LEAR CORP
Form 10-Q
April 26, 2018

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

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018.

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission file number: 001-11311

(Exact name of registrant as specified in its charter)

Delaware	13-3386776
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
21557 Telegraph Road, Southfield, MI	48033
(Address of principal executive offices)	(Zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
As of April 23, 2018, the number of shares outstanding of the registrant's common stock was 66,321,719 shares.

Table of Contents
LEAR CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2018

INDEX

Table of Contents
LEAR CORPORATION AND SUBSIDIARIES

PART I — FINANCIAL INFORMATION

ITEM 1 — CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We have prepared the unaudited condensed consolidated financial statements of Lear Corporation and subsidiaries pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, for the year ended December 31, 2017.

The financial information presented reflects all adjustments (consisting of normal recurring adjustments) which are, in our opinion, necessary for a fair presentation of the results of operations, cash flows and financial position for the interim periods presented. These results are not necessarily indicative of a full year’s results of operations.

Table of Contents
LEAR CORPORATION AND SUBSIDIARIES

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

	March 31, 2018 [1]	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$1,268.5	$ 1,500.4
Accounts receivable	3,795.2	3,230.8
Inventories	1,266.3	1,205.7
Other	769.7	676.1
Total current assets	7,099.7	6,613.0
LONG-TERM ASSETS:		
Property, plant and equipment, net	2,560.9	2,459.4
Goodwill	1,464.7	1,401.3
Other	1,555.9	1,472.2
Total long-term assets	5,581.5	5,332.9
Total assets	$12,681.2	$ 11,945.9
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	$2.9	$ —
Accounts payable and drafts	3,483.0	3,167.2
Accrued liabilities	1,801.4	1,678.1
Current portion of long-term debt	9.1	9.0
Total current liabilities	5,296.4	4,854.3
LONG-TERM LIABILITIES:		
Long-term debt	1,950.0	1,951.5
Other	709.9	694.1
Total long-term liabilities	2,659.9	2,645.6
Redeemable noncontrolling interest	170.3	153.4
EQUITY:		
Preferred stock, 100,000,000 shares authorized (including 10,896,250 Series A convertible preferred stock authorized); no shares outstanding	—	—
Common stock, $0.01 par value, 300,000,000 shares authorized; 72,563,291 shares issued as of March 31, 2018 and December 31, 2017	0.7	0.7
Additional paid-in capital	1,156.4	1,215.4
Common stock held in treasury, 6,191,389 and 5,689,527 shares as of March 31, 2018 and December 31, 2017, respectively, at cost	(851.7)	(724.1)
Retained earnings	4,474.8	4,171.9
Accumulated other comprehensive loss	(380.8)	(513.4)
Lear Corporation stockholders' equity	4,399.4	4,150.5
Noncontrolling interests	155.2	142.1
Equity	4,554.6	4,292.6
Total liabilities and equity	$12,681.2	$ 11,945.9

(1) Unaudited.

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

Table of Contents
LEAR CORPORATION AND SUBSIDIARIES

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

	Three Months Ended	
	March 31, 2018	April 1, 2017
Net sales	$5,733.7	$4,998.5
Cost of sales	5,102.3	4,416.0
Selling, general and administrative expenses	155.4	155.7
Amortization of intangible assets	13.1	10.1
Interest expense	20.7	20.8
Other (income) expense, net	(5.6)	3.7
Consolidated income before provision for income taxes and equity in net income of affiliates	447.8	392.2
Provision for income taxes	77.7	89.1
Equity in net income of affiliates	(4.1)	(15.4)
Consolidated net income	374.2	318.5
Less: Net income attributable to noncontrolling interests	20.5	12.7
Net income attributable to Lear	$353.7	$305.8
Basic net income per share available to Lear common stockholders	$5.19	$4.39
Diluted net income per share available to Lear common stockholders	$5.16	$4.35
Cash dividends declared per share	$0.70	$0.50
Average common shares outstanding	67,086,326	69,658,368
Average diluted shares outstanding	67,562,452	70,327,348
Consolidated comprehensive income (Note 13)	$520.0	$422.1
Less: Comprehensive income attributable to noncontrolling interests	33.7	13.8
Comprehensive income attributable to Lear	$486.3	$408.3

