UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: **December 31, 2015**

Commission file number**: 000-33067**

MIDWEST ENERGY EMISSIONS CORP.

(Exact name of registrant as specified in its charter)

Delaware	**87-0398271**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

670 D Enterprise Dr., Lewis Center, Ohio 43035

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(614) 505-6115**

Securities registered pursuant to Section 12(b) of the Act: **None**.

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, $.001 par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 the definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $8,926,000.

The number of shares outstanding of the Common Stock ($.001 par value) of the Registrant as of the close of business on March 30, 2016 was 47,358,618.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the Annual Meeting of Stockholders scheduled to be held on June 7, 2016 are incorporated by reference into Part III of this report.

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TABLE OF DEFINED TERMS

TERM	**DEFINITION**
BAC	Brominated Powdered Activated Carbon
EERC	Energy and Environmental Research Center
EGU	Electric Generating Unit
EPA	The U.S. Environmental Protection Agency
ESP	Electrostatic Precipitator
Hg	Mercury
IGCC	Integrated Gasification Combined Cycle
MATS	Mercury and Air Toxics Standards
MEEC	Midwest Energy Emissions Corp.
MW	Megawatt
NO_X	Oxides of Nitrogen
OTCQB	Over The Counter Venture Marketplace
PAC	Powdered Activated Carbon
SCR	Selective Catalytic Reduction
SEC	U.S. Securities and Exchange Commission
SO_X	Oxides of Sulfur

PART I

Forward-Looking Statements

This Annual Report on Form 10-K contains "forward-looking statements," as defined in Section 21E of the Securities Exchange Act of 1934, as amended, that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and reflect our current expectations regarding our future growth, results of operations, cash flows, performance and business prospects, and opportunities, as well as assumptions made by, and information currently available to, our management. Forward-looking statements are generally identified by using words such as "anticipate," "believe," "plan," "expect," "intend," "will," and similar expressions, but these words are not the exclusive means of identifying forward-looking statements. Forward-looking statements in this report are subject to risks and uncertainties that could cause actual events or results to differ materially from those expressed in or implied by the statements. These statements are based on information currently available to us and are subject to various risks, uncertainties, and other factors, including, but not limited to, those discussed herein under the caption "Risk Factors". In addition, matters that may cause actual results to differ materially from those in the forward-looking statements include, among other factors, the gain or loss of a major customer, change in environmental regulations, disruption in supply of materials, a significant change in general economic conditions in any of the regions where our customer utilities might experience significant changes in electric demand, a significant disruption in the supply of coal to our customer units, the loss of key management personnel, failure to obtain adequate working capital to execute the business plan and any major litigation regarding the Company. Except as expressly required by the federal securities laws, we undertake no obligation to update such factors or to publicly announce the results of any of the forward-looking statements contained herein to reflect future events, developments, or changed circumstances or for any other reason. Investors are cautioned that all forward-looking statements involve risks and uncertainties, including those detailed in MEEC's filings and with the Securities and Exchange Commission. See "Risk Factors" in Item 1A.

ITEM I – BUSINESS

As used in this Annual Report on Form 10-K, the terms "we", "us", "our", "the Company", "MEEC", and "Midwest Energy Emissions Corp." refer to Midwest Energy Emissions Corp. and our wholly-owned subsidiaries.

Background

Midwest Energy Emissions Corp., a Delaware corporation, is an environmental services company specializing in mercury emission control technologies, primarily to utility and industrial coal-fired units. Our business plan is to deliver cost-effective mercury capture technologies to coal-fired power plants in the United States, Canada, Europe and Asia. We believe that our patented, proprietary technology allows customers to meet the highly restrictive standards the U.S. Environmental Protection Agency (EPA) issued on December 21, 2011 for mercury emissions in an effective and economical manner with the least disruption to the current equipment and on-going operations.

MEEC was incorporated under the laws of the State of Utah on July 19, 1983 under the name of Digicorp. In 2006, MEEC entered into a merger agreement with Digicorp, Inc., a Delaware corporation, for the purpose of effecting a change of the corporation's domicile and in February 2007 the Company changed its domicile from Utah to Delaware. In October 2008, Digicorp changed its name to China Youth Media, Inc.

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In December 2008, Midwest Energy Emissions Corp. (a corporation in the development phase) was incorporated in the state of North Dakota ("Midwest") under the name RLP Energy, Inc. and subsequently changed its name in January 2011 to Midwest Energy Emissions Corp. Midwest was engaged in the business of developing and commercializing state-of-the-art control technologies relating to the capture and control of mercury emissions from coal-fired boilers in the United States and Canada.

On June 21, 2011, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Midwest pursuant to which at closing China Youth Media Merger Sub, Inc., the Company's wholly-owned subsidiary formed for the purpose of the merger (the "Merger Sub"), merged into Midwest, the result of which Midwest would become the Company's wholly-owned subsidiary (the "Merger"). The Merger closed effective on June 21, 2011 (the "Closing"). As a result of the Closing and the Merger, the Merger Sub merged with and into Midwest and with Midwest surviving as a wholly-owned subsidiary of China Youth Media, Inc. Effective at the time of the Closing, Midwest changed its name to MES, Inc. For accounting purposes, the Merger was treated as a reverse merger and a recapitalization of the Company.

Pursuant to a Certificate of Amendment to our Certificate of Incorporation filed with the State of Delaware and effective as of October 7, 2011, China Youth Media, Inc. (i) changed its corporate name from "China Youth Media, Inc." to "Midwest Energy Emissions Corp.", (ii) effected a reverse stock split of all the outstanding shares of our common stock at an exchange ratio of one for one hundred ten (1:110) (the "Reverse Stock Split") and (iii) changed the number of authorized shares of common stock, par value $.001 per share, from 500,000,000 to 100,000,000. Pursuant to an additional Certificate of Amendment to our Certificate of Incorporation filed with the State of Delaware and effective as of November 18, 2014, the number of authorized shares of common stock was increased to 150,000,000.

As a result of the Merger, all of the outstanding shares of common stock of Midwest were exchanged for 10,000 shares of newly created Series B Convertible Preferred Stock (the "Merger Shares") of China Youth Media, Inc. The former shareholders of Midwest, upon conversion of all the Merger Shares, which occurred automatically on the filing of an October 2011 amendment to China Youth Media, Inc.'s certificate of incorporation to increase the number of authorized shares (see below) then owned approximately 90% of the Company's issued and outstanding common stock which were deemed issued and outstanding as of the closing of the Merger and conversion.

As a result of the Merger, our business is now focused on the delivery of mercury capture technologies to power plants in North America, Europe and Asia. Our prior businesses - focusing on youth marketing and media in China by providing advertisers and corporations with direct and centralized access to China's massive but difficult to reach student population, including the business of aggregation and distribution of international content and advertising for Internet or online consumption in China - have been terminated.

In November 2011, MEEC moved its corporate headquarters to Worthington, Ohio and on March 1, 2015 moved its corporate headquarters to 670 D Enterprise Drive, Lewis Center, Ohio 43035. We currently have 12 fulltime employees. Our employees are not represented by labor unions. We believe that relations with our employees are good.

Regulations and Markets

The markets for mercury removal from plant emissions are largely driven by regulations (state, provincial and federal). Changes in regulations have profound effects on these markets and the companies that compete in these markets. This is especially true for smaller companies such as MEEC.

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On December 21, 2011 the EPA issued its Mercury and Air Toxics Standards ("MATS") for power plants in the U.S. The new MATS rule is intended to reduce air emissions of heavy metals, including mercury (Hg), from all major U.S. power plants burning coal or oil, which are the leading source of non-natural mercury emissions in the U.S. Existing power plants were granted three years (plus a potential one year extension in cases of hardship, ruled on by State EPA's where the plant is domiciled) from April 16, 2012, to comply with the new emission limits.

