rights appurtenant to, securities of a publicly-traded company representing 5% or less of the total voting power and 5% or less of the total value of such an enterprise. Executive agrees that the Company is a global business and that it is appropriate for this Section 9 to apply to Competitive Activity conducted anywhere in the world.

(b) Executive agrees not to engage directly or indirectly in any Competitive Activity (i) until one (1) year after the Date of Termination if Executive is terminated by the Company for Cause, or Executive terminates Executive's employment for other than Good Reason, or (ii) until two (2) years after the Date of Termination in all other circumstances.

(c) Executive shall not directly or indirectly, either on Executive's own account or with or for anyone else, solicit or attempt to solicit any of the Company's customers, solicit or attempt to solicit for any business endeavor or hire or attempt to hire any



employee of the Company, or otherwise divert or attempt to divert from the Company any business whatsoever or interfere with any business relationship between the Company and any other person, (i) until one (1) year after the Date of Termination if Executive is terminated by the Company for Cause, or Executive terminates Executive's employment for other than Good Reason, or (ii) until two (2) years after the Date of Termination in all other circumstances.

(d) Executive acknowledges and agrees that damages in the event of a breach or threatened breach of the covenants in this Section 9 will be difficult to determine and will not afford a full and adequate remedy, and therefore agree that the Company, in addition to seeking actual damages pursuant to Section 9 hereof, may seek specific enforcement of the covenant not to compete in any court of competent jurisdiction, including, without limitation, by the issuance of a temporary or permanent injunction, without the necessity of a bond. Executive and the Company agree that the provisions of this covenant not to compete are reasonable. However, should any court or arbitrator determine that any provision of this covenant not to compete is unreasonable, either in period of time, geographical area, or otherwise, the parties agree that this covenant not to compete should be interpreted and enforced to the maximum extent which such court or arbitrator deems reasonable.

#### **10. Confidentiality and Cooperation.**

(a) Executive shall not knowingly use, disclose or reveal to any unauthorized person, at any time after the Effective Date, any trade secret or other confidential information relating to the Company or any of its affiliates, or any of their respective businesses or principals, such as, without limitation, dealers' or distributor's lists, information regarding personnel and manufacturing processes, marketing and sales plans, pricing or cost information, and all other such information; and Executive confirms that such information is the exclusive property of the Company and its affiliates. Upon termination of Executive's employment, Executive agrees to return to the Company on demand by the Company all memoranda, books, papers, letters and other data, and all copies thereof or therefrom, in any way relating to the business of the Company and its affiliates, whether made by Executive or otherwise in Executive's possession.

(b) Any design, engineering methods, techniques, discoveries, inventions (whether patentable or not), formulae, formulations, technical and product specifications, bill of materials, equipment descriptions, plans, layouts, drawings, computer programs, assembly, quality control, installation and operating procedures, operating manuals, strategic, technical or marketing information, designs, data, secret knowledge, know-how and all other information of a confidential nature prepared or produced during the period of Executive's employment and which ideas, processes, and other materials or information relate to any of the businesses of the Company, shall be owned by the Company and its affiliates whether or not Executive should in fact execute an assignment thereof or other instrument or document which may be reasonably necessary to protect and secure such rights to the Company.

(c) Following the termination of Executive's employment, Executive agrees to make himself reasonably available to the Company to respond to periodic requests for information relating to the Company or Executive's employment which may be within Executive's knowledge. Executive further agrees to cooperate fully with the Company in connection with any and all existing or future depositions, litigation, or investigations brought by or against the Company, any entity related to the Company, or any of its (their) agents, officers, directors or employees, whether administrative, civil or criminal in nature, in which and to the extent the Company deems Executive's cooperation necessary. In the event that Executive is subpoenaed in connection with any litigation or investigation, Executive will immediately notify the Company. Executive shall not receive any additional compensation, other than reimbursement for reasonable costs and expenses incurred by Executive, in complying with the terms of this Section 10(c).

#### **11. Arbitration.**

(a) Except as contemplated by Section 9(d) or Section 11(c) hereof, any dispute or controversy arising under or in connection with this Agreement that cannot be mutually resolved by the parties to this Agreement and their respective advisors and representatives shall be settled exclusively by arbitration in Southfield, Michigan, before one arbitrator of exemplary qualifications and stature, who shall be selected jointly by the Company and Executive, or if the parties cannot agree on the selection of the arbitrator, who shall be selected pursuant to the procedures of the American Arbitration Association, and such arbitration shall be conducted in accordance with the Employment Dispute Resolution Rules of the American Arbitration Association then in effect.

(b) The parties agree to use their best efforts to (i) appoint (or, if applicable, cause the American Arbitration Association to appoint) the arbitrator within thirty (30) days of the date that a party hereto notifies the other party that a dispute or controversy exists that necessitates the appointment of an arbitrator, and (ii) cause any arbitration hearing to be held within thirty (30) days of the date of selection of the arbitrator, and, as a condition to his or her selection, such arbitrator must consent to be available for a hearing, at such time.

(c) Judgment may be entered on the arbitrator's award in any court having jurisdiction, provided that Executive shall be entitled to seek specific performance of Executive's right to be paid and to participate in benefit programs during the pendency of any dispute or controversy arising under or in connection with this Agreement. The Company and Executive hereby agree that the arbitrator shall be empowered to enter an equitable decree mandating specific performance of the terms of this Agreement. If any dispute under this Section 11 shall be pending, Executive shall continue to receive at a minimum the base salary which Executive was receiving immediately prior to the act or

omission which forms the basis for the dispute. At the close of the arbitration, such continued base salary payments may be offset against any damages awarded to Executive or may be recovered from Executive if it is determined that Executive was not entitled to the continued payment of base salary under the other provisions of this Agreement.

12. **Modifications.** No provision of this Agreement may be modified, amended, waived or discharged unless such modification, amendment, waiver or discharge is agreed to in writing and signed by both Executive and such officer of the Company as may be specifically designated by the Board.

13. **No Implied Waivers.** Failure of either party at any time to require performance by the other party of any provision hereof shall in no way affect the full right to require such performance at any time thereafter. Waiver by either party of a breach of any obligation hereunder shall not constitute a waiver of any succeeding breach of the same obligation. Failure of either party to exercise any of its rights provided herein shall not constitute a waiver of such right.

14. **Governing Law.** The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Michigan without giving effect to any conflicts of laws rules.

15. **Payments Net of Taxes.** Any payments provided for herein which are subject to Federal, State, local or other governmental tax or other withholding requirements or obligations, shall have such amounts withheld prior to payment, and the Company shall be considered to have fully satisfied its obligation hereunder by making such payments to Executive net of and after deduction for all applicable withholding obligations.

16. **Capacity of Parties.** The parties hereto warrant that they have the capacity and authority to execute this Agreement.

17. **Validity.** The invalidity or unenforceability of any provision of this Agreement shall not, at the option of the party for whose benefit such provision was intended, affect the validity or enforceability of any other provision of the Agreement, which shall remain in full force and effect.

18. **Counterparts.** This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

19. **Entire Agreement.** On and after the Effective Date, this Agreement shall contain the entire agreement by the parties with respect to the matters covered herein and supersedes any prior agreement (including, but not limited to, the Existing Agreement), condition, practice, custom, usage and obligation with respect to such matters insofar as any such prior agreement, condition, practice, custom, usage or obligation might have given rise to any enforceable right.

No agreements, understandings or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

**20. Legal Fees and Expenses.** It is the intent of the Company that Executive not be required to incur the expenses associated with the enforcement of Executive's rights under this Agreement by litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to Executive hereunder. Accordingly, the Company shall pay or cause to be paid and be solely responsible for any and all reasonable attorneys' and related fees and expenses incurred by Executive (i) as a result of the Company's failure to perform this Agreement or any provision hereof or (ii) as a result of the Company unreasonably or maliciously contesting the validity or enforceability of this Agreement or any provision hereof as aforesaid.