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

Table of Contents
LEAR CORPORATION AND SUBSIDIARIES

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

	Three Months Ended	
	March 31, 2018	April 1, 2017
Cash Flows from Operating Activities:		
Consolidated net income	$374.2	$318.5
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	120.2	96.9
Net change in recoverable customer engineering, development and tooling	22.5	7.4
Net change in working capital items (see below)	(252.6)	(145.3)
Other, net	(27.5)	1.4
Net cash provided by operating activities	236.8	278.9
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(162.8)	(120.8)
Other, net	(25.3)	(7.9)
Net cash used in investing activities	(188.1)	(128.7)
Cash Flows from Financing Activities:		
Credit agreement repayments	(1.5)	(6.2)
Short-term borrowings, net	—	1.4
Repurchase of common stock	(145.4)	(115.6)
Dividends paid to Lear Corporation stockholders	(50.7)	(36.7)
Dividends paid to noncontrolling interests	(19.2)	(26.5)
Other, net	(55.8)	(41.7)
Net cash used in financing activities	(272.6)	(225.3)
Effect of foreign currency translation	18.0	13.2
Net Change in Cash, Cash Equivalents and Restricted Cash	(205.9)	(61.9)
Cash, Cash Equivalents and Restricted Cash as of Beginning of Period	1,500.4	1,271.6
Cash, Cash Equivalents and Restricted Cash as of End of Period	$1,294.5	$1,209.7
Changes in Working Capital Items:		
Accounts receivable	$(460.7)	$(526.6)
Inventories	(35.0)	(35.4)
Accounts payable	227.9	374.7
Accrued liabilities and other	15.2	42.0
Net change in working capital items	$(252.6)	$(145.3)
Supplementary Disclosure:		
Cash paid for interest	$45.6	$42.6
Cash paid for income taxes, net of refunds received	$63.6	$65.1

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 seating and electrical distribution systems and related components. The Company’s main customers are automotive original equipment manufacturers. The Company operates facilities worldwide.
The accompanying condensed consolidated financial statements include the accounts of Lear, a Delaware corporation, and the wholly owned and less than wholly owned subsidiaries controlled by Lear. In addition, Lear consolidates all entities, including variable interest entities, in which it has a controlling financial interest. Investments in affiliates in which Lear does not have control but does have the ability to exercise significant influence over operating and financial policies are accounted for under the equity method.
In the second quarter of 2017, the Company completed the acquisition of Grupo Antolin's automotive seating business ("Antolin Seating"). The acquisition was accounted for as a business combination, and accordingly, the assets acquired and liabilities assumed are included in the accompanying condensed consolidated financial statements from the date of acquisition. For further information on the acquisition of Antolin Seating, 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, 2017.
The Company’s annual financial results are reported on a calendar year basis, and quarterly interim results are reported using a thirteen week reporting calendar.
Certain amounts in the prior period’s financial statements have been reclassified to conform to the presentation used in the quarter ended March 31, 2018.

(2) Restructuring
Restructuring costs include employee termination benefits, fixed asset impairment charges and contract termination costs, as well as other incremental costs resulting from the restructuring actions. These incremental costs principally include equipment and personnel relocation costs. In addition to restructuring costs, the Company incurs incremental manufacturing inefficiency costs at the operating locations impacted by the restructuring actions during the related restructuring implementation period. Restructuring costs are recognized in the Company’s condensed consolidated financial statements in accordance with GAAP. Generally, charges are recorded as restructuring actions are approved and/or implemented.
In the first quarter of 2018, the Company recorded charges of $18.4 million in connection with its restructuring actions. These charges consist of $14.9 million recorded as cost of sales and $3.5 million recorded as selling, general and administrative expenses. The restructuring charges consist of employee termination costs of $16.3 million, fixed asset impairment charges of $0.9 million and contract termination costs of $0.3 million, as well as other related costs of $0.9 million. Employee termination benefits were recorded based on existing union and employee contracts, statutory requirements, completed negotiations and Company policy. Fixed asset impairment charges relate to the disposal of buildings, leasehold improvements and/or machinery and equipment with carrying values of $0.9 million in excess of related estimated fair values.
The Company expects to incur approximately $30 million of additional restructuring costs related to activities initiated as of March 31, 2018, and expects that the components of such costs will be consistent with its historical experience. Any future restructuring actions will depend upon market conditions, customer actions and other factors.
A summary of 2018 activity is shown below (in millions):

Accrual as of	2018	Utilization		Accrual as of
January 1, 2018	Charges	Cash	Non-cash	March 31, 2018

Employee termination benefits	$ 93.0	$ 16.3	$(13.8)	$ —	$ 95.5
Asset impairment charges	—	0.9	—	(0.9)	—
Contract termination costs	5.0	0.3	(0.2)	—	5.1
Other related costs	—	0.9	(0.9)	—	—
Total	$ 98.0	$ 18.4	$(14.9)	$ (0.9)	$ 100.6

7

Table of Contents
LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

	March 31, 2018	December 31, 2017
Raw materials	$918.8	$869.3
Work-in-process	129.0	120.8
Finished goods	334.6	324.8
Reserves	(116.1)	(109.2)
Inventories	$1,266.3	$1,205.7