The new MATS rule applies to Electric Generating Units ("EGUs") that are larger than 25 megawatts ("MW") that burn coal or oil for the purpose of generating electricity for sale and distribution through the national electric grid to the public. They include investor-owned units, as well as units owned by the Federal government, municipalities, and cooperatives that provide electricity for commercial, industrial, and residential uses. At the time of MATS being promulgated, the EPA estimated that there were approximately 1,400 units affected by this new rule, approximately 1,100 existing coal-fired units and 300 oil-fired units at about 600 power stations. Since this time, we believe that of the 1100 EGUs, as many as 300 have been shuttered, or will soon be shuttered, as a result of this regulation, and due to competitive disadvantage to newer or gas-fired EGUs. We believe the remaining 800-850 EGU's will remain competitive in the power market for the long-term foreseeable future, and make up the large mercury-emissions control market into which we sell.

The final MATS rule identifies two subcategories of coal-fired EGUs, four subcategories of oil-fired EGUs and a subcategory for units that combust gasified coal or solid oil (integrated gasification combine cycle [IGCC] units) based on the design, utilization, and/or location of the various types of boilers at different power stations. The rule includes emission standards and/or other requirements for each subcategory. The rule sets nationwide emission limits and is estimated to reduce mercury emissions in coal-fired plants by about 90%.

Overall, the EPA estimated the total national annual cost of the MATS rule would be $9.6 billion.

These on-going annual operating costs increases include all functions of the MATS regulation, and not just mercury emissions reductions. It is also important to note that a number of states currently have regulations to limit mercury emissions, and these regulations remain in place until or unless superseded by MATS in 2015. Finally, we estimate that over half of the utility industry EGU's applied for and received the one-year extension for compliance. The deadline for applications for this extension has since passed as of December 17, 2014.

With the adoption of the MATS rule, utilities have and will explore and have conducted and will conduct numerous demonstrations of various technologies to determine which will work best to achieve the required reductions to bring each individual unit under the maximum allowed emissions rate. There are several choices of pollution control technologies available to reduce mercury emissions, but they do not all work consistently or cost-effectively for every plant design or for all of the various types of coal. The most common technology employed to reduce mercury emissions is the injection of powdered activated carbon ("PAC") or brominated PAC ("BAC") into the flue-gas of an EGU after the boiler itself but in front of the Electro-Static Precipitators ("ESP"). Such injections have proven effective with many coals, especially at reduction levels of 70% or less. At required mercury reduction levels above 80%, these injection systems require substantial injection rates which often have severe operational issues including over-loading the ESP and rendering the fly ash unfit for sale to concrete companies, and at times even causing combustion concerns with the fly ash itself.

Mercury is also removed as a co-benefit by special pollution control equipment installed to remove oxides of sulfur ("SO_X") and nitrogen ("NO_X"). To achieve very high levels of SO_X reduction, large, complex and expensive (capital costs in the hundreds of millions of dollars for a medium-sized EGU) systems called Scrubbers can be installed in the plant exhaust system, typically just before the flue-gas goes up the stack for release. As a co-benefit to their primary mission, Scrubbers have been shown to remove significant quantities of oxidized mercury.

Mercury is typically found in two basic forms in coal: elemental and oxidized. The amount of each form varies in any given seam of coal and is affected by the other natural elements (such as chlorine) which might also be present in the coal. We believe about 40% of the mercury in the post-combustion flue-gas exists in the oxidized state. Mercury is found in only tiny trace amounts in coal and its presence is difficult to detect. It is in the burning of millions of tons of coal that these trace amounts become problematic, and why MATS was promulgated.

The other major pollution control system which contributes significantly to the co-benefits of mercury removal is a Selective Catalytic Reduction ("SCR") system which can be installed to achieve high levels of removal of NO_X. SCRs are also very large and expensive systems (costing hundreds of millions of dollars in capital costs to install on a medium-size EGU) that are typically installed just after the flue-gas exits from the unit boiler. As a co-benefit, SCRs have been shown to oxidize a considerable percentage of the elemental mercury in many types of coal. If the EGU then has a combination of an SCR and a Scrubber, we estimate that the EGU might achieve an overall reduction of 80-85% of the mercury in many types of coal. The exact level of mercury emission reductions depends on the designs of these systems and the types of coal being burned.

It is thus anticipated that the large majority of the over 800 coal-fired EGUs in the U.S. will employ some sort of sorbent injection system to achieve the very low mercury emission levels required by the MATS rule. Either the sorbent injection system will be the primary removal method or such a system will likely be employed as a supplemental system to SCR/Scrubber combinations to achieve the new emission limits.

MEEC's Technology

Our mercury removal technology and systems have been shown in long-term, full-scale trials on operating units to achieve mercury removal levels above the new MATS requirements and to do so with lower cost and plant systems impacts than typical PAC or BAC sorbent injection systems. Our technology was originally developed by the University of North Dakota's Energy and Environmental Research Center ("EERC"). It was tested and refined on numerous operating coal-fired EGUs, with the founder of MES, Inc. participating with the EERC on these tests since 2008. The EERC Foundation obtained patents on this technology. MEEC has an "Exclusive Patent and Know-How License Agreement Including Transfer of Ownerships" for the exclusive world-wide rights to the commercial application of these related patents. In our agreement with the EERC Foundation, we pay an annual license maintenance fee plus royalties on operational systems and have the right to purchase the commercial application patent rights for a payment specified in the agreement. In 2013 and 2014, EERC and MEEC negotiated significant amendments to their agreement which strengthened the existing patent rights of MEEC, eliminated certain contract provisions and compliance issues and restructured license maintenance and royalty fee schedules and issued an equity interest in MEEC to EERC.

In 2010, we were awarded our first commercial contract to design, build and install our solution on two large (670MW each) coal units in the western part of the U.S. This was a multi-million dollar, three year renewable contract, which was awarded as a result of a competitive demonstration process. We invested more than $1.4 million in the capital equipment for this project. Our systems out-performed the contract guarantees in all operational areas during startup and testing and went into commercial operation at the start of 2012. The system is used for mercury control whenever the plant is in operation.

In 2014, we contracted for units with four US utilities, bringing our total of EGUs under contract for MATS to 15 as of year-end 2015. Four of the EGUs that we have under contract were compliant units in 2015. Additional contract awards have been won in 2016, and we expect to make further additions to the number of customer EGUs that use our technologies to achieve compliance with MATS in 2016.

Intellectual Property

MEEC has the rights to 30 domestic and foreign patents, pending patent applications and provisional patent applications under an agreement with the EERC Foundation. We believe that our patent position is strong in the US, Canada, China and Europe and sublicensing and enforcing these patents will be a key part of our business strategy going forward.

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Business Opportunities

Our success depends, in part, on the success of demonstrations performed with utility customers and the resulting contract awards to meet the MATS requirements in the long-term period and our operational performance with EGUs under contract. With over 800 coal-fired EGUs in the U.S. affected by MATS, MEEC has a near-term business goal to achieve at least 5-10% of this available market.

In the U.S., we have won contracts on 19 EGU's to date, and expect that we will conduct numerous demonstrations on prospective customer units in the coming years. Our technology has been running on four boilers in the western U.S. where we are fully operational under MATS compliance mercury capture rates of 90%. We expect that our value proposition will be fully demonstrated. It is important for the utility industry to see MEEC fully demonstrating that its patented approach for mercury control at MATS levels of mercury reduction. We feel that further contract wins in 2016 and beyond will come because of the success that utilities will have in complying with MATS with us, versus our competitors offerings, all of which will be evidenced beginning this year when MATS compliance begins.

Another major opportunity for us is in Canada, where there is a Country-wide mercury reduction agreement among all the provinces that required a 60% reduction in 2012, and which will likely require an 80% reduction beginning in 2018, while individual provinces may move faster to stricter emissions control. We believe we have the most effective technology for the EGUs in Canada and a strong patent position there.