**21. Code Section 409A.** Notwithstanding anything to the contrary in Section 5 hereof, and to the maximum extent permitted by law, this Agreement shall be interpreted in such a manner that all payments of Severance Benefits to Executive under this Agreement are either exempt from, or comply with, Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations and other interpretive guidance issued thereunder (collectively, "Section 409A"), including without limitation any such regulations or other guidance that may be issued after the Effective Date. For purposes of Section 409A, the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments.

The "Lear Corporation Code Section 409A Policies and Procedures" as in effect on the Effective Date are hereby incorporated by reference in this Agreement as if set forth herein, and shall supersede any conflicting provisions of this Agreement.

**22. No Excise Tax Gross-Up; Possible Reduction of Payments.**

(a) If it is determined that any amount or benefit to be paid or payable to Executive under this Agreement or otherwise in conjunction with his employment (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise in conjunction with his employment) would give rise to liability of Executive for the excise tax imposed by Section 4999 of the Code, as amended from time to time, or any successor provision (the "Excise Tax"), then the amount or benefits payable to Executive (the total value of such amounts or benefits, the "Payments") shall be reduced by the Company to the extent necessary so that no portion of the Payments to Executive is subject to the Excise Tax; provided, however, such reduction shall be made only if it results in the Executive retaining a greater amount of Payments on an after-tax basis (taking into account the Excise Tax and applicable federal, state, and local income and payroll taxes). In the event Payments are required to be reduced pursuant to this Section 22(a), they shall be reduced in the following order of priority in a manner consistent with Section 409A: (i) first from cash compensation, (ii) next from equity compensation, then (iii) pro-rata among all remaining Payments and benefits.

(b) The independent public accounting firm serving as the Company's auditing firm, or such other accounting firm, law firm or professional consulting services provider of national reputation and experience reasonably acceptable to the Company and Executive (the "Accountants") shall make in writing in good faith all calculations and determinations under this Section 22, including the assumptions to be used in arriving at any calculations. For purposes of making the calculations and determinations under this Section 22, the Accountants and each other party may make reasonable assumptions and approximations concerning the application of Section 280G and Section 4999 of the Code. The Company and Executive shall furnish to the Accountants and each other such information and documents as the Accountants and each other may reasonably request to make the calculations and determinations under this Section 22. The Company shall bear all costs the Accountants incur in connection with any calculations contemplated hereby.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first above written.

LEAR CORPORATION

By: /s/ Authorized Officer  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EXECUTIVE:

/s/ Raymond E. Scott  
Raymond E. Scott

Address: \_\_\_\_\_

Fax: \_\_\_\_\_

**AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this "Agreement") is dated as of September 11, 2013, between Lear Corporation, a Delaware corporation (the "Company") and Terrence B. Larkin ("Executive").

WHEREAS, the Company has employed Executive as Executive Vice President, Business Development, General Counsel and Corporate Secretary of the Company;

WHEREAS, the Company and Executive are currently parties to an existing employment agreement, dated June 30, 2009 (the "Existing Agreement"), which will expire by its terms upon the effectiveness of this Agreement;

WHEREAS, the Company desires to have the benefit of Executive's continued service and the restrictive covenants contained herein; and

WHEREAS, the parties desire to enter into a new employment agreement reflecting the terms of Executive's continuing employment.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, the parties hereby agree as follows:

1. **Term of Agreement.** This Agreement shall commence on September 11, 2013 (the "Effective Date") and continue until Executive's employment has terminated and the obligations of the parties hereunder have terminated or expired or have been satisfied in accordance with their terms, or if earlier, upon the execution of a new employment agreement by the parties hereto (the "Term"). The Existing Agreement shall hereby terminate as of the Effective Date, and the terms of this Agreement thereupon shall supersede the terms of the Existing Agreement in their entirety.

2. **Terms of Employment.** During the Term, Executive agrees to be a full-time employee of the Company serving in the position of Executive Vice President, Business Development, General Counsel and Corporate Secretary of the Company. Executive agrees to devote substantially all of his working time and attention to the business and affairs of the Company, to discharge the responsibilities associated with his position with the Company, and to use his best efforts to perform faithfully and efficiently such responsibilities. Nothing herein shall prohibit Executive from devoting his time to civic and community activities, serving as a member of the Board of Directors of other corporations that do not compete with the Company, or managing personal investments, as long as the foregoing do not interfere with the performance of Executive's duties hereunder or violate the terms of the Company's Code of Business Conduct and Ethics, the Company's Corporate Governance Guidelines, or other policies applicable to the Company's executives generally, as those policies may be amended from time to time by the Company.

### 3. Compensation.

(a) As compensation for Executive's services under this Agreement, Executive shall be entitled during the Term to receive an initial base salary the annualized amount of which shall be \$828,223, to be paid in accordance with existing payroll practices for executives of the Company. Increases in Executive's base salary, if any, shall be as approved by the Compensation Committee of the Board of Directors of the Company (the "Board"). In addition, Executive shall be eligible to receive an annual incentive compensation bonus ("Bonus") and awards under the Company's Long-Term Stock Incentive Plan or successor plan (the "LTSIP"), each to be approved from time to time by the Compensation Committee of the Board.

(b) During the Term, Executive shall be eligible for participation in the welfare, retirement, and other benefit plans, practices, policies and programs, as may be in effect from time to time, for senior executives of the Company generally.

(c) During the Term, Executive shall be eligible for prompt reimbursement for business expenses reasonably incurred by Executive in accordance with the Company's policies, as may be in effect from time to time, for its senior executives generally.

### 4. Termination of Employment.

(a) **Notice.** The employment relationship may be terminated by the Company with or without Cause or for Incapacity, or by Executive with or without Good Reason, all as defined below, by giving a Notice of Termination. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon, if any, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated. All notices under this Section 4(a) shall be given in accordance with the requirements of Section 8.

(b) **Incapacity.** If the Company reasonably determines that Executive is unable at any time to perform the duties of Executive's position because of a serious illness, injury, impairment, or physical or mental condition and Executive is not eligible for or has exhausted all leave to which Executive may be entitled under the Family and Medical Leave Act ("FMLA") or, if more generous, other applicable state or local law, the Company may terminate Executive's employment for "Incapacity". In addition, at any time that Executive is on a leave of absence, the Company may temporarily reassign the duties of Executive's position to one or more other executives without creating a basis for Executive's Good Reason resignation, provided that the Company restores such duties to Executive upon Executive's return to work.



(c) **Cause.** Termination of Executive's employment for "Cause" shall mean termination upon:

- (i) an act of fraud, embezzlement or theft by Executive in connection with Executive's duties or in the course of Executive's employment with the Company;
- (ii) Executive's material breach of any provision of this Agreement, provided that in those instances in which Executive's material breach is capable of being cured, Executive has failed to cure within a thirty (30) day period after notice from the Company;
- (iii) an act or omission, which is (x) willful or grossly negligent, (y) contrary to established policies or practices of the Company, and (z) materially harmful to the business or reputation of the Company, or to the business of the Company's customers or suppliers as such relate to the Company; or
- (iv) a plea of *nolo contendere* to, or conviction for, a felony.