(4) Pre-Production Costs Related to Long-Term Supply Agreements
The Company incurs pre-production engineering and development ("E&D") and tooling costs related to the products produced for its customers under long-term supply agreements. The Company expenses all pre-production E&D costs for which reimbursement is not contractually guaranteed by the customer. In addition, the Company expenses all pre-production tooling costs related to customer-owned tools for which reimbursement is not contractually guaranteed by the customer or for which the Company does not have a non-cancelable right to use the tooling.
During the first quarters of 2018 and 2017, the Company capitalized $33.5 million and $62.9 million, respectively, of pre-production E&D costs for which reimbursement is contractually guaranteed by the customer. During the first quarters of 2018 and 2017, the Company also capitalized $31.8 million and $33.6 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 quarters of 2018 and 2017, the Company collected $79.0 million and $87.6 million, respectively, of cash related to E&D and tooling costs.
The classification of recoverable customer E&D and tooling costs related to long-term supply agreements is shown below (in millions):

	March 31, 2018	December 31, 2017
Current	$ 225.1	$ 248.1
Long-term	66.8	59.3
Recoverable customer E&D and tooling	$ 291.9	$ 307.4

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

Table of Contents
LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

	March 31, 2018	December 31, 2017
Land	$120.4	$118.8
Buildings and improvements	821.6	797.7
Machinery and equipment	3,244.2	3,077.4
Construction in progress	384.6	355.6
Total property, plant and equipment	4,570.8	4,349.5
Less – accumulated depreciation	(2,009.9)	(1,890.1)
Property, plant and equipment, net	$2,560.9	$2,459.4

Depreciation expense was $107.1 million and $86.8 million in the three months ended March 31, 2018 and April 1, 2017, respectively.
The Company monitors its long-lived assets for impairment indicators on an ongoing basis in accordance with GAAP. If impairment indicators exist, the Company performs the required impairment analysis by comparing the undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. If the net book value exceeds the undiscounted cash flows, an impairment loss is measured and recognized. Except as discussed below, the Company does not believe that there were any indicators that would have resulted in long-lived asset impairment charges as of March 31, 2018. The Company will, however, continue to assess the impact of any significant industry events on the realization of its long-lived assets.
In the first quarters of 2018 and 2017, the Company recognized fixed asset impairment charges of $0.9 million and $0.1 million, respectively, in conjunction with its restructuring actions (Note 2, "Restructuring").
Investments in Affiliates
In January 2018, the Company gained control of Changchun Lear FAWSN Automotive Electrical and Electronics Co., Ltd. ("Lear FAWSN") by acquiring an additional 20% interest from a joint venture partner and by amending the joint venture agreement to eliminate the substantive participating rights of the remaining joint venture partner. Prior to the amendment, Lear FAWSN was accounted for under the equity method.
This transaction was accounted for as a business combination, and accordingly, the assets acquired and liabilities assumed are included in the accompanying condensed consolidated balance sheet as of March 31, 2018. The operating results and cash flows of Lear FAWSN are included in the accompanying condensed consolidated financial statements from the effective date of the amended joint venture agreement and are reflected in the Company’s E-Systems segment.
A preliminary summary of the fair value of the assets acquired and liabilities assumed in conjunction with the transaction is shown below (in millions):

Property, plant and equipment	$10.5
Other assets and liabilities assumed, net	7.2
Goodwill	21.4
Intangible assets	7.5
	$46.6

Recognized goodwill is attributable to the assembled workforce, expected synergies and other intangible assets that do not qualify for separate recognition.
Intangible assets consist of amounts recognized for the fair value of customer-based assets and were based on an independent appraisal. Customer-based assets include Lear FAWSN's established relationships with its customers and the ability of these customers to generate future economic profits for the Company. It is currently estimated that these intangible assets have a weighted average useful life of approximately ten years.
The fair values of the assets acquired and liabilities assumed in conjunction with the transaction contain preliminary estimates that may be revised as a result of additional information regarding such assets and liabilities.

Table of Contents
LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

As of the effective date of the transaction, the fair value of the Company's previously held equity interest in Lear FAWSN was $23.0 million, and the fair value of the noncontrolling interest in Lear FAWSN was $14.0 million. As a result of valuing the Company's previously held equity interest in Lear FAWSN at fair value, the Company recognized a gain of $10.0 million, which is included in other (income) expense, net in the accompanying condensed consolidated statements of comprehensive income for the three months ended March 31, 2018.
Lear FAWSN's annual sales are approximately $100 million. The pro forma effects of this consolidation would not materially impact the Company's reported results for any period presented.
For further information related to acquired assets measured at fair value, see Note 16, "Financial Instruments."