In China, there exists no specific mandate for mercury capture that demands services such as ours. We are sanguine on the prospects for mercury emissions regulations in China in the coming years, and because we have very broad patent rights in China, this has the potential to become a large business opportunity for us in future years. We estimate that the China market could be many times the size of the U.S. market, and with the Minimata Convention of 2013, we are hopeful that all countries will follow the U.S. in regulating mercury emissions.

In order to achieve significant near and long-term sales success and control overhead, MEEC employs a model of using Manufacturer Sales Representatives ("Reps") under the leadership of its experienced Vice President of Sales, and a Regional Manager of Sales. These Reps cover the entire country and are highly incentivized on a commission-only basis to introduce our technology into their customer EGUs. This approach has been very successfully employed by other companies operating in the electric utility industry market.

Raw Materials

We buy all the materials needed for our systems and do not manufacture our products or systems. Material components of our proprietary Sorbent Enhancing Additive ("SEA™") Technology are readily available from numerous sources in the market. Our current principal suppliers include companies, some of whom are our major competitors in the mercury control market. When we use PAC as a component of our sorbent material, we buy it in the market from large activated carbon manufacturers. We believe that we have excellent relationships with our suppliers. If any of our suppliers should become unavailable to us for any reason, we believe that there are a number of potential replacements, although we might incur some delay in identifying such replacements.

Competition

Our major competitors in the U.S. and Canada include companies such as Cabot Corporation, Calgon Carbon Corporation, Albemarle Corporation, Carbonxt, Inc., Nalco Company, Novinda Corporation, ADS-ES, Inc. and ADA Carbon Solutions LLC. These companies employ large sales staff and are well established in the market. However, we believe our technology has consistently performed better in mercury removal in operational tests than PAC or BAC injections alone. We believe our technology is superior to offerings of our competitors, and with our experienced team of sales representatives, we believe we can compete effectively in these markets.

Seasonality

Our business is generally not seasonal in nature, although we will experience some regional seasonal declines during holiday periods and some weather-related seasonality.

Backlog

We do not consider backlog to be a significant indicator of the level of future sales activity. In general, we do not manufacture our products against a backlog of orders. Production and inventory levels are based on the level of incoming orders as well as projections of future demand. Therefore, we believe that backlog information is not material to understanding our overall business and is not a reliable indicator of our ability to achieve any particular level of revenue or financial performance.

Available Information

We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549. The SEC maintains an Internet website that contains reports, proxy and information statements and other information filed electronically by us with the SEC and is available on the SEC's website at www.sec.gov.

ITEM 1A – RISK FACTORS

In your evaluation of the Company and our business, you should carefully consider the risks and uncertainties described below, together with the information included elsewhere in this Annual Report on Form 10-K and the other documents we file with the SEC. The following factors describe the risks and uncertainties that we consider significant to the operation of our business, but should not be considered a complete listing of all potential risks and uncertainties that could adversely affect our operating results, financial position or liquidity. Additionally, our business is subject to the same general risks and uncertainties that affect many other companies, such as but not limited to the overall economic conditions, changes in laws or accounting rules, fluctuations in interest and exchange rates or other disruptions of expected economic and business conditions.

Risks Related to our Business

We are under-capitalized and may not be able to raise sufficient capital to ensure our continuation as an on-going company.

We may not currently have adequate long-term capitalization to properly execute our business plan. While efforts are currently underway to manage our capital needs in the future, if we have such needs, there can be no assurance that those efforts will be a success. Failure to achieve appropriate capital injection into the Company could not only jeopardize achieving desired market penetration of the business plan but also could impair the ability of MEEC to continue as an on-going business.

We operate in a single market, mercury removal from power plant emissions, which is driven primarily by regulation. Any significant changes in mercury emission regulation could have a major impact on the Company.

The Company currently operates in a single market of mercury reduction in flue gas emissions from large coal-fired utility and industrial boilers. This market is primarily based on air pollution control regulations and enforcement of those regulations. Any significant change in these regulations would have a dramatic effect on the Company. Specifically, on December 16, 2011, the EPA published the Mercury and Air Toxics Standards (MATS), which sets forth federal mercury emission levels. Power plants were required to begin complying with MATS on April 16, 2015, unless they were granted a one-year extension to begin to comply. In addition, the MATS regulation has been subject to legal challenge, and in June 2015, the U.S. Supreme Court held that the EPA unreasonably failed to consider costs in determining whether to regulate hazardous air pollutants, including mercury, from power plants and remanded the case back to the U.S. Court of Appeals for the District of Columbia Circuit for further proceedings, but left the rule in place. In December 2015, the D.C. Circuit remanded the rule to the EPA for further consideration, but without vacatur, allowing MATS to remain in effect until the EPA issues a final finding. The EPA has represented that it is on track to issue a final finding by April 15, 2016. In late February 2016, 20 states petitioned the U.S. Supreme Court to enjoin the MATS rule pending a petition for a writ of certiorari. Such request was denied by Chief Justice Roberts on March 3, 2016. On March 18, 2016, such 20 states filed a petition for certiorari with the U.S. Supreme Court to review the D.C. Circuit's decision to remand without vacatur the MATS rule to the EPA. While the Company expects that the issuance by the EPA of its final finding will keep MATS in effect going forward, the Company is unable to predict with certainty when and how the outcome of these complex legal, regulatory and legislative proceedings will affect demand for its products.

The risks associated with technological change may make the Company's products and services obsolete.

The market for new technology in which the Company is involved is characterized by periodic new product introductions and evolving industry standards and regulations. The emerging nature of these products and services with their rapid evolution will require that we continually improve the performance, features, and reliability of our service, particularly in response to possible competitive offerings. There can be no assurance that we will be successful in achieving widespread acceptance before competitors offer products and services with features similar to or better than the Company, but we continue to invest into innovation, while believing that our licensed patent portfolio is defensible within an industry that has high barriers to entry.

We compete against large, well-established companies which are highly competitive. We may not be able to compete effectively.

We are an emerging company operating in a market currently dominated by much larger companies. The size and financial strength of these competitors may enable them to offer incentives such as free large scale demonstrations that the Company may not be able to offer. In addition, these large corporations have the ability to spend significantly more on research and development and may develop a technology superior to that employed by the Company and these corporations also have large, established sales forces that are highly-experienced in fending off competing, including superior technologies on their client units. This is especially true in the utility market which is very risk averse and where long-standing trusted supplier relationships are common.

We may not be able to successfully defend our patent rights or protect proprietary aspects of our technology.

We have the exclusive rights to a number of significant patents, and patents pending covering the U.S., Canada, Europe and China. There can be no assurance that outstanding patents will not be challenged or circumvented by competitors. Certain critical technology related to our systems and products is protected by trade secret laws and confidentiality and licensing agreements. There can be no assurance that such protection will prove adequate or that we will have adequate remedies against contractual counterparties for disclosure or our trade secrets or violation of MEEC's intellectual property rights. In addition, the current lack of adequate long-term capital may prevent the Company from being able to enforce any patent-infringement by competitors or EGUs.

Lower natural gas prices and increasing regulations can pose significant risks to our addressable market.

Upon MATS becoming effective, there were roughly 1100 coal-fired EGU's in the U.S. With lower natural gas prices and due to regulations such as MATS, the industry has become significantly smaller. Management estimates that perhaps as much as 25% of the EGUs in the U.S. have faced, or will face, retirement by end 2016, when MATS impacts 100% of the U.S. coal-fired fleet.

The Company has a significant amount of convertible debt maturing in 2016. This debt may have conversion prices that are above the stock price on the maturity date. The Company may need to repay these notes and currently, existing cash is not available to meet these obligations.

No assurances can be given that the Company can obtain sufficient working capital through business or financing activities to meet its debt obligations. Due to certain covenants with our senior lender, we are not able to use current cash on hand to pay current convertible note holders when these notes mature. Therefore, success in raising funds through an equity offering and/or negotiations with our note holders is crucial.