(d) **Good Reason.** For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following circumstances or events:

- (i) any reduction by the Company in Executive's base salary or adverse change in the manner of computing Executive's incentive compensation opportunity, as in effect from time to time;
- (ii) the failure by the Company to pay or provide to Executive any amounts of base salary or earned incentive compensation or any benefits which are due, owing and payable to Executive, or to pay to Executive any portion of an installment of deferred compensation due under any deferred compensation program of the Company;
- (iii) the failure by the Company to continue to provide Executive with benefits substantially similar in the aggregate to the Company's life insurance, medical, dental, health, accident or disability plans in which Executive is participating at the date of this Agreement;
- (iv) except on a temporary basis as described in Section 4(b), a material adverse change in Executive's responsibilities, position, reporting relationships, authority or duties. For purposes of clarification, Executive agrees that it will not be a material adverse change for the Company to reassign Executive to a position with at least substantially similar responsibilities and authority;

(v) the transfer of Executive's principal place of employment to a location fifty (50) or more miles from its location immediately preceding the transfer; or

(vi) without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company.

Notwithstanding anything else herein, Good Reason shall not exist if, with regard to the circumstances or events relied upon in Executive's Notice of Termination: (x) Executive failed to provide a Notice of Termination to the Company within sixty (60) days of the date Executive knew or should have known of such circumstances or events, (y) the circumstances or events are fully corrected by the Company prior to the Date of Termination, or (z) Executive gives Executive's express written consent to the circumstances or events.

(e) **Date of Termination.** "Date of Termination" shall mean:

(i) if Executive's employment is terminated by reason of Executive's death, the date of Executive's death;

(ii) if Executive's employment is terminated by the Company for any reason other than because of Executive's death, the date specified in the Notice of Termination (which shall not be prior to the date of the notice);

(iii) if Executive's employment is terminated by Executive for any reason, the Date of Termination shall be not less than thirty (30) nor more than sixty (60) days from the date such Notice of Termination is given, or such earlier date after the date such Notice of Termination is given as may be identified by the Company.

Unless the Company instructs Executive not to do so, Executive shall continue to perform services as provided in this Agreement through the Date of Termination.

(f) **Employee Benefits.** A termination by the Company pursuant to Section 4(c) hereof or by Executive pursuant to Section 4(d) hereof shall not affect any rights which Executive may have pursuant to any other agreement, policy, plan, program or arrangement of the Company providing employee benefits, which rights shall be governed by the terms thereof and by Section 5; provided, however, that if Executive shall have received or shall be receiving benefits under Section 5(b) hereof, Executive shall not be entitled to receive benefits under any other policy, plan, program or arrangement of the Company providing severance compensation to which Executive would otherwise be entitled.

5. **Compensation Upon Termination.** Upon Executive's termination of employment, Executive shall receive:

(a) If Executive's employment shall be terminated by the Company for Incapacity or for Cause, by Executive without Good Reason, or upon Executive's death, the Company shall pay to Executive (or, in the event of Executive's death, to Executive's beneficiary or estate), when the same would otherwise have been due, the base salary and any other accrued amounts then payable through the Date of Termination and shall have no further obligations under this Agreement, other than as set forth in Section 5(c) hereof, as applicable.

(b) If Executive's employment shall be terminated (a) by the Company, except for a termination by the Company for Cause or Incapacity (or due to Executive's death), or (b) by Executive for Good Reason, then Executive shall be entitled to the benefits provided below, in addition to the benefits provided in Section 5(c) hereof, as applicable:

(i) The Company shall pay Executive Executive's full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given (or, if greater, at the rate in effect at any time within 90 days prior to the time Notice of Termination is given), plus all other amounts to which Executive is entitled under any compensation or benefit plans of the Company, including, without limitation, any accrued amounts under any retention or incentive plan, and including incentive compensation prorated for any applicable measurement period occurring prior to the Date of Termination, at the time such payments are due, except as otherwise provided in the LTSIP for a termination of employment following a Change in Control (as defined therein) and as otherwise provided below.

(ii) an amount (the "Severance Payment") equal to two (2) times the sum of:

(A) the greater of (I) Executive's annual base salary rate in effect as of the Effective Date or (II) Executive's annual base salary rate in effect as of the Date of Termination; and

(B) the greater of (I) Executive's annual incentive Bonus target amount in effect as of the Effective Date or (II) Executive's annual incentive Bonus target amount in effect as of the Date of Termination.

The Severance Payment will be paid in a lump sum as soon as practicable following the Date of Termination.

(iii) The Company shall arrange to provide to Executive, Executive's dependents, and beneficiaries, for the two-year period beginning on the Date of Termination, benefits provided under any "welfare benefit plan" of the Company (as the term "welfare benefit plan" is defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended) ("Welfare Benefits"). If

and to the extent that any such Welfare Benefits shall not or cannot be paid or provided under any policy, plan, program or arrangement of the Company (A) solely due to the fact that Executive is no longer an officer or employee of the Company or (B) as a result of the amendment or termination of any plan providing for Welfare Benefits, the Company shall then itself pay or provide for the payment of such Welfare Benefits to Executive, Executive's dependents and beneficiaries. Without otherwise limiting the purposes or effect of the no mitigation obligation in Section 5(f) hereof, Welfare Benefits payable to Executive (including Executive's dependents and beneficiaries) pursuant to this Section 5(b)(iii) shall be reduced to the extent comparable welfare benefits are actually received by Executive (including Executive's dependents and beneficiaries) from another employer during such period, and any such benefits actually received by Executive shall be reported by Executive to the Company.

Executive's right to receive the Severance Payment and Welfare Benefits under this Section 5(b) (collectively, the "Severance Benefits") is conditioned upon the Executive's execution of a general release agreement (a "Release") in form and substance reasonably acceptable to the Company in connection with Executive's termination of employment. Such Severance Benefits shall be payable only if Executive executes and delivers a Release (and any revocation period expires) no later than forty-five (45) calendar days after the Executive's termination of employment. Such amounts shall not become payable until forty-five (45) calendar days after the termination of employment, regardless of when the Release is returned to the Company.

(c) If Executive's employment shall be terminated by the Company for Incapacity or for any reason other than Cause, by Executive for Good Reason, or upon Executive's death, (i) any unvested awards under the LTSIP held by Executive that vest based on the passage of time shall immediately vest in their entirety upon such termination, and (ii) with respect to unvested awards under the LTSIP held by Executive that vest based on the achievement of performance criteria, Executive shall be entitled to receive a pro rata portion (based on the number of full calendar months in the performance period prior to such termination) of the amount Executive would have been entitled to receive under such awards (and at the same time) had he remained employed until the last day of the applicable performance period, except as otherwise provided in the LTSIP for a termination of employment following a Change in Control (as defined therein).

(d) The Company may not set-off or counterclaim losses, fines or damages in respect of any claim, debt or obligation against any payment to or benefit for Executive provided for in this Agreement.

(e) Without limiting Executive's rights at law or in equity, if the Company fails to make any payment or provide any benefit required to be made or provided hereunder within thirty (30) days of the date it is due, the Company will pay interest on the amount or value thereof at an annualized rate of interest equal to the "prime rate" as quoted from time to time during the relevant period in The Wall Street Journal, plus three percent. Such interest will be payable as it accrues on demand. Any change in such prime rate will be effective on and as of the date of such change.

(f) The Company acknowledges that its severance pay plans and policies applicable in general to its salaried employees do not provide for mitigation, offset or reduction of any severance payment received thereunder. Accordingly, the parties hereto expressly agree that the payment of the severance compensation by the Company to Executive in accordance with the terms of this Agreement shall be liquidated damages and that Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor shall any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of Executive hereunder or otherwise, except as expressly provided in this Section 5.

6. **Travel.** Executive shall be required to travel to the extent reasonably necessary for the performance of Executive's responsibilities under this Agreement.