(6) Goodwill

A summary of the changes in the carrying amount of goodwill, by operating segment, in the three months ended March 31, 2018, is shown below (in millions):

	Seating	E-Systems	Total
Balance at January 1, 2018	$1,274.4	$ 126.9	$1,401.3
Affiliate transaction	—	21.4	21.4
Foreign currency translation and other	19.3	22.7	42.0
Balance at March 31, 2018	$1,293.7	$ 171.0	$1,464.7

Goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment is more likely than not to have occurred. In conducting its annual impairment testing, the Company may first perform a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount. If not, no further goodwill impairment testing is required. If it is more likely than not that a reporting unit's fair value is less than its carrying amount, or if the Company elects not to perform a qualitative assessment of a reporting unit, the Company then compares the fair value of the reporting unit to the related net book value. If the net book value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. The Company conducts its annual impairment testing as of the first day of its fourth quarter.
The Company does not believe that there were any indicators that would have resulted in goodwill impairment charges as of March 31, 2018. The Company will, however, continue to assess the impact of significant events or circumstances on its recorded goodwill.
For further information related to the affiliate transaction, see Note 5, "Long-Term Assets."

(7) Debt

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

	March 31, 2018				December 31, 2017			
Debt Instrument	Long-Term Debt	Debt Issuance Costs (2)	Long-Term Debt, Net	Weighted Average Interest Rate	Long-Term Debt	Debt Issuance Costs (2)	Long-Term Debt, Net	Weighted Average Interest Rate
Credit Agreement — Term Loan Facility	$246.9	$(1.8)	$245.1	3.24%	$248.4	$(1.8)	$246.6	3.0%
5.375% Senior Notes due 2024 ("2024 Notes")	325.0	(2.3)	322.7	5.375%	325.0	(2.4)	322.6	5.375%
5.25% Senior Notes due 2025 ("2025 Notes")	650.0	(5.6)	644.4	5.25%	650.0	(5.8)	644.2	5.25%

3.8% Senior Notes due 2027 ("2027 Notes") (1)	745.0	(5.8)	739.2	3.885%	744.9	(5.9)	739.0	3.885%
Other	7.7	—	7.7	N/A	8.1	—	8.1	N/A
	$1,974.6	$ (15.5)	1,959.1		$1,976.4	$ (15.9)	1,960.5	
Less — Current portion			(9.1)				(9.0)	
Long-term debt			$ 1,950.0				$ 1,951.5	

(1) Net of unamortized original issue discount of $5.0 million and $5.1 million as of March 31, 2018 and December 31, 2017, respectively

(2) Unamortized portion

Table of Contents
LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

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

Covenants
Subject to certain exceptions, the indentures governing the Notes contain restrictive covenants that, among other things, limit the ability of the Company to: (i) create or permit certain liens and (ii) consolidate, merge or sell all or substantially all of the Company's assets. The indenture governing the 2024 Notes limits the ability of the Company to enter into sale and leaseback transactions. The indentures governing the Notes also provide for customary events of default.
As of March 31, 2018, the Company was in compliance with all covenants under the indentures governing the Notes.
Credit Agreement
The Company's unsecured credit agreement (the "Credit Agreement"), dated August 8, 2017, consists of a $1.75 billion revolving credit facility (the "Revolving Credit Facility") and a $250.0 million term loan facility (the "Term Loan Facility"), both of which mature on August 8, 2022.
As of March 31, 2018 and December 31, 2017, there were no borrowings outstanding under the Revolving Credit Facility and $246.9 million and $248.4 million, respectively, of borrowings outstanding under the Term Loan Facility. In the first quarter of 2018, the Company made required principal payments of $1.5 million under the Term Loan Facility. In the first quarter of 2017, the Company made required principal payments of $6.2 million under the Company's prior term loan facility.
Advances under the Revolving Credit Facility and the Term Loan Facility generally bear interest based on (i) the Eurocurrency Rate (as defined in the Credit Agreement) or (ii) the Base Rate (as defined in the Credit Agreement) plus a margin, determined in accordance with a pricing grid. The range and the rate as of March 31, 2018, are shown below (in percentages):

	Eurocurrency Rate			Base Rate		
	Minimum	Maximum	Rate as of March 31, 2018	Minimum	Maximum	Rate as of March 31, 2018
Revolving Credit Agreement	1.00 %	1.60 %	1.30 %	0.00 %	0.60 %	0.30 %
Term Loan Facility	1.125 %	1.90 %	1.50 %	0.125 %	0.90 %	0.50 %

A facility fee, which ranges from 0.125% to 0.30% of the total amount committed under the Revolving Credit Facility, is payable quarterly.
Covenants
The Credit Agreement contains various customary representations, warranties and covenants by the Company, including, without limitation, (i) covenants regarding maximum leverage, (ii) limitations on fundamental changes involving the Company or its subsidiaries and (iii) limitations on indebtedness and liens.
As of March 31, 2018, the Company was in compliance with all covenants under the Credit Agreement.
Other
As of March 31, 2018, other long-term debt consists of amounts outstanding under capital leases.
For further information related to the Company's debt, see Note 6, "Debt," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Table of Contents
LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(8) Pension and Other Postretirement Benefit Plans