We are reliant upon third-party manufacturers for our materials; any problems they encounter may detrimentally impact our business.

As we do not manufacture any of the chemicals that we use, we are dependent upon key suppliers of our materials, some of whom are also competitors of ours. There can be no assurance that such manufacturers will be reliable in meeting delivery schedules, or that such manufacturers will not experience their own financial difficulties or encounter other problems which could detrimentally impact our business. In the event we need to secure other manufacturers, there can be no assurance that we will be able to secure such arrangements on terms acceptable to the Company.

Our operations are subject to operational risks and have the potential to cause environmental or other damage as well as personal injury, which could adversely affect our business, results of operations and cash flows.

Our operations involve safety, health and environmental risks. Mercury removal from power plant emissions involve the handling, transportation, manufacture or use of certain substances or components that may be considered toxic or hazardous. Our operations entail risks such as leaks, fires, explosions, toxic releases, mechanical failures or unscheduled downtime. If operational risks materialize, they could result in injury or loss of life, damage to the environment or damage to property. Although we maintain insurance coverage, in the event we incur substantial loss or liabilities and our insurance does not cover such losses or liabilities adequately or at all, our business, results of operations and cash flows may be materially and adversely affected. In addition, the occurrence of any of such losses or liabilities could harm our reputation.

We are dependent on key customers. A significant adverse change in such relationships could adversely impact our results of operations and financial condition.

Our customers are concentrated, so the loss of one or more key customers or a material reduction in business performed for them, could significantly harm our business. In addition, there can be no assurance that such customers will not experience financial difficulties or other problems which could delay such customers in paying for product and services on a timely basis or at all. Any problems with such customers can be expected to have a material adverse impact on our results of operations and financial condition.

We are heavily dependent on a small number of key employees. The loss of more than one of these employees could seriously impair our ability to survive as a going concern.

Our management team is crucial to the success of the Company and the loss of more than one member of this team, could have a material adverse impact on the ability of the Company to properly execute its business plan. We have expanded our team and developed redundancy within our operations to mitigate this risk as much as possible.

Our lack of diversification increases the risk of an investment in the Company.

Our business lacks significant diversification and is dependent on the success of our mercury emission control technologies. As a result, we are impacted more acutely by factors affecting our industry or the regions in which we operate that we would if our business were more diversified, enhancing our risk profile.

We may not be able to properly manage our potential growth.

Since we have a limited operating history, any significant growth will place considerable strain on our financial resources and increase demands on our management and on our operational and administrative systems, controls and other resources. There can be no assurance that our existing personnel, systems, procedures or controls will be adequate to support our operations in the future or that we will be able to successfully implement appropriate measures consistent with our growth strategy. As part of this growth, we may have to implement new operational and financial systems, procedures and controls to expand, train and manage our employees and maintain close coordination among our technical, accounting, finance, marketing, sales and other staff. We cannot guarantee that we will be able to do so, or that if we are able to do so, we will be able to effectively integrate them into our existing staff and systems. We may fail to adequately manage our anticipated future growth. We will also need to continue to attract, retain and integrate personnel in all aspects of our operations. Failure to manage our growth effectively could detrimentally impact our business.

Maintaining and improving our financial controls may strain our resources and divert management's attention.

We are subject to the requirements of the Securities Exchange Act of 1934, including the requirements of the Sarbanes-Oxley Act of 2002. The requirements of these rules and regulations have increased in recent years, causing an increase in legal and financial compliance costs, and make some activities more difficult, time-consuming or costly and may also place undue strain on our personnel, systems and resources. Such rules and regulations require, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. This can be difficult to do. As a result of this and similar activities, management's attention may be diverted from other business concerns, which could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to our Common Stock

In our efforts to raise capital through the sale of restricted stock and convertible debt, dilution could be significant.

The best mechanisms we have used to raise money have been to sell restricted stock or convertible notes, while issuing warrants, to qualified investors. Raising capital in this manner is dilutive to current shareholders and the dilution could be substantial. We currently have 47,358,618 shares outstanding of a total of 150,000,000 shares authorized by the Company, and under Treasury Method of Accounting, we have approximately 110,993,000 fully diluted shares outstanding as of March 30, 2016.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have never declared or paid any cash dividends on our common stock and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. In addition, pursuant to the terms of our financing agreement with AC Midwest Energy, LLC, we are prohibited from issuing dividends. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future and the success of an investment in shares of our common stock will depend upon any future appreciation in its value. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares.

If our internal control over financial reporting is found not to be effective or if we make disclosure of existing or potential significant deficiencies or material weaknesses in those controls, investors could lose confidence in our financial reports, and our stock price may be adversely affected.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to include an internal control report with our Annual Report on Form 10-K. That report must include management's assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal year. We evaluate our existing internal control over financial reporting based on the framework issued in 2013 by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. During the course of our ongoing evaluation of the internal controls, we may identify areas requiring improvement, and may have to design enhanced processes and controls to address issues identified through this review. Remedying any deficiencies, significant deficiencies or material weaknesses that we identify may require us to incur significant costs and expend significant time and management resources. We cannot assure you that any of the measures we implement to remedy any such deficiencies will effectively mitigate or remedy such deficiencies. Investors could lose confidence in our financial reports, and our stock price may be adversely affected, if our internal controls over financial reporting are found not to be effective by management or if we make disclosure of existing or potential significant deficiencies or material weaknesses in those controls.

The trading price of our common stock may be volatile.

The trading price of our shares has, from time to time, fluctuated widely and in the future may be subject to similar fluctuations. The trading price may be affected by a number of factors including the risk factors set forth in this report as well as our operating results, financial condition, announcements of innovations or new products by us or our competitors, general conditions in the market place, and other events or factors. Although we believe a number of registered broker dealers currently make a market in our common stock, we cannot assure you that any of these firms will continue to serve as market makers or have the financial capability to stabilize or support our common stock. A reduction in the number of market makers or the financial capability of any of these market makers could also result in a decrease in the trading volume of and price of our shares. In recent years, broad stock market indices, in general, and the securities of technology companies, in particular, have experienced substantial price fluctuations. Such broad market fluctuations may adversely affect the future trading price of our common stock.

The trading market for securities quoted on the OTCQB is less liquid.

Our common stock currently trades on the OTCQB. The trading market for securities of companies quoted on the OTCQB or other quotation systems is substantially less liquid than the average trading market for companies listed on a national securities exchange. The quotation of our shares on the OTCQB or other quotation system may result in a less liquid market available for existing and potential shareholders to trade shares of our common stock, could depress the trading price of our common stock and could have a long-term adverse impact on our ability to raise capital in the future.

Potential future sales pursuant to Rule 144.

Many of the shares of our common stock presently held by management and others are "restricted securities" as that term is defined in Rule 144, promulgated under the Securities Act of 1933, as amended. Under Rule 144, a person (or persons whose shares are aggregated) who has satisfied a certain holding period, may, under certain circumstances sell such shares or a portion of such shares. Such holding periods have already been satisfied in many instances. Therefore, actual sales or the prospect of sales of such shares under Rule 144 in the future may depress the prices of the Company's securities.

Our common stock may be characterized as a "penny stock" under applicable SEC regulations.

Our common stock may be characterized as "penny stock" under SEC regulations. As such, broker-dealers dealing in our common stock may be subject to the disclosure rules for transactions involving penny stocks, which generally require that, prior to a purchase, the broker-dealer has approved the proposed purchaser's account for transactions in penny stocks and has received from the purchaser an agreement to the transaction setting forth the identity and quantity of the common stock to be purchased. In order to approve a person's account for transactions in penny stocks, the broker-dealer must obtain from the person information concerning the person's financial situation, investment experience and investment objectives, and reasonably determine that transactions in penny stocks are suitable for the person. These additional burdens imposed upon broker-dealers may discourage them from effecting transactions in our common stock, which could make it difficult for an investor to sell his, her or its shares at any given time.