7. **Successors; Binding Agreement.** The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all the business and/or assets of the Company, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place, and will assign its rights and obligations hereunder to such successor. Failure of the Company to make such an assignment and to obtain such assumption and agreement prior to the effectiveness of any such succession, unless Executive agrees otherwise in writing with the Company or the successor, shall entitle Executive to compensation from the Company in the same amount and on the same terms as Executive would be entitled to hereunder if Executive terminates Executive's employment for Good Reason and the date on which any such succession becomes effective shall be deemed Executive's Date of Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise. This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees and/or legatees. This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign, transfer or delegate this Agreement or any rights or obligations hereunder except as expressly provided in this Section 7. Without limiting the generality of the foregoing, Executive's right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than by a transfer by Executive's will or by the laws of descent and distribution and, in the event of any attempted assignment or transfer contrary to this Section 7, the Company shall have no liability to pay to the purported assignee or transferee any amount so attempted to be assigned or transferred. The Company and Executive recognize that each party will have no adequate remedy at law for any material breach by the other of any of the agreements contained herein and, in the event of any such breach, the Company and Executive hereby agree and consent that the other shall be entitled to a decree of specific performance, mandamus or other appropriate remedy to enforce performance of this Agreement.

**8. Notices.** For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing, and shall be deemed to have been duly given when delivered by hand, or mailed by United States certified mail, return receipt requested, postage prepaid, or sent by Federal Express or similar overnight courier service, addressed to the respective addresses set forth on the signature page of this Agreement, or sent by facsimile with confirmation of receipt to the respective facsimile numbers set forth on the signature page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Secretary of the Company (or, if Executive is the Secretary at the time such notice is to be given, to the Chairman of the Company's Board of Directors), or to such other address or facsimile number as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address or facsimile number shall be effective only upon receipt.

**9. Noncompetition.**

(a) From the Effective Date until the Date of Termination, Executive agrees not to engage in any Competitive Activity. For purposes of this Agreement, the term "Competitive Activity" shall mean Executive's participation as an employee or consultant, without the written consent of the Company's Chief Executive Officer or the Board or any authorized committee thereof, in the management of any business enterprise anywhere in the world if such enterprise is a "Significant Customer" of any product or service of the Company or engages in competition with any product or service of the Company (including without limitation any enterprise that is a supplier to an original equipment automotive vehicle manufacturer) or is planning to engage in such competition. For purposes of this Agreement, the term "Significant Customer" shall mean any customer who represents in excess of 5% of the Company's sales in any of the three calendar years prior to the date of determination. "Competitive Activity" shall not include the mere ownership of, and exercise of rights appurtenant to, securities of a publicly-traded company representing 5% or less of the total voting power and 5% or less of the total value of such an enterprise. Executive agrees that the Company is a global business and that it is appropriate for this Section 9 to apply to Competitive Activity conducted anywhere in the world.

(b) Executive agrees not to engage directly or indirectly in any Competitive Activity (i) until one (1) year after the Date of Termination if Executive is terminated by the Company for Cause, or Executive terminates Executive's employment for other than Good Reason, or (ii) until two (2) years after the Date of Termination in all other circumstances.

(c) Executive shall not directly or indirectly, either on Executive's own account or with or for anyone else, solicit or attempt to solicit any of the Company's customers, solicit or attempt to solicit for any business endeavor or hire or attempt to hire any

employee of the Company, or otherwise divert or attempt to divert from the Company any business whatsoever or interfere with any business relationship between the Company and any other person, (i) until one (1) year after the Date of Termination if Executive is terminated by the Company for Cause, or Executive terminates Executive's employment for other than Good Reason, or (ii) until two (2) years after the Date of Termination in all other circumstances.

(d) Executive acknowledges and agrees that damages in the event of a breach or threatened breach of the covenants in this Section 9 will be difficult to determine and will not afford a full and adequate remedy, and therefore agree that the Company, in addition to seeking actual damages pursuant to Section 9 hereof, may seek specific enforcement of the covenant not to compete in any court of competent jurisdiction, including, without limitation, by the issuance of a temporary or permanent injunction, without the necessity of a bond. Executive and the Company agree that the provisions of this covenant not to compete are reasonable. However, should any court or arbitrator determine that any provision of this covenant not to compete is unreasonable, either in period of time, geographical area, or otherwise, the parties agree that this covenant not to compete should be interpreted and enforced to the maximum extent which such court or arbitrator deems reasonable.

#### **10. Confidentiality and Cooperation.**

(a) Executive shall not knowingly use, disclose or reveal to any unauthorized person, at any time after the Effective Date, any trade secret or other confidential information relating to the Company or any of its affiliates, or any of their respective businesses or principals, such as, without limitation, dealers' or distributor's lists, information regarding personnel and manufacturing processes, marketing and sales plans, pricing or cost information, and all other such information; and Executive confirms that such information is the exclusive property of the Company and its affiliates. Upon termination of Executive's employment, Executive agrees to return to the Company on demand by the Company all memoranda, books, papers, letters and other data, and all copies thereof or therefrom, in any way relating to the business of the Company and its affiliates, whether made by Executive or otherwise in Executive's possession.

(b) Any design, engineering methods, techniques, discoveries, inventions (whether patentable or not), formulae, formulations, technical and product specifications, bill of materials, equipment descriptions, plans, layouts, drawings, computer programs, assembly, quality control, installation and operating procedures, operating manuals, strategic, technical or marketing information, designs, data, secret knowledge, know-how and all other information of a confidential nature prepared or produced during the period of Executive's employment and which ideas, processes, and other materials or information relate to any of the businesses of the Company, shall be owned by the Company and its affiliates whether or not Executive should in fact execute an assignment thereof or other instrument or document which may be reasonably necessary to protect and secure such rights to the Company.

(c) Following the termination of Executive's employment, Executive agrees to make himself reasonably available to the Company to respond to periodic requests for information relating to the Company or Executive's employment which may be within Executive's knowledge. Executive further agrees to cooperate fully with the Company in connection with any and all existing or future depositions, litigation, or investigations brought by or against the Company, any entity related to the Company, or any of its (their) agents, officers, directors or employees, whether administrative, civil or criminal in nature, in which and to the extent the Company deems Executive's cooperation necessary. In the event that Executive is subpoenaed in connection with any litigation or investigation, Executive will immediately notify the Company. Executive shall not receive any additional compensation, other than reimbursement for reasonable costs and expenses incurred by Executive, in complying with the terms of this Section 10(c).

#### **11. Arbitration.**

(a) Except as contemplated by Section 9(d) or Section 11(c) hereof, any dispute or controversy arising under or in connection with this Agreement that cannot be mutually resolved by the parties to this Agreement and their respective advisors and representatives shall be settled exclusively by arbitration in Southfield, Michigan, before one arbitrator of exemplary qualifications and stature, who shall be selected jointly by the Company and Executive, or if the parties cannot agree on the selection of the arbitrator, who shall be selected pursuant to the procedures of the American Arbitration Association, and such arbitration shall be conducted in accordance with the Employment Dispute Resolution Rules of the American Arbitration Association then in effect.

(b) The parties agree to use their best efforts to (i) appoint (or, if applicable, cause the American Arbitration Association to appoint) the arbitrator within thirty (30) days of the date that a party hereto notifies the other party that a dispute or controversy exists that necessitates the appointment of an arbitrator, and (ii) cause any arbitration hearing to be held within thirty (30) days of the date of selection of the arbitrator, and, as a condition to his or her selection, such arbitrator must consent to be available for a hearing, at such time.

(c) Judgment may be entered on the arbitrator's award in any court having jurisdiction, provided that Executive shall be entitled to seek specific performance of Executive's right to be paid and to participate in benefit programs during the pendency of any dispute or controversy arising under or in connection with this Agreement. The Company and Executive hereby agree that the arbitrator shall be empowered to enter an equitable decree mandating specific performance of the terms of this Agreement. If any dispute under this Section 11 shall be pending, Executive shall continue to receive at a minimum the base salary which Executive was receiving immediately prior to the act or



omission which forms the basis for the dispute. At the close of the arbitration, such continued base salary payments may be offset against any damages awarded to Executive or may be recovered from Executive if it is determined that Executive was not entitled to the continued payment of base salary under the other provisions of this Agreement.