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

Net Periodic Pension and Other Postretirement Benefit (Credit) Cost

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

	Three Months Ended			
	March 31, 2018		April 1, 2017	
	U.S.	Foreign	U.S.	Foreign
Service cost	$—	$ 1.7	$—	$ 1.7
Interest cost	5.0	3.8	5.4	3.8
Expected return on plan assets	(6.9)	(5.9)	(5.9)	(5.6)
Amortization of actuarial loss	0.5	1.6	0.6	1.2
Settlement loss	0.2	—	0.2	0.8
Net periodic benefit (credit) cost	$(1.2)	$ 1.2	$0.3	$ 1.9

In the three months ended April 1, 2017, the Company recognized a pension settlement loss of $0.8 million related to its restructuring actions.

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

	Three Months Ended			
	March 31, 2018		April 1, 2017	
	U.S.	Foreign	U.S.	Foreign
Service cost	$—	$ 0.1	$—	$ 0.1
Interest cost	0.5	0.4	0.6	0.4
Amortization of actuarial (gain) loss	(0.6)	—	(0.6)	0.1
Amortization of prior service credit	—	(0.1)	—	(0.1)
Net periodic benefit (credit) cost	$(0.1)	$ 0.4	$—	$ 0.5

Contributions

In the three months ended March 31, 2018, employer contributions to the Company’s domestic and foreign defined benefit pension plans were $4.1 million.

The Company expects contributions to its domestic and foreign defined benefit pension plans to be approximately $10 million to $15 million in 2018. 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.

Accounting Standards Update

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The new standard requires the classification of the non-service cost components of net periodic benefit cost in other (income) expense, net and the classification of the service cost component in the same line item as other current employee compensation costs. The provisions of the standard were applied retrospectively, and the effects of adoption were not significant.

Table of Contents
LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(9) Revenue Recognition
On January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers," using the modified retrospective method as applied to customer contracts that were not completed as of January 1, 2018. As a result, financial information for reporting periods beginning on or after January 1, 2018, are presented in accordance with ASC 606. Comparative financial information for reporting periods beginning prior to January 1, 2018, has not been adjusted and continues to be reported in accordance with the Company's revenue recognition policies prior to the adoption of ASC 606. The Company did not record a cumulative adjustment related to the adoption of ASC 606, and the effects of adoption were not significant.
The Company enters into contracts with its customers to provide production parts at the beginning of a vehicle’s life cycle. Contracts do not provide for a specified quantity of products, but once entered into, the Company is generally required to fulfill its customers’ purchasing requirements for the production life of the vehicle. These contracts may be terminated by the Company’s customers at any time. Historically, terminations of these contracts have been minimal. The Company receives annual purchase orders from its customers, which provide the annual terms for a particular production part, including price (but not quantities). Contracts may also provide for annual price reductions over the production life of the vehicle, and prices are adjusted on an ongoing basis to reflect changes in product content/cost and other commercial factors.
Revenue is recognized at a point in time when control of the product is transferred to the customer under standard commercial terms, as the Company does not have an enforceable right to payment prior to such transfer. The amount of revenue recognized reflects the consideration that the Company expects to be entitled to in exchange for those products based on the annual purchase orders, annual price reductions and ongoing price adjustments (some of which is accounted for as variable consideration). The Company does not believe that there will be significant changes to its estimates of variable consideration. The Company's customers pay for products received in accordance with payment terms that are customary within the industry. The Company's contracts with its customers do not have significant financing components.
The Company records a contract liability for advances received from its customers. As of March 31, 2018, there were no significant contract liabilities recorded. Further, there were no significant contract liabilities recognized in revenue during the first quarter of 2018.
Amounts billed to customers related to shipping and handling costs are included in net sales in the condensed consolidated statements of comprehensive income. Shipping and handling costs are accounted for as fulfillment costs and are included in cost of sales in the condensed consolidated statements of comprehensive income.
Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction that are collected by the Company from a customer are excluded from revenue.
A summary of the Company’s revenue by reportable operating segment and geography is shown below (in millions):

	Three Months Ended					
	March 31, 2018			April 1, 2017		
	Seating	E-Systems	Total	Seating	E-Systems	Total
North America	$1,740.1	$ 315.0	$2,055.1	$1,707.8	$ 281.4	$1,989.2
Europe and Africa	1,752.2	691.0	2,443.2	1,339.0	576.4	1,915.4
Asia	686.1	358.0	1,044.1	691.1	232.2	923.3
South America	151.5	39.8	191.3	130.1	40.5	170.6
	$4,329.9	$ 1,403.8	$5,733.7	$3,868.0	$ 1,130.5	$4,998.5

Table of Contents
LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(10) Other (Income) Expense, Net
Other (income) expense, net includes non-income related taxes, foreign exchange gains and losses, gains and losses related to certain derivative instruments and hedging activities, gains and losses on the disposal of fixed assets, the non-service cost components of net periodic benefit cost and other miscellaneous income and expense.
A summary of other (income) expense, net is shown below (in millions):

	Three Months Ended	
	March 31, 2018	April 1, 2017
Other expense	$ 5.5	$ 8.0
Other income	(11.1)	(4.3)
Other (income) expense, net	$ (5.6)	$ 3.7

In the three months ended March 31, 2018, other income includes a gain of $10.0 million related to gaining control of an affiliate (Note 5, "Long-Term Assets").
In the three months ended April 1, 2017, other income includes net foreign currency transaction gains of $5.6 million.