ITEM 1B – UNRESOLVED STAFF COMMENTS

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 2 – PROPERTIES

MEEC leases its corporate headquarters facility in Lewis Center, Ohio. The lease for this facility expires in February 2017.

MEEC pays for the lease of a 3,800 square feet warehouse near a commercial customer in Centralia, Washington on a month to month basis.

MEEC pays for the lease of a 20,000 square feet warehouse in Corsicana, Texas. The lease for this facility expires in June 2020.

MEEC leases office space in Grand Forks, North Dakota. The lease for this facility expires in August, 2018.

ITEM 3 – LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Company is a party or to which any of its property is subject.

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5 – MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market

The Company common stock is quoted on the Over-The-Counter Venture Marketplace (OTCQB) under the symbol "MEEC"

The table below delineates, on a quarterly basis, the high and low sales prices per share of the common stock as reported by the OTCQB. The prices set forth in the table below may not be an accurate indicator of the value of the Company shares. These prices represent inter-dealer quotations and do not reflect retail markup, markdown or commissions and may not necessarily represent actual transactions.

		Common Stock Price	
2015		**High**	**Low**
First Quarter Ended	March 31	$ 0.70	$ 0.40
Second Quarter Ended	June 30	$ 0.83	$ 0.25
Third Quarter Ended	September 30	$ 0.49	$ 0.25
Fourth Quarter Ended	December 31	$ 0.63	$ 0.33
2014		**High**	**Low**
First Quarter Ended	March 31	$ 2.63	$ 0.59
Second Quarter Ended	June 30	$ 1.73	$ 1.05
Third Quarter Ended	September 30	$ 1.25	$ 0.85
Fourth Quarter Ended	December 31	$ 1.00	$ 0.45

Recent Sales of Unregistered Securities

We sold the following equity securities during the fiscal year ended December 31, 2015 that were not registered under the Securities Act of 1933, as amended (the "Securities Act"), except sales of equity securities in which information pertaining thereto previously has been included in a quarterly report on Form 10-Q or a current report on Form 8-K.

During the year ended December 31, 2015, the Company and holders of certain convertible promissory notes have entered into amendments which (i) extend the maturity dates by 12 months from their original maturity dates; (ii) reduce the conversion price from $1.00 to $0.50 per unit for a period of 45 days and $0.75 thereafter; and (iii) reduce the exercise of the warrant included in the unit from $1.25 to $1.00 per share. As of December 31, 2015, the holders of these notes totaling $3,112,883 converted their notes into equity of the Company. The Company has converted this balance and along with accrued interest of $124,352 into 6,474,717 shares of common stock and 1,618,680 warrants to purchase common stock. As of December 31, 2015, total principal of $357,483 was outstanding on these notes to the remaining note holders that did not convert.

Share Repurchase Program

Midwest Energy Emissions Corp. purchased no equity securities during year ended December 31, 2015 and has no program in place to buy any equity securities.

Holders

As of December 31, 2015, there were 473 registered stockholders of Midwest Energy Emissions Corp.'s common stock.

Dividends

Midwest Energy Emissions Corp. has not declared any dividends to date and has no current plan to do so in the foreseeable future. Pursuant to the terms of the Company's financing agreement with AC Midwest Energy, LLC, the Company is prohibited from issuing dividends.

Transfer Agent

The Transfer Agent and Registrar for the Company's common stock is Transfer Online, Inc., 512 SE Salmon Street, Portland, Oregon 97214.

Equity Compensation Plan Information

The following table shows information, as of December 31, 2015, with respect to each equity compensation plan under which the Company's common stock is authorized for issuance:

	Number of securities to be issued upon exercise	**Weighted average exercise price of**	**Number of securities remaining available for future issuance under equity compensation plans**

Plan Category	of outstanding options, warrants and rights (a)	outstanding options, warrants and rights (b)	(excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders, terminated	385,458	$ 10.83	0
Equity compensation plans approved by shareholders	5,835,000	0.79	1,665,000

ITEM 6 – SELECTED FINANCIAL DATA

Not applicable as a smaller reporting company.

ITEM 7 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Midwest Energy Emissions Corp. (the "Company", "we", "us" and "our") develops and deploys patented, proprietary technologies to remove mercury emissions from coal-fired power plants. The U.S. EPA MATS (Mercury and Air Toxics Standards) rule requires that all coal and oil-fired power plants in the U.S., larger than 25MWs, must limit mercury in its emissions to below certain specified levels, according to the type of coal burned. Power plants were required to begin complying with MATS on April 16, 2015, unless they were granted a one-year extension to begin to comply. MATS, along with many state and provincial regulations, form the basis for mercury emission capture at coal fired plants across North America. Under the MATS regulation, Electric Generating Units ("EGUs") are required to remove about 90% of the mercury from their emissions. We believe that we continue to meet the requirements of the industry as a whole and our technologies have been shown to achieve mercury removal levels compliant with all state, provincial and federal regulations at a lower cost and with less plant impact than our competition.

As is typical in this market, we are paid by the EGU based on how much of our material is injected to achieve the needed level of mercury removal. Our current clients pay us periodically (monthly or as material is delivered), based on their actual use of our injected material. Clients will use our material whenever their EGUs operate, although EGUs are not always in operation. EGUs typically may not be in operation due to maintenance reasons or when the price of power in the market is less than their cost to produce power. Thus, our revenues from EGU clients will not typically be a consistent stream but will fluctuate, especially seasonally as the market demand for power fluctuates.

The MATS regulation has been subject to legal challenge, and in June 2015, the U.S. Supreme Court held that the EPA unreasonably failed to consider costs in determining whether to regulate hazardous air pollutants, including mercury, from power plants and remanded the case back to the U.S. Court of Appeals for the District of Columbia Circuit for further proceedings, but left the rule in place. In December 2015, the D.C. Circuit remanded the rule to the EPA for further consideration, but without vacatur, allowing MATS to remain in effect until the EPA issues a final finding. The EPA has represented that it is on track to issue a final finding by April 15, 2016. In late February 2016, 20 states petitioned the U.S. Supreme Court to enjoin the MATS rule pending a petition for a writ of certiorari. Such request was denied by the Chief Justice of the U.S. Supreme Court on March 3, 2016. On March 18, 2016, such 20 states filed a petition for certiorari with the U.S. Supreme Court to review the D.C. Circuit's decision to remand without vacatur the MATS rule to the EPA. While the Company expects that the issuance by the EPA of its final finding will keep MATS in effect going forward, the Company is unable to predict with certainty the outcome of these proceedings and legal challenges.

As we look to 2016 and beyond, we remain focused on positioning the Company for short and long-term growth. As described below, we achieved a substantial increase in revenues in 2015 compared to the prior year, which we are encouraged will continue throughout 2016. Although we face a host of challenges and risks and we have not achieved profitability to date, we are optimistic about our prospects and expect our business to continue to grow throughout 2016 and thereafter as the demand for our technologies and services increases.

Results of Operations

2015 was a year spent in preparation for the high volumes of product sales anticipated when our customers begin compliance with MATS while continuing to focus on sales and marketing of our technologies. During the year, the Company deployed resources towards execution on the currently contracted business, commissioned equipment at multiple customer sites, increased our production capacities and completed construction and implementation of a proprietary mobile feeder systems that greatly enhanced our technology-demonstration flexibility. This was all done while the Company adjusted to an environment that saw a large percentage of current, and prospective customers receive in the latter part of 2014, extensions for compliance for MATS until 2016.

Our customer contracts include designing and installing front-end injection equipment for injection of our proprietary front-end product, and in some cases include installation of an additional back-end sorbent injection system. The Company began earning revenues from these installations, as well as on four customer EGU's for MATS compliance, in the second quarter. Revenues on these projects continued through the remainder of the year as well and during the second half of 2015, we experienced significant increases in demand for demonstrations of our technologies. We expect this demand for demonstrations will continue during 2016 as our prospective customers identify challenges they are having with their chosen compliance solution and look for alternative solutions.