12. **Modifications.** No provision of this Agreement may be modified, amended, waived or discharged unless such modification, amendment, waiver or discharge is agreed to in writing and signed by both Executive and such officer of the Company as may be specifically designated by the Board.

13. **No Implied Waivers.** Failure of either party at any time to require performance by the other party of any provision hereof shall in no way affect the full right to require such performance at any time thereafter. Waiver by either party of a breach of any obligation hereunder shall not constitute a waiver of any succeeding breach of the same obligation. Failure of either party to exercise any of its rights provided herein shall not constitute a waiver of such right.

14. **Governing Law.** The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Michigan without giving effect to any conflicts of laws rules.

15. **Payments Net of Taxes.** Any payments provided for herein which are subject to Federal, State, local or other governmental tax or other withholding requirements or obligations, shall have such amounts withheld prior to payment, and the Company shall be considered to have fully satisfied its obligation hereunder by making such payments to Executive net of and after deduction for all applicable withholding obligations.

16. **Capacity of Parties.** The parties hereto warrant that they have the capacity and authority to execute this Agreement.

17. **Validity.** The invalidity or unenforceability of any provision of this Agreement shall not, at the option of the party for whose benefit such provision was intended, affect the validity or enforceability of any other provision of the Agreement, which shall remain in full force and effect.

18. **Counterparts.** This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

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No agreements, understandings or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

**20. Legal Fees and Expenses.** It is the intent of the Company that Executive not be required to incur the expenses associated with the enforcement of Executive's rights under this Agreement by litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to Executive hereunder. Accordingly, the Company shall pay or cause to be paid and be solely responsible for any and all reasonable attorneys' and related fees and expenses incurred by Executive (i) as a result of the Company's failure to perform this Agreement or any provision hereof or (ii) as a result of the Company unreasonably or maliciously contesting the validity or enforceability of this Agreement or any provision hereof as aforesaid.

**21. Code Section 409A.** Notwithstanding anything to the contrary in Section 5 hereof, and to the maximum extent permitted by law, this Agreement shall be interpreted in such a manner that all payments of Severance Benefits to Executive under this Agreement are either exempt from, or comply with, Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations and other interpretive guidance issued thereunder (collectively, "Section 409A"), including without limitation any such regulations or other guidance that may be issued after the Effective Date. For purposes of Section 409A, the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments.

The "Lear Corporation Code Section 409A Policies and Procedures" as in effect on the Effective Date are hereby incorporated by reference in this Agreement as if set forth herein, and shall supersede any conflicting provisions of this Agreement.

**22. No Excise Tax Gross-Up; Possible Reduction of Payments.**

(a) If it is determined that any amount or benefit to be paid or payable to Executive under this Agreement or otherwise in conjunction with his employment (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise in conjunction with his employment) would give rise to liability of Executive for the excise tax imposed by Section 4999 of the Code, as amended from time to time, or any successor provision (the "Excise Tax"), then the amount or benefits payable to Executive (the total value of such amounts or benefits, the "Payments") shall be reduced by the Company to the extent necessary so that no portion of the Payments to Executive is subject to the Excise Tax; provided, however, such reduction shall be made only if it results in the Executive retaining a greater amount of Payments on an after-tax basis (taking into account the Excise Tax and applicable federal, state, and local income and payroll taxes). In the event Payments are required to be reduced pursuant to this Section 22(a), they shall be reduced in the following order of priority in a manner consistent with Section 409A: (i) first from cash compensation, (ii) next from equity compensation, then (iii) pro-rata among all remaining Payments and benefits.

(b) The independent public accounting firm serving as the Company's auditing firm, or such other accounting firm, law firm or professional consulting services provider of national reputation and experience reasonably acceptable to the Company and Executive (the "Accountants") shall make in writing in good faith all calculations and determinations under this Section 22, including the assumptions to be used in arriving at any calculations. For purposes of making the calculations and determinations under this Section 22, the Accountants and each other party may make reasonable assumptions and approximations concerning the application of Section 280G and Section 4999 of the Code. The Company and Executive shall furnish to the Accountants and each other such information and documents as the Accountants and each other may reasonably request to make the calculations and determinations under this Section 22. The Company shall bear all costs the Accountants incur in connection with any calculations contemplated hereby.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first above written.

LEAR CORPORATION

By: /s/ Authorized Officer  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EXECUTIVE:

/s/ Terrence B. Larkin  
Terrence B. Larkin

Address: \_\_\_\_\_

Fax: \_\_\_\_\_

**AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this "Agreement") is dated as of September 11, 2013, between Lear Corporation, a Delaware corporation (the "Company") and Melvin L. Stephens ("Executive").

WHEREAS, the Company has employed Executive as Senior Vice President, Communications, Facilities and Investor Relations of the Company;

WHEREAS, the Company and Executive are currently parties to an existing employment agreement, dated June 30, 2009 (the "Existing Agreement"), which will expire by its terms upon the effectiveness of this Agreement;

WHEREAS, the Company desires to have the benefit of Executive's continued service and the restrictive covenants contained herein; and

WHEREAS, the parties desire to enter into a new employment agreement reflecting the terms of Executive's continuing employment.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, the parties hereby agree as follows:

1. **Term of Agreement.** This Agreement shall commence on September 11, 2013 (the "Effective Date") and continue until Executive's employment has terminated and the obligations of the parties hereunder have terminated or expired or have been satisfied in accordance with their terms, or if earlier, upon the execution of a new employment agreement by the parties hereto (the "Term"). The Existing Agreement shall hereby terminate as of the Effective Date, and the terms of this Agreement thereupon shall supersede the terms of the Existing Agreement in their entirety.

2. **Terms of Employment.** During the Term, Executive agrees to be a full-time employee of the Company serving in the position of Senior Vice President, Communications, Facilities and Investor Relations of the Company. Executive agrees to devote substantially all of his working time and attention to the business and affairs of the Company, to discharge the responsibilities associated with his position with the Company, and to use his best efforts to perform faithfully and efficiently such responsibilities. Nothing herein shall prohibit Executive from devoting his time to civic and community activities, serving as a member of the Board of Directors of other corporations that do not compete with the Company, or managing personal investments, as long as the foregoing do not interfere with the performance of Executive's duties hereunder or violate the terms of the Company's Code of Business Conduct and Ethics, the Company's Corporate Governance Guidelines, or other policies applicable to the Company's executives generally, as those policies may be amended from time to time by the Company.

### 3. Compensation.

(a) As compensation for Executive's services under this Agreement, Executive shall be entitled during the Term to receive an initial base salary the annualized amount of which shall be \$653,277, to be paid in accordance with existing payroll practices for executives of the Company. Increases in Executive's base salary, if any, shall be as approved by the Compensation Committee of the Board of Directors of the Company (the "Board"). In addition, Executive shall be eligible to receive an annual incentive compensation bonus ("Bonus") and awards under the Company's Long-Term Stock Incentive Plan or successor plan (the "LTSIP"), each to be approved from time to time by the Compensation Committee of the Board.

(b) During the Term, Executive shall be eligible for participation in the welfare, retirement, and other benefit plans, practices, policies and programs, as may be in effect from time to time, for senior executives of the Company generally.

(c) During the Term, Executive shall be eligible for prompt reimbursement for business expenses reasonably incurred by Executive in accordance with the Company's policies, as may be in effect from time to time, for its senior executives generally.