(11) Income Taxes
A summary of the provision for income taxes and the corresponding effective tax rate for the three months ended March 31, 2018 and April 1, 2017, is shown below (in millions, except effective tax rates):

	Three Months Ended	
	March 31, 2018	April 1, 2017
Provision for income taxes	$77.7	$89.1
Pretax income before equity in net income of affiliates	$447.8	$392.2
Effective tax rate	17.4 %	22.7 %

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the U.S. federal corporate income tax rate from 35% to 21%, requires companies to pay a one-time transition tax on all offshore earnings that were previously tax deferred and creates new taxes on certain foreign sourced earnings. As of December 31, 2017, the Company had not completed its accounting for the tax effects of the Act. In March 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-05, "Income Taxes - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118." The guidance provides for a provisional one year measurement period for entities to finalize their accounting for certain tax effects related to the Act. In the first quarter of 2018, the Company recognized a $1.3 million tax benefit adjustment to the provisional income tax expense related to the remeasurement of the December 31, 2017 deferred tax balances. The Company expects to finalize its provisional amounts by the fourth quarter of 2018.
On January 1, 2018, the Company adopted ASU 2016-16, " Income Taxes - Intra-Entity Transfers of Assets Other than Inventory." The new standard requires the recognition of the income tax effects of intercompany sales and transfers of assets other than inventory, in the period in which the transfer occurs. The standard also required modified retrospective adoption. Accordingly, the Company recognized a deferred tax asset of $2.3 million and a corresponding credit to retained earnings in conjunction with the adoption. The effects of adopting the other provisions of ASU 2016-16 were not significant.
In the first quarters of 2018 and 2017, the provision for income taxes was primarily impacted by the level and mix of earnings among tax jurisdictions. The provision for income taxes was also impacted by the reduction in the U.S. federal corporate income tax rate in the first quarter of 2018. In the first quarter of 2018, the Company recognized tax benefits of $35.1 million related to the reversal of valuation allowances on the deferred tax assets of a certain foreign

subsidiary, $10.1 million related to share-based compensation and $4.1 million related to restructuring charges and various other items, offset by tax expense of $22.0 million related to an increase in foreign withholding tax on certain undistributed foreign earnings. In addition, the Company recognized a gain of $10.0 million related to obtaining control of an affiliate, for which no tax expense was provided. In the first quarter of 2017, the Company recognized net tax benefits of $19.1 million, of which $15.5 million related to share-based compensation and $3.6 million related to restructuring charges and various other items. Excluding these items, the effective tax rate for the first quarters of 2018 and 2017 approximated the U.S. federal statutory income tax rate of 21% and

35%, respectively, adjusted for income taxes on foreign earnings, losses and remittances, valuation allowances, tax credits, income tax incentives and other permanent items.

As of March 31, 2018, the Company made its best estimate of the annual effective tax rate ("EAETR") for the full year of 2018. The Company continues to examine the potential impact of certain provisions of the Act that could affect its 2018 EAETR, including the provisions related to global intangible low-taxed income ("GILTI"), foreign derived intangible income ("FDII") and the base erosion and anti-abuse tax ("BEAT"). Accordingly, the Company's 2018 EAETR may change in subsequent interim periods as additional analysis is completed.

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

For further information related to obtaining control of an affiliate, see Note 5, "Long-Term Assets." For further information related to the Company's income taxes, see Note 7, "Income Taxes," to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(12) Net Income Per Share Attributable to Lear

Basic net income per share available to Lear common stockholders is computed using the two-class method by dividing net income attributable to Lear, after deducting the redemption adjustment related to the redeemable noncontrolling interest, by the average number of common shares outstanding during the period. Common shares issuable upon the satisfaction of certain conditions pursuant to a contractual agreement are considered common shares outstanding and are included in the computation of basic net income per share available to Lear common stockholders.

Diluted net income per share available to Lear common stockholders is computed using the two-class method by dividing net income attributable to Lear, after deducting the redemption adjustment related to the redeemable noncontrolling interest, by the average number of common shares outstanding, including the dilutive effect of common stock equivalents computed using the treasury stock method and the average share price during the period.