Revenues

Sales - We generally achieve revenues from product sales, equipment sales and demonstration and consulting services. We generated revenues of approximately $12,632,000 and $2,794,000 for the years ended December 31, 2015 and 2014, respectively. The increase during the year ended December 31, 2015 was primarily due to revenues from equipment sales of $6,939,000 generated by the completion of nine equipment projects at customer sites. There were no such revenues from equipment sales generated in 2014. Revenues from product sales in the year ended December 31, 2015 increased from 2014 by $2,577,000. These increases are primarily associated with products used during equipment commissioning activities at six customer sites along with ongoing sales to two plants that began MATS compliance in 2015. Product sales in 2014 were associated with testing and demonstrations as customers prepared to comply with state, provincial and federal regulations. These activities continued at many sites in 2015. We believe the increase in revenues which we achieved in 2015 of more than $9,800,000 than the revenues realized in 2014 is a strong indication of the growth we expect going forward to meet our already contracted and future business.

Cost and Expenses

Costs and expenses were $16,321,000 and $9,272,000 during the years ended December 31, 2015 and 2014, respectively. The increase in costs and expenses from the prior year is primarily attributable to the increase in cost of goods sold and operating expenses and was offset by a decrease in stock based compensation in 2015.

Cost of goods sold during the years ended December 31, 2015 and 2014 was $8,630,000 and $1,483,000, respectively. The increase in cost in 2015 is primarily attributable to the cost of equipment sold to customers and recognized as revenue during 2015 as well as the increase in product sales discussed above.

Operating expenses during the years ended December 31, 2015 and 2014 were $1,812,000 and $905,000, respectively. The increase in operating costs from the prior period is primarily attributable to increased labor and technical consulting costs associated with assisting our customers with testing and equipment commissioning being performed at their sites and increased salary and overhead costs associated with an increase in our operations staff from the prior period. During 2015, two customers began full MATS compliance and we invested in infrastructure and staffing to prepare for the rest of our customers entering full compliance during 2016.

License Maintenance Fees were $300,000 and $300,000 for the years ended December 31, 2015 and 2014, respectively. The Company licenses the technologies that it employs through its "Exclusive Patent and Know-How License Agreement Including Transfer of Ownership" with the Energy and Environmental Research Center Foundation, a non-profit entity ("EERCF"). During 2015 and 2014, $300,000 was paid to the EERCF in monthly installments as a license maintenance fee.

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Selling, general and administrative expenses were $3,180,000 and $5,518,000 for the years ended December 31, 2015 and 2014, respectively. The decrease in selling, general and administrative expenses during 2015 is primarily attributed to decreases in stock based compensation and is offset by increases in payroll and benefits, and insurance expenses associated with the expansion of our business. Stock based compensationwas $789,000 and $3,319,000 for the years ended December 31, 2015 and 2014, respectively. In 2014, these costs were primarily associated with 4,710,000 stock options issued to directors and employees as compensation and signing bonuses upon hire compared to 2,150,000 stock options issued in 2015.

Settlement charges were $1,335,000 and $0 for the years ended December 31, 2015 and 2014, respectively. These charges in 2015 included warrants valued at $495,000 issued to certain secured promissory note holders to settle certain clauses of their notes and warrants valued at $840,000 issued in conjunction with a waiver of certain covenants in the Company's agreements with its senior lender.

Depreciation and amortization expenses were $391,000 and $387,000 for the years ended December 31, 2015 and 2014, respectively. The increase from the prior periods is attributable to increased amortization of customer acquisition costs and offset by depreciation on equipment held at a customer site in the prior period.

Professional fee expenses were $672,000 and $679,000 for the years December 31, 2015 and 2014, respectively. The decrease in professional fee expenses during 2015 is primarily attributed to costs incurred related to savings realized in the areas of contract review work and SEC compliance and is offset by an increase in professional fees related to the maintenance, expansion and defense of our intellectual property.

Other Income and Expenses

Interest expense related to the financing of capital was $6,214,000 and $2,725,000 during the years ended December 31, 2015 and 2014, respectively. In connection with the change in the conversion terms and repayment of principal per the Amendment with AC Midwest Energy, LLC, and the Company incurred a loss of $2,246,105 which was primarily related to accelerated amortization of the discount on convertible notes payable and is included in interest expense. During the year ended December 31, 2015 a loss on the change in value of warrant liability of $3,194,000 was recognized. For the year ended December 31, 2014, a gain on the change in value of warrant liability of $4,204,000 was recognized. Also, the Company recognized non-cash inducement expenses of $1,123,000 associated with these conversions of convertible promissory notes during 2015. The conversions took place after the Company negotiated amendments which extended the terms of the notes and adjusted the conversion price.

Net Loss

For the years ended December 31, 2015 and 2014, we had a net loss from operations of approximately $14,262,000 and $5,008,000, respectively. The increased net loss is primarily attributed to (i) increased interest expense; (ii) a non-cash inducement expense associated with these conversions of convertible promissory notes; (iii) a loss on the change in value of convertible notes payable; (iv) non-cash settlement charges incurred to settle certain provisions contained in outstanding convertible promissory notes; (v) loss on the change in value of warrant liability, and; (vi) increased operations expenses incurred offset by decreased stock based compensation expense from the previous year.

Taxes

As of December 31, 2015, our deferred tax assets are primarily related to accrued compensation and net operating losses. A 100% valuation allowance has been established due to the uncertainty of the utilization of these assets in future periods. As a result, the deferred tax asset was reduced to zero and no income tax benefit was recorded. The net operating loss carryforward will begin to expire in 2025.

Section 382 of the Internal Code allows post-change corporations to use pre-change net operating losses, but limit the amount of losses that may be used annually to a percentage of the entity value of the corporation at the date of the ownership change. The applicable percentage is the federal long-term tax-exempt rate for the month during which the change in ownership occurs.

Non-GAAP Financial Measures

Adjusted EBITDA

To supplement our consolidated financial statements presented in accordance with GAAP and to provide investors with additional information regarding our financial results, we consider and are including herein Adjusted EBITDA, a Non-GAAP financial measure. We view Adjusted EBITDA as an operating performance measure and, as such, we believe that the GAAP financial measure most directly comparable to it is net income (loss). We define Adjusted EBITDA as net income adjusted for income taxes, depreciation, amortization, stock based compensation, and other non-cash income and expenses. We believe that Adjusted EBITDA provides us an important measure of operating performance because it allows management, investors, debtholders and others to evaluate and compare ongoing operating results from period to period by removing the impact of our asset base, any asset disposals or impairments, stock based compensation and other non-cash income and expense items associated with our reliance on issuing equity-linked debt securities to fund our working capital.

Our use of Adjusted EBITDA has limitations as an analytical tool, and this measure should not be considered in isolation or as a substitute for an analysis of our results as reported under GAAP, as the excluded items may have significant effects on our operating results and financial condition. Additionally, our measure of Adjusted EBITDA may differ from other companies' measure of Adjusted EBITDA. When evaluating our performance, Adjusted EBITDA should be considered with other financial performance measures, including various cash flow metrics, net income and other GAAP results. In the future, we may disclose different non-GAAP financial measures in order to help our investors and others more meaningfully evaluate and compare our future results of operations to our previously reported results of operations.

The following table shows our reconciliation of Net Loss to Adjusted EBITDA for the years ended December 31, 2015 and 2014, respectively:

	Year Ended December 31,	
	2015	**2014**
	(in thousands)	
Net loss	$ (14,262)	$ (5,008)
Non-GAAP adjustments:		
Depreciation and amortization	391	387
Interest	6,214	2,725
State income taxes	41	-
Stock based compensation	789	3,319
Change in warrant liability	3,194	(4,204)
Settlement charges	1,335	-
Debt conversion costs	1,123	-
Adjusted EBITDA	$ (1,175)	$ (2,781)

We prepare and publicly release quarterly unaudited financial statements prepared in accordance with GAAP. We are including below our unaudited reconciliation of Net Income to Adjusted EBITDA on a quarterly basis for the quarters ended March 31, 2015, June 30, 2015, September 30, 2015 and December 31, 2015.