### 4. Termination of Employment.

(a) **Notice.** The employment relationship may be terminated by the Company with or without Cause or for Incapacity, or by Executive with or without Good Reason, all as defined below, by giving a Notice of Termination. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon, if any, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated. All notices under this Section 4(a) shall be given in accordance with the requirements of Section 8.

(b) **Incapacity.** If the Company reasonably determines that Executive is unable at any time to perform the duties of Executive's position because of a serious illness, injury, impairment, or physical or mental condition and Executive is not eligible for or has exhausted all leave to which Executive may be entitled under the Family and Medical Leave Act ("FMLA") or, if more generous, other applicable state or local law, the Company may terminate Executive's employment for "Incapacity". In addition, at any time that Executive is on a leave of absence, the Company may temporarily reassign the duties of Executive's position to one or more other executives without creating a basis for Executive's Good Reason resignation, provided that the Company restores such duties to Executive upon Executive's return to work.

(c) **Cause.** Termination of Executive's employment for "Cause" shall mean termination upon:

- (i) an act of fraud, embezzlement or theft by Executive in connection with Executive's duties or in the course of Executive's employment with the Company;
- (ii) Executive's material breach of any provision of this Agreement, provided that in those instances in which Executive's material breach is capable of being cured, Executive has failed to cure within a thirty (30) day period after notice from the Company;
- (iii) an act or omission, which is (x) willful or grossly negligent, (y) contrary to established policies or practices of the Company, and (z) materially harmful to the business or reputation of the Company, or to the business of the Company's customers or suppliers as such relate to the Company; or
- (iv) a plea of *nolo contendere* to, or conviction for, a felony.

(d) **Good Reason.** For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following circumstances or events:

- (i) any reduction by the Company in Executive's base salary or adverse change in the manner of computing Executive's incentive compensation opportunity, as in effect from time to time;
- (ii) the failure by the Company to pay or provide to Executive any amounts of base salary or earned incentive compensation or any benefits which are due, owing and payable to Executive, or to pay to Executive any portion of an installment of deferred compensation due under any deferred compensation program of the Company;
- (iii) the failure by the Company to continue to provide Executive with benefits substantially similar in the aggregate to the Company's life insurance, medical, dental, health, accident or disability plans in which Executive is participating at the date of this Agreement;
- (iv) except on a temporary basis as described in Section 4(b), a material adverse change in Executive's responsibilities, position, reporting relationships, authority or duties. For purposes of clarification, Executive agrees that it will not be a material adverse change for the Company to reassign Executive to a position with at least substantially similar responsibilities and authority;

(v) the transfer of Executive's principal place of employment to a location fifty (50) or more miles from its location immediately preceding the transfer; or

(vi) without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company.

Notwithstanding anything else herein, Good Reason shall not exist if, with regard to the circumstances or events relied upon in Executive's Notice of Termination: (x) Executive failed to provide a Notice of Termination to the Company within sixty (60) days of the date Executive knew or should have known of such circumstances or events, (y) the circumstances or events are fully corrected by the Company prior to the Date of Termination, or (z) Executive gives Executive's express written consent to the circumstances or events.

(e) **Date of Termination.** "Date of Termination" shall mean:

(i) if Executive's employment is terminated by reason of Executive's death, the date of Executive's death;

(ii) if Executive's employment is terminated by the Company for any reason other than because of Executive's death, the date specified in the Notice of Termination (which shall not be prior to the date of the notice);

(iii) if Executive's employment is terminated by Executive for any reason, the Date of Termination shall be not less than thirty (30) nor more than sixty (60) days from the date such Notice of Termination is given, or such earlier date after the date such Notice of Termination is given as may be identified by the Company.

Unless the Company instructs Executive not to do so, Executive shall continue to perform services as provided in this Agreement through the Date of Termination.

(f) **Employee Benefits.** A termination by the Company pursuant to Section 4(c) hereof or by Executive pursuant to Section 4(d) hereof shall not affect any rights which Executive may have pursuant to any other agreement, policy, plan, program or arrangement of the Company providing employee benefits, which rights shall be governed by the terms thereof and by Section 5; provided, however, that if Executive shall have received or shall be receiving benefits under Section 5(b) hereof, Executive shall not be entitled to receive benefits under any other policy, plan, program or arrangement of the Company providing severance compensation to which Executive would otherwise be entitled.

5. **Compensation Upon Termination.** Upon Executive's termination of employment, Executive shall receive:



(a) If Executive's employment shall be terminated by the Company for Incapacity or for Cause, by Executive without Good Reason, or upon Executive's death, the Company shall pay to Executive (or, in the event of Executive's death, to Executive's beneficiary or estate), when the same would otherwise have been due, the base salary and any other accrued amounts then payable through the Date of Termination and shall have no further obligations under this Agreement, other than as set forth in Section 5(c) hereof, as applicable.

(b) If Executive's employment shall be terminated (a) by the Company, except for a termination by the Company for Cause or Incapacity (or due to Executive's death), or (b) by Executive for Good Reason, then Executive shall be entitled to the benefits provided below, in addition to the benefits provided in Section 5(c) hereof, as applicable:

(i) The Company shall pay Executive Executive's full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given (or, if greater, at the rate in effect at any time within 90 days prior to the time Notice of Termination is given), plus all other amounts to which Executive is entitled under any compensation or benefit plans of the Company, including, without limitation, any accrued amounts under any retention or incentive plan, and including incentive compensation prorated for any applicable measurement period occurring prior to the Date of Termination, at the time such payments are due, except as otherwise provided in the LTSIP for a termination of employment following a Change in Control (as defined therein) and as otherwise provided below.

(ii) an amount (the "Severance Payment") equal to two (2) times the sum of:

(A) the greater of (I) Executive's annual base salary rate in effect as of the Effective Date or (II) Executive's annual base salary rate in effect as of the Date of Termination; and

(B) the greater of (I) Executive's annual incentive Bonus target amount in effect as of the Effective Date or (II) Executive's annual incentive Bonus target amount in effect as of the Date of Termination.

The Severance Payment will be paid in a lump sum as soon as practicable following the Date of Termination.

(iii) The Company shall arrange to provide to Executive, Executive's dependents, and beneficiaries, for the two-year period beginning on the Date of Termination, benefits provided under any "welfare benefit plan" of the Company (as the term "welfare benefit plan" is defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended) ("Welfare Benefits"). If

and to the extent that any such Welfare Benefits shall not or cannot be paid or provided under any policy, plan, program or arrangement of the Company (A) solely due to the fact that Executive is no longer an officer or employee of the Company or (B) as a result of the amendment or termination of any plan providing for Welfare Benefits, the Company shall then itself pay or provide for the payment of such Welfare Benefits to Executive, Executive's dependents and beneficiaries. Without otherwise limiting the purposes or effect of the no mitigation obligation in Section 5(f) hereof, Welfare Benefits payable to Executive (including Executive's dependents and beneficiaries) pursuant to this Section 5(b)(iii) shall be reduced to the extent comparable welfare benefits are actually received by Executive (including Executive's dependents and beneficiaries) from another employer during such period, and any such benefits actually received by Executive shall be reported by Executive to the Company.

Executive's right to receive the Severance Payment and Welfare Benefits under this Section 5(b) (collectively, the "Severance Benefits") is conditioned upon the Executive's execution of a general release agreement (a "Release") in form and substance reasonably acceptable to the Company in connection with Executive's termination of employment. Such Severance Benefits shall be payable only if Executive executes and delivers a Release (and any revocation period expires) no later than forty-five (45) calendar days after the Executive's termination of employment. Such amounts shall not become payable until forty-five (45) calendar days after the termination of employment, regardless of when the Release is returned to the Company.