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

	Three Months Ended	
	March 31, 2018	April 1, 2017
Net income attributable to Lear	$353.7	$ 305.8
Less: Redeemable noncontrolling interest adjustment	(5.4)	—
Net income available to Lear common stockholders	$348.3	$ 305.8
Average common shares outstanding	67,086,326	69,658,368
Dilutive effect of common stock equivalents	476,126	668,980
Average diluted shares outstanding	67,562,452	70,327,348
Basic net income per share available to Lear common stockholders	$5.19	$ 4.39
Diluted net income per share available to Lear common stockholders	$5.16	$ 4.35

For further information related to the redeemable noncontrolling interest adjustment, see Note 13, "Comprehensive Income and Equity."

Table of Contents
LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(13) Comprehensive Income and Equity
Comprehensive Income
Comprehensive income is defined as all changes in the Company’s net assets except changes resulting from transactions with stockholders. It differs from net income in that certain items recorded in equity are included in comprehensive income.
A summary of comprehensive income and reconciliations of equity, Lear Corporation stockholders’ equity and noncontrolling interests for the three months ended March 31, 2018, is shown below (in millions):

	Three Months Ended March 31, 2018		
	Equity	Lear Corporation Stockholders' Equity	Non-controlling Interests
Beginning equity balance	$4,292.6	$ 4,150.5	$ 142.1
Stock-based compensation transactions	(31.2)	(31.2)	—
Repurchase of common stock	(155.4)	(155.4)	—
Dividends declared to Lear Corporation stockholders	(47.7)	(47.7)	—
Dividends declared to noncontrolling interest holders	(19.7)	—	(19.7)
Adoption of ASU 2016-16 (Note 11, "Taxes")	2.3	2.3	—
Affiliate transaction	14.0	—	14.0
Redeemable non-controlling interest adjustment	(5.4)	(5.4)	—
Acquisition of outstanding non-controlling interest	(3.4)	—	(3.4)
Comprehensive income:			
Net income	370.7	353.7	17.0
Other comprehensive income, net of tax:			
Defined benefit plan adjustments	2.3	2.3	—
Derivative instruments and hedging activities	37.4	37.4	—
Foreign currency translation adjustments	98.1	92.9	5.2
Other comprehensive income	137.8	132.6	5.2
Comprehensive income	508.5	486.3	22.2
Ending equity balance	$4,554.6	$ 4,399.4	$ 155.2

A summary of comprehensive income and a reconciliation of Lear's redeemable non-controlling interests for the three months ended March 31, 2018, is shown below (in millions):

	Three Months Ended March 31, 2018
Beginning redeemable noncontrolling interest balance	$ 153.4
Redeemable noncontrolling interest adjustment	5.4
Comprehensive income:	
Net income	3.5
Foreign currency translation adjustments	8.0
Comprehensive income	11.5

Ending redeemable noncontrolling interest balance	$ 170.3

In accordance with GAAP, the Company records redeemable noncontrolling interests at the greater of (1) the initial carrying amount adjusted for the noncontrolling interest holder’s share of total comprehensive income or loss and dividends ("noncontrolling interest carrying value") or (2) the redemption value as of and based on conditions existing as of the reporting date. Required redeemable noncontrolling interest adjustments are recorded as an increase to redeemable noncontrolling

Table of Contents
LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

interests, with an offsetting adjustment to retained earnings. The redeemable noncontrolling interest is classified in mezzanine equity in the accompanying condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017.
For further information related to the redeemable noncontrolling interest adjustment, see Note 12, "Net Income Per Share Attributable to Lear," as well as Note 5, "Investments in Affiliates and Other Related Party Transactions," to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.
A summary of changes, net of tax, in accumulated other comprehensive loss for the three months ended March 31, 2018, is shown below (in millions):

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

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

Table of Contents
LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

A summary of comprehensive income and reconciliations of equity, Lear Corporation stockholders' equity and noncontrolling interests for the three months ended April 1, 2017, is shown below (in millions):

	Three Months Ended April 1, 2017		
	Equity	Lear Corporation Stockholders' Equity	Non-controlling Interests
Beginning equity balance	$3,192.9	$ 3,057.2	$ 135.7
Stock-based compensation transactions	(25.8)	(25.8)	—
Repurchase of common stock	(127.5)	(127.5)	—
Dividends declared to Lear Corporation stockholders	(35.7)	(35.7)	—
Dividends declared to noncontrolling interest holders	(17.0)	—	(17.0)
Adoption of ASU 2016-09	54.5	54.5	—
Comprehensive income:			
Net income	318.5	305.8	12.7
Other comprehensive income, net of tax:			
Defined benefit plan adjustments	0.7	0.7	—
Derivative instruments and hedging activities	52.1	52.1	—
Foreign currency translation adjustments	50.8	49.7	1.1
Other comprehensive income	103.6	102.5	1.1
Comprehensive income	422.1	408.3	13.8
Ending equity balance	$3,463.5	$ 3,331.0	$ 132.5