	Quarter Ended (Unaudited)			
	12/31/2015	**9/30/2015**	**6/30/2015**	**3/31/2015**
	(in thousands)			
Net income (loss)	$ (7,138)	$ (1,155)	$ 599	$ (6,568)
Non-GAAP adjustments:				
Depreciation and amortization	123	103	99	66
Interest	950	906	936	3,422
State income taxes	5	8	8	20
Stock based compensation	177	280	206	126
Change in warrant liability	4,655	(145)	(3,195)	1,879
Settlement charges	1,335	-	-	-
Debt conversion costs	-	161	962	-
Adjusted EBITDA	$ 107	$ 158	$ (385)	$ (1,055)

Liquidity and Capital Resources

Our principal source of liquidity is cash generated from financing activities. As of December 31, 2015, our cash and cash equivalents totaled $1,083,000. The high volume product supply revenue that we expected to begin in 2015, has been delayed until 2016 as a result of one year MATS compliance waivers granted by their state EPA on eleven units under contract. Our current cash flow needs for general overhead, sales and operations is approximately $300,000 per month and we need additional funds for the upcoming maturities of convertible debt of $2,497,000 in 2016. Although we anticipate significant revenues from the sale of products to be used in MATS compliance by customers in 2016, no assurances can be given that the Company can obtain sufficient working capital through operations and financing activities to meet its obligations as they come due. With our expected gross margins on customer contracts, we anticipate we will be at break-even on a cash flow basis when our product revenues reach approximately $16 million annually which we anticipate being on a trailing twelve month basis by the second quarter of 2016. This break-even target is subject to achieving sales at that level with our expected gross margins. No assurance can be made that we will be able to achieve this target.

Total assets were $7,315,000 at December 31, 2015 versus $15,039,000 at December 31, 2014. The change in total assets is primarily attributable to decreases in cash and inventory and is offset by increases in accounts receivable and property and equipment. $3,000,000 was repaid to AC Midwest Energy, LLC on the balance of their outstanding convertible promissory note during the first quarter of 2015. The decrease in inventory is due to the commissioning and final sale of equipment sold to customers for their use in MATS compliance activities. These long term construction projects began during in 2014 and the last of the current projects in inventory will be completed in the first quarter of 2016. We invested significant capital in our infrastructure during 2015 in preparations for the high volume of business we expect during 2016.

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Operating activities used $2,738,000 of cash during the year ended December 31, 2015 compared to $2,964,000 during the year ended December 31, 2014. The decrease in cash used for operating activities is primarily attributable to the increase in sales and realized gross margin during 2015 and is offset by increased operational expenses incurred.

Investing activities used $957,000 and $298,000 during the years ended December 31, 2015 and 2014, respectively. In 2015, additions of property and equipment associated with the expansion of our operations in preparation for MATS compliance activities of our customers were responsible for this increase, as were purchases of additional equipment to be used in demonstrations of our processes at prospective customers.

Financing activities used $2,434,000 during the year ended December 31, 2015 primarily due to the repayment of $3,000,000 of principal of convertible promissory notes and offset by the sale of an additional $600,000 of convertible promissory notes. Financing activities provided $9,965,000 during the year ended December 31, 2014 due to proceeds from the issuance of a convertible promissory note of $10,000,000, equity of $1,050,000 and notes payable of $300,000 which was offset by payments of debt issuance costs of $748,000 and payments on notes payable of $600,000.

Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, and results of operations, liquidity or capital expenditures.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial conditions and results of operation are based upon the accompanying consolidated financial statements which have been prepared in accordance with the generally accepted accounting principles in the U.S. The preparation of the consolidated financial statements requires that we make estimates and assumptions that affect the amounts reported in assets, liabilities, revenues and expenses. Management evaluates on an on-going basis our estimates with respect to the valuation allowances for accounts receivable, income taxes, accrued expenses and equity instrument valuation, for example. We base these estimates on various assumptions and experience that we believe to be reasonable. The following critical accounting policies are those that are important to the presentation of our financial condition and results of operations. These policies require management's most difficult, complex, or subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain.

The following critical accounting policies affect our more significant estimates used in the preparation of our consolidated financial statements. In particular, our most critical accounting policies relate to the recognition of revenue, and the valuation of our stock-based compensation.

Going Concern

The accompanying consolidated financial statements as of December 31, 2015 have been prepared assuming the Company will continue as a going concern. The Company has experienced a net loss, negative cash flows from operations and has an accumulated deficit of $36,230,000. The Company has convertible notes maturing during 2016 of $1,055,000, and current principal payments due in the third and fourth quarters of 2016 on outstanding long term convertible notes of $1,442,000. These principal payments raise doubt about the Company's ability to continue as a going concern. Although we anticipate significant revenues for the sale of capital equipment and products to be used in MATS compliance activities, no assurances can be given that the Company can obtain sufficient working capital through these activities and additional financing activities to meet its debt obligations. Due to certain covenants with our senior lender, we are not able to use current cash on hand to pay current convertible note holders as these notes mature. Convertible notes with current principal balances of approximately $1,100,000 mature in 2016. Therefore, success in our fund raising efforts and negotiations with our note holders is critical. We are actively seeking sources of additional financing in order to fund our debt repayment obligations and if extensions cannot be negotiated with our early investors who purchased convertible debt from the Company. No assurances can be given that the Company can maintain sufficient working capital through these efforts or that the continued implementation of its business plan will generate sufficient revenues in the future to sustain ongoing operations.

The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern.

Accounts Receivable

Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Revenue Recognition

The Company records revenue from sales in accordance with ASC 605, *Revenue Recognition* ("ASC 605"). The criteria for recognition are as follows:

1. Persuasive evidence of an arrangement exists;
2. Delivery has occurred or services have been rendered;
3. The seller's price to the buyer is fixed or determinable; and
4. Collectability is reasonably assured.

Determination of criteria (3) and (4) will be based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments will be provided for in the same period the related sales are recorded.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's consolidated financial statements are based on a more-likely-than-not recognition threshold. The Company did not have any unrecognized tax benefits at December 31, 2015 or 2014. When necessary, the Company would accrue penalties and interest related to unrecognized tax benefits as a component of income tax expense.

The Company and its subsidiaries file a consolidated income tax return in the U.S. federal jurisdiction and three state jurisdictions. The Company is no longer subject to U.S. federal examinations for years prior to 2011 or state tax examinations for years prior to 2010. Prior to the Reverse Merger, MES, Inc. was taxed as an S corporation and income and losses were passed through to the stockholders.

Stock-Based Compensation

We have adopted the provisions of *Share-Based Payments*, which requires that share-based payments be reflected as an expense based upon the grant-date fair value of those grants. Accordingly, the fair value of each option grant, non-vested stock award and shares issued under our employee stock purchase plan, were estimated on the date of grant. We estimate the fair value of these grants using the Black-Scholes model which requires us to make certain estimates in the assumptions used in this model, including the expected term the award will be held, the volatility of the underlying common stock, the discount rate, dividends and the forfeiture rate. The expected term represents the period of time that grants and awards are expected to be outstanding. Expected volatilities were based on historical volatility of our stock. The risk-free interest rate approximates the U.S. treasury rate corresponding to the expected term of the option. Dividends were assumed to be zero. Forfeiture estimates are based on historical data. These inputs are based on our assumptions, which we believe to be reasonable but that include complex and subjective variables. Other reasonable assumptions could result in different fair values for our stock-based awards. Stock-based compensation expense, as determined using the Black-Scholes option-pricing model, is recognized on a straight-line basis over the service period, net of estimated forfeitures. To the extent that actual results or revised estimates differ from the estimates used, those amounts will be recorded as an adjustment in the period that estimates are revised.