(c) If Executive's employment shall be terminated by the Company for Incapacity or for any reason other than Cause, by Executive for Good Reason, or upon Executive's death, (i) any unvested awards under the LTSIP held by Executive that vest based on the passage of time shall immediately vest in their entirety upon such termination, and (ii) with respect to unvested awards under the LTSIP held by Executive that vest based on the achievement of performance criteria, Executive shall be entitled to receive a pro rata portion (based on the number of full calendar months in the performance period prior to such termination) of the amount Executive would have been entitled to receive under such awards (and at the same time) had he remained employed until the last day of the applicable performance period, except as otherwise provided in the LTSIP for a termination of employment following a Change in Control (as defined therein).

(d) The Company may not set-off or counterclaim losses, fines or damages in respect of any claim, debt or obligation against any payment to or benefit for Executive provided for in this Agreement.

(e) Without limiting Executive's rights at law or in equity, if the Company fails to make any payment or provide any benefit required to be made or provided hereunder within thirty (30) days of the date it is due, the Company will pay interest on the amount or value thereof at an annualized rate of interest equal to the "prime rate" as quoted from time to time during the relevant period in The Wall Street Journal, plus three percent. Such interest will be payable as it accrues on demand. Any change in such prime rate will be effective on and as of the date of such change.

(f) The Company acknowledges that its severance pay plans and policies applicable in general to its salaried employees do not provide for mitigation, offset or reduction of any severance payment received thereunder. Accordingly, the parties hereto expressly agree that the payment of the severance compensation by the Company to Executive in accordance with the terms of this Agreement shall be liquidated damages and that Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor shall any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of Executive hereunder or otherwise, except as expressly provided in this Section 5.

6. **Travel.** Executive shall be required to travel to the extent reasonably necessary for the performance of Executive's responsibilities under this Agreement.

7. **Successors; Binding Agreement.** The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all the business and/or assets of the Company, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place, and will assign its rights and obligations hereunder to such successor. Failure of the Company to make such an assignment and to obtain such assumption and agreement prior to the effectiveness of any such succession, unless Executive agrees otherwise in writing with the Company or the successor, shall entitle Executive to compensation from the Company in the same amount and on the same terms as Executive would be entitled to hereunder if Executive terminates Executive's employment for Good Reason and the date on which any such succession becomes effective shall be deemed Executive's Date of Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise. This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees and/or legatees. This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign, transfer or delegate this Agreement or any rights or obligations hereunder except as expressly provided in this Section 7. Without limiting the generality of the foregoing, Executive's right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than by a transfer by Executive's will or by the laws of descent and distribution and, in the event of any attempted assignment or transfer contrary to this Section 7, the Company shall have no liability to pay to the purported assignee or transferee any amount so attempted to be assigned or transferred. The Company and Executive recognize that each party will have no adequate remedy at law for any material breach by the other of any of the agreements contained herein and, in the event of any such breach, the Company and Executive hereby agree and consent that the other shall be entitled to a decree of specific performance, mandamus or other appropriate remedy to enforce performance of this Agreement.

**8. Notices.** For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing, and shall be deemed to have been duly given when delivered by hand, or mailed by United States certified mail, return receipt requested, postage prepaid, or sent by Federal Express or similar overnight courier service, addressed to the respective addresses set forth on the signature page of this Agreement, or sent by facsimile with confirmation of receipt to the respective facsimile numbers set forth on the signature page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Secretary of the Company (or, if Executive is the Secretary at the time such notice is to be given, to the Chairman of the Company's Board of Directors), or to such other address or facsimile number as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address or facsimile number shall be effective only upon receipt.

**9. Noncompetition.**

(a) From the Effective Date until the Date of Termination, Executive agrees not to engage in any Competitive Activity. For purposes of this Agreement, the term "Competitive Activity" shall mean Executive's participation as an employee or consultant, without the written consent of the Company's Chief Executive Officer or the Board or any authorized committee thereof, in the management of any business enterprise anywhere in the world if such enterprise is a "Significant Customer" of any product or service of the Company or engages in competition with any product or service of the Company (including without limitation any enterprise that is a supplier to an original equipment automotive vehicle manufacturer) or is planning to engage in such competition. For purposes of this Agreement, the term "Significant Customer" shall mean any customer who represents in excess of 5% of the Company's sales in any of the three calendar years prior to the date of determination. "Competitive Activity" shall not include the mere ownership of, and exercise of rights appurtenant to, securities of a publicly-traded company representing 5% or less of the total voting power and 5% or less of the total value of such an enterprise. Executive agrees that the Company is a global business and that it is appropriate for this Section 9 to apply to Competitive Activity conducted anywhere in the world.

(b) Executive agrees not to engage directly or indirectly in any Competitive Activity (i) until one (1) year after the Date of Termination if Executive is terminated by the Company for Cause, or Executive terminates Executive's employment for other than Good Reason, or (ii) until two (2) years after the Date of Termination in all other circumstances.

(c) Executive shall not directly or indirectly, either on Executive's own account or with or for anyone else, solicit or attempt to solicit any of the Company's customers, solicit or attempt to solicit for any business endeavor or hire or attempt to hire any

employee of the Company, or otherwise divert or attempt to divert from the Company any business whatsoever or interfere with any business relationship between the Company and any other person, (i) until one (1) year after the Date of Termination if Executive is terminated by the Company for Cause, or Executive terminates Executive's employment for other than Good Reason, or (ii) until two (2) years after the Date of Termination in all other circumstances.

(d) Executive acknowledges and agrees that damages in the event of a breach or threatened breach of the covenants in this Section 9 will be difficult to determine and will not afford a full and adequate remedy, and therefore agree that the Company, in addition to seeking actual damages pursuant to Section 9 hereof, may seek specific enforcement of the covenant not to compete in any court of competent jurisdiction, including, without limitation, by the issuance of a temporary or permanent injunction, without the necessity of a bond. Executive and the Company agree that the provisions of this covenant not to compete are reasonable. However, should any court or arbitrator determine that any provision of this covenant not to compete is unreasonable, either in period of time, geographical area, or otherwise, the parties agree that this covenant not to compete should be interpreted and enforced to the maximum extent which such court or arbitrator deems reasonable.

#### **10. Confidentiality and Cooperation.**

(a) Executive shall not knowingly use, disclose or reveal to any unauthorized person, at any time after the Effective Date, any trade secret or other confidential information relating to the Company or any of its affiliates, or any of their respective businesses or principals, such as, without limitation, dealers' or distributor's lists, information regarding personnel and manufacturing processes, marketing and sales plans, pricing or cost information, and all other such information; and Executive confirms that such information is the exclusive property of the Company and its affiliates. Upon termination of Executive's employment, Executive agrees to return to the Company on demand by the Company all memoranda, books, papers, letters and other data, and all copies thereof or therefrom, in any way relating to the business of the Company and its affiliates, whether made by Executive or otherwise in Executive's possession.

(b) Any design, engineering methods, techniques, discoveries, inventions (whether patentable or not), formulae, formulations, technical and product specifications, bill of materials, equipment descriptions, plans, layouts, drawings, computer programs, assembly, quality control, installation and operating procedures, operating manuals, strategic, technical or marketing information, designs, data, secret knowledge, know-how and all other information of a confidential nature prepared or produced during the period of Executive's employment and which ideas, processes, and other materials or information relate to any of the businesses of the Company, shall be owned by the Company and its affiliates whether or not Executive should in fact execute an assignment thereof or other instrument or document which may be reasonably necessary to protect and secure such rights to the Company.

(c) Following the termination of Executive's employment, Executive agrees to make himself reasonably available to the Company to respond to periodic requests for information relating to the Company or Executive's employment which may be within Executive's knowledge. Executive further agrees to cooperate fully with the Company in connection with any and all existing or future depositions, litigation, or investigations brought by or against the Company, any entity related to the Company, or any of its (their) agents, officers, directors or employees, whether administrative, civil or criminal in nature, in which and to the extent the Company deems Executive's cooperation necessary. In the event that Executive is subpoenaed in connection with any litigation or investigation, Executive will immediately notify the Company. Executive shall not receive any additional compensation, other than reimbursement for reasonable costs and expenses incurred by Executive, in complying with the terms of this Section 10(c).