A summary of changes, net of tax, in accumulated other comprehensive loss for the three months ended April 1, 2017, is shown below (in millions):

	Three Months Ended April 1, 2017
Defined benefit plans:	
Balance at beginning of period	$(192.8)
Reclassification adjustments (net of tax expense of $0.5 million)	1.7
Other comprehensive loss recognized during the period (net of tax impact of $— million)	(1.0)
Balance at end of period	$(192.1)
Derivative instruments and hedging:	
Balance at beginning of period	$(45.1)
Reclassification adjustments (net of tax expense of $3.0 million)	8.8
Other comprehensive income recognized during the period (net of tax expense of $14.7 million)	43.3
Balance at end of period	$7.0
Foreign currency translation:	
Balance at beginning of period	$(597.7)
Other comprehensive income recognized during the period (net of tax impact of $— million)	49.7
Balance at end of period	$(548.0)

In the three months ended April 1, 2017, foreign currency translation adjustments are related primarily to the strengthening of the Euro, the Chinese renminbi and the Brazilian real relative to the U.S. dollar and include pretax losses of $0.6 million related to intercompany transactions for which settlement is not planned or anticipated in the foreseeable future.

Table of Contents
LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

For further information regarding reclassification adjustments related to the Company's defined benefit plans, see Note 8, "Pension and Other Postretirement Benefit Plans." For further information regarding reclassification adjustments related to the Company's derivative and hedging activities, see Note 16, "Financial Instruments."
Lear Corporation Stockholders' Equity
Common Stock Share Repurchase Program
On February 13, 2018, the Company's Board of Directors authorized an increase to the existing common stock share repurchase program to provide for a remaining aggregate repurchase authorization of $1.5 billion and extended the term of the program to December 31, 2020.
Share repurchases in the first three months of 2018 are shown below (in millions except for shares and per share amounts):

Three Months Ended March 31, 2018				As of March 31, 2018
Aggregate Repurchases [1]	Cash paid for Repurchases	Number of Shares	Average Price per Share [2]	Remaining Purchase Authorization
$155.4	$ 145.4	829,360	$187.41	$ 1,349.6

[1] Includes $5.1 million of purchases prior to the increased authorization
[2] Excludes commissions
Since the first quarter of 2011, the Company's Board of Directors has authorized $5.0 billion in share repurchases under the common stock share repurchase program. As of the end of the first quarter of 2018, the Company has repurchased, in aggregate, $3.7 billion of its outstanding common stock, at an average price of $81.72 per share, excluding commissions and related fees.
The Company may implement these share repurchases through a variety of methods, including, but not limited to, open market purchases, accelerated stock repurchase programs and structured repurchase transactions. The extent to which the Company will repurchase its outstanding common stock and the timing of such repurchases will depend upon its financial condition, prevailing market conditions, alternative uses of capital and other factors.
In addition to shares repurchased under the Company's common stock share repurchase program described above, the Company classified shares withheld from the settlement of the Company's restricted stock unit and performance share awards to cover tax withholding requirements as common stock held in treasury in the accompanying condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017.
Quarterly Dividend
In the first three months of 2018 and 2017, the Company's Board of Directors declared quarterly cash dividends of $0.70 and $0.50 per share of common stock, respectively. Dividends declared and paid are shown below (in millions):

	Three Months Ended	
	March 31, 2018	April 1, 2017
Dividends declared	$47.7	$ 35.7
Dividends paid	50.7	36.7

Dividends payable on common shares to be distributed under the Company's stock-based compensation program and common shares contemplated as part of the Company's emergence from Chapter 11 bankruptcy proceedings will be paid when such common shares are distributed.
Noncontrolling Interests

In the first three months of 2018, the Company gained control of an affiliate and acquired the outstanding non-controlling interest of another affiliate. For further information related to the affiliate transaction, see Note 5, "Long-Term Assets."

Table of Contents

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(14) Legal and Other Contingencies

As of March 31, 2018 and December 31, 2017, the Company had recorded reserves for pending legal disputes, including commercial disputes and other matters, of $25.6 million and $25.8 million, respectively. Such reserves reflect amounts recognized in accordance with GAAP and exclude the cost of legal representation. Product liability and warranty reserves are recorded separately from legal reserves, as described below.

Commercial Disputes

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

Product Liability and Warranty Matters

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

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

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

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

A summary of the changes in reserves for product liability and warranty claims for the three months ended March 31, 2018, is shown below (in millions):

Balance at January 1, 2018	$46.5
Expense, net (including changes in estimates)	3.4
Settlements	(9.5)
Foreign currency translation and other	0.5
Balance at March 31, 2018	$40.9

Environmental Matters

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

As of March 31, 2018 and