#### **11. Arbitration.**

(a) Except as contemplated by Section 9(d) or Section 11(c) hereof, any dispute or controversy arising under or in connection with this Agreement that cannot be mutually resolved by the parties to this Agreement and their respective advisors and representatives shall be settled exclusively by arbitration in Southfield, Michigan, before one arbitrator of exemplary qualifications and stature, who shall be selected jointly by the Company and Executive, or if the parties cannot agree on the selection of the arbitrator, who shall be selected pursuant to the procedures of the American Arbitration Association, and such arbitration shall be conducted in accordance with the Employment Dispute Resolution Rules of the American Arbitration Association then in effect.

(b) The parties agree to use their best efforts to (i) appoint (or, if applicable, cause the American Arbitration Association to appoint) the arbitrator within thirty (30) days of the date that a party hereto notifies the other party that a dispute or controversy exists that necessitates the appointment of an arbitrator, and (ii) cause any arbitration hearing to be held within thirty (30) days of the date of selection of the arbitrator, and, as a condition to his or her selection, such arbitrator must consent to be available for a hearing, at such time.

(c) Judgment may be entered on the arbitrator's award in any court having jurisdiction, provided that Executive shall be entitled to seek specific performance of Executive's right to be paid and to participate in benefit programs during the pendency of any dispute or controversy arising under or in connection with this Agreement. The Company and Executive hereby agree that the arbitrator shall be empowered to enter an equitable decree mandating specific performance of the terms of this Agreement. If any dispute under this Section 11 shall be pending, Executive shall continue to receive at a minimum the base salary which Executive was receiving immediately prior to the act or

omission which forms the basis for the dispute. At the close of the arbitration, such continued base salary payments may be offset against any damages awarded to Executive or may be recovered from Executive if it is determined that Executive was not entitled to the continued payment of base salary under the other provisions of this Agreement.

12. **Modifications.** No provision of this Agreement may be modified, amended, waived or discharged unless such modification, amendment, waiver or discharge is agreed to in writing and signed by both Executive and such officer of the Company as may be specifically designated by the Board.

13. **No Implied Waivers.** Failure of either party at any time to require performance by the other party of any provision hereof shall in no way affect the full right to require such performance at any time thereafter. Waiver by either party of a breach of any obligation hereunder shall not constitute a waiver of any succeeding breach of the same obligation. Failure of either party to exercise any of its rights provided herein shall not constitute a waiver of such right.

14. **Governing Law.** The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Michigan without giving effect to any conflicts of laws rules.

15. **Payments Net of Taxes.** Any payments provided for herein which are subject to Federal, State, local or other governmental tax or other withholding requirements or obligations, shall have such amounts withheld prior to payment, and the Company shall be considered to have fully satisfied its obligation hereunder by making such payments to Executive net of and after deduction for all applicable withholding obligations.

16. **Capacity of Parties.** The parties hereto warrant that they have the capacity and authority to execute this Agreement.

17. **Validity.** The invalidity or unenforceability of any provision of this Agreement shall not, at the option of the party for whose benefit such provision was intended, affect the validity or enforceability of any other provision of the Agreement, which shall remain in full force and effect.

18. **Counterparts.** This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

19. **Entire Agreement.** On and after the Effective Date, this Agreement shall contain the entire agreement by the parties with respect to the matters covered herein and supersedes any prior agreement (including, but not limited to, the Existing Agreement), condition, practice, custom, usage and obligation with respect to such matters insofar as any such prior agreement, condition, practice, custom, usage or obligation might have given rise to any enforceable right.

No agreements, understandings or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

**20. Legal Fees and Expenses.** It is the intent of the Company that Executive not be required to incur the expenses associated with the enforcement of Executive's rights under this Agreement by litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to Executive hereunder. Accordingly, the Company shall pay or cause to be paid and be solely responsible for any and all reasonable attorneys' and related fees and expenses incurred by Executive (i) as a result of the Company's failure to perform this Agreement or any provision hereof or (ii) as a result of the Company unreasonably or maliciously contesting the validity or enforceability of this Agreement or any provision hereof as aforesaid.

**21. Code Section 409A.** Notwithstanding anything to the contrary in Section 5 hereof, and to the maximum extent permitted by law, this Agreement shall be interpreted in such a manner that all payments of Severance Benefits to Executive under this Agreement are either exempt from, or comply with, Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations and other interpretive guidance issued thereunder (collectively, "Section 409A"), including without limitation any such regulations or other guidance that may be issued after the Effective Date. For purposes of Section 409A, the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments.

The "Lear Corporation Code Section 409A Policies and Procedures" as in effect on the Effective Date are hereby incorporated by reference in this Agreement as if set forth herein, and shall supersede any conflicting provisions of this Agreement.

**22. No Excise Tax Gross-Up; Possible Reduction of Payments.**

(a) If it is determined that any amount or benefit to be paid or payable to Executive under this Agreement or otherwise in conjunction with his employment (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise in conjunction with his employment) would give rise to liability of Executive for the excise tax imposed by Section 4999 of the Code, as amended from time to time, or any successor provision (the "Excise Tax"), then the amount or benefits payable to Executive (the total value of such amounts or benefits, the "Payments") shall be reduced by the Company to the extent necessary so that no portion of the Payments to Executive is subject to the Excise Tax; provided, however, such reduction shall be made only if it results in the Executive retaining a greater amount of Payments on an after-tax basis (taking into account the Excise Tax and applicable federal, state, and local income and payroll taxes). In the event Payments are required to be reduced pursuant to this Section 22(a), they shall be reduced in the following order of priority in a manner consistent with Section 409A: (i) first from cash compensation, (ii) next from equity compensation, then (iii) pro-rata among all remaining Payments and benefits.



(b) The independent public accounting firm serving as the Company's auditing firm, or such other accounting firm, law firm or professional consulting services provider of national reputation and experience reasonably acceptable to the Company and Executive (the "Accountants") shall make in writing in good faith all calculations and determinations under this Section 22, including the assumptions to be used in arriving at any calculations. For purposes of making the calculations and determinations under this Section 22, the Accountants and each other party may make reasonable assumptions and approximations concerning the application of Section 280G and Section 4999 of the Code. The Company and Executive shall furnish to the Accountants and each other such information and documents as the Accountants and each other may reasonably request to make the calculations and determinations under this Section 22. The Company shall bear all costs the Accountants incur in connection with any calculations contemplated hereby.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first above written.

LEAR CORPORATION

By: /s/ Authorized Officer  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EXECUTIVE:

/s/ Melvin L. Stephens  
Melvin L. Stephens

Address: \_\_\_\_\_

Fax: \_\_\_\_\_

## CERTIFICATION

I, Matthew J. Simoncini, 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(s) 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(s) 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: October 25, 2013

By: /s/ Matthew J. Simoncini

Matthew J. Simoncini  
President and Chief Executive Officer

## CERTIFICATION

I, Jeffrey H. Vanneste, 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(s) 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(s) 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: October 25, 2013

By: /s/ Jeffrey H. Vanneste

Jeffrey H. Vanneste

Senior Vice President and Chief Financial Officer

**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 September 28, 2013, 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: October 25, 2013

Signed: /s/ Matthew J. Simoncini

Matthew J. Simoncini  
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.

**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 September 28, 2013, 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: October 25, 2013

Signed: /s/ Jeffrey H. Vanneste

Jeffrey H. Vanneste  
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.