Warrant Liability

On August 14, 2014, Company issued the Lender a warrant to purchase 12,500,000 shares of the Company's common stock at $1.00 per share, subject to the adjustments (see Note 13 for changes to the terms of these warrants). The Company also issued to Drexel for the transaction: (i) a 5-year warrant to purchase up to 800,000 shares of common stock at $1.00 per share; and (ii) a 5-year warrant to purchase up to 1,000,000 shares of common stock at $0.50 per share, both subject to adjustments similar to the Warrant issued to the Lender (see Note 13 for changes to the terms of these warrants).

On November 16, 2015, the Company issued a contingent warrant to purchase up to an additional 5,000,000 shares at $0.35 subject to the same type of adjustments as the previously issued warrants, which warrant shall be immediately exercisable for 3,600,000 shares with the balance of 1,400,000 shares exercisable proportionately to such additional Senior Convertible Notes up to $1,400,000 purchased by the Lender.

As of December 31, 2015, the Company owed Drexel Hamilton, LLC approximately 200,000 warrants as compensation for services rendered. This liability was settled with an amendment to the engagement letter with Drexel on February 19, 2016.

These warrants are valued in accordance with FASB ASC 815-10 as liabilities using a Monte Carlo Simulation Model as of each reporting period date and the change in value can have a significant impact on the Company's bottom line. The significant assumptions considered by the model were the remaining term of the warrants, operational forecasts provided by the Company, the fair value per share stock price, a risk free treasury rate and an expected volatility rate at each measurement date.

Warrants

Unless sold and issued warrants are subject to the provisions of FASB ASC 815-10, the Company utilized a Black-Scholes options pricing model to value the warrants sold and issued. This model requires the input of highly subjective assumptions such as the expected stock price volatility and the expected period until the warrants are exercised. When calculating the value of warrants issued, the Company uses a volatility factor of 85.8%, a risk free interest rate and the life of the warrant for the exercise period. When sold and issued warrants were valued in accordance with FASB ASC 815-10, the fair value was determined using a Monte Carlo Simulation Model.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Midwest Energy Emissions Corp.

We have audited the accompanying consolidated balance sheets of Midwest Energy Emissions Corp. (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the years in the two-year period ended December 31, 2015 and 2014. Midwest Energy Emissions Corp.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Midwest Energy Emissions Corp. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2015 and 2014, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Schneider Downs & Co., Inc.

Columbus, Ohio

March 30, 2016

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MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

	December 31, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,083,280	$ 7,212,114
Accounts receivable	1,150,602	410,950
Inventory	2,715,913	5,784,905
Prepaid expenses and other assets	161,813	140,559
Total current assets	5,111,608	13,548,528
Property and equipment, net	1,243,450	255,330
License, net	58,825	64,707
Prepaid expenses and other assets	4,058	13,799
Customer acquisition costs, net	897,428	1,156,521
Total assets	$ 7,315,369	$ 15,038,885
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued expenses	$ 1,235,162	$ 1,174,521
Deferred revenue	2,281,760	5,808,301
Convertible notes payable	2,497,114	3,080,376
Customer credits	936,500	936,500
Other current liabilites	-	250,000
Total current liabilities	6,950,536	11,249,698
Convertible notes payable, net of discount and issuance costs	3,175,085	2,438,902
Warrant liability	9,854,400	5,597,011
Accrued interest	169,202	337,999
Equipment notes payable	111,144	-
Total liabilities	20,260,367	19,623,610
Stockholders' deficit		
Preferred stock, $.001 par value: 2,000,000 shares authorized	-	-
Common stock; $.001 par value; 150,000,000 shares authorized; 47,194,118 shares issued and outstanding as of December 31, 2015 40,228,123 shares issued and outstanding as of December 31, 2014	47,194	40,228
Additional paid-in capital	25,008,016	19,113,724
Accumulated deficit	(38,000,208)	(23,738,677)
Total stockholders' deficit	(12,944,998)	(4,584,725)
Total liabilities and stockholders' deficit	$ 7,315,369	$ 15,038,885

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

MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2014
Revenues		
Product sales	$ 5,028,184	$ 2,451,051
Equipment sales	6,939,412	-
Demonstrations and consulting services	664,323	343,155
Total revenues:	12,631,919	2,794,206
Costs and expenses:		
Cost of goods sold	8,629,570	1,483,379
Operating expenses	1,812,355	904,914
License maintenance fees	300,000	300,000
Selling, general and administrative expenses	3,180,419	5,518,032
Settlement charges	1,335,394	-
Depreciation and amortization	390,828	387,123
Professional fees	672,269	678,725
Total costs and expenses	16,320,835	9,272,173
Operating loss	(3,688,916)	(6,477,967)
Other income (expense)		
Interest expense	(6,213,897)	(2,724,506)
Change in value of warrant liability	(3,194,189)	4,204,189
Debt conversion inducement expense	(1,123,380)	-
State income taxes	(41,149)	(9,273)
Total other income (expense)	(10,572,615)	1,470,410
Net loss	$ (14,261,531)	$ (5,007,557)
Net loss per common share - basic and diluted:	$ (0.32)	$ (0.13)
Weighted average common shares outstanding	44,160,298	39,140,243

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

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MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE PERIOD FROM DECEMBER 31, 2013 THROUGH DECEMBER 31, 2015

	Common Stock				Additional		Accumulated		Total Stockholders'
	Shares		Par Value		Paid-in Capital		(Deficit)		Deficit
Balance - December 31, 2013	35,299,429	$	35,299	$	13,789,473	$	(18,731,120)	$	(4,906,348)
Stock issued for services	161,379		161		196,339		-		196,500
Shares issued per 2013 amended license agreement	1,375,000		1,375		(1,375)		-		-
Stock issued for interest on notes payable	271,555		272		256,215		-		256,487
Stock issued upon debt conversion	639,151		639		359,378		-		360,017
Stock and warrants issued upon conversion of liabilities	346,518		347		380,822		-		381,169
Stock issued upon warrant exercise	6,250		6		7,807		-		7,813
Stock issued upon cashless warrant exercise	1,174,059		1,174		(1,174)		-		-
Sale of stock and warrants, net of issuance costs	954,782		955		1,003,980		-		1,004,935
Issuance of stock options	-		-		3,122,259		-		3,122,259
Net loss for the period	-		-		-		(5,007,557)		(5,007,557)
Balance - December 31, 2014	**40,228,123**	**$**	**40,228**	**$**	**19,113,724**	**$**	**(23,738,677)**	**$**	**(4,584,725)**
Stock issued for interest on notes payable	335,000		335		161,245		-		161,580
Stock and warrants issued upon debt conversion	6,630,995		6,631		4,448,566		-		4,455,197
Issuance of stock options	-		-		789,087		-		789,087

Warrants to be issued	-		-		495,394		-		495,394
Net loss	-		-		-		(14,261,531)		(14,261,531)
Balance - December 31, 2015	**47,194,118**	**$**	**47,194**	**$**	**25,008,016**	**$**	**(38,000,208)**	**$**	**(12,944,998)**

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

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MIDWEST ENERGY EMISSIONS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2014
Cash flows from operating activities		
Net loss	$ (14,261,531)	$ (5,007,557)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation	789,087	3,122,259
Stock issued for services	-	196,500
Amortization of license fees	5,882	5,882
Amortization of discount of notes payable	4,030,201	1,052,899
Amortization of debt issuance costs	670,107	413,484
Amortization of customer acquisition costs	259,093	130,979
Depreciation expense	125,853	250,262
Gain (loss) on the change in value of warrant liability	3,194,189	(4,204,189)
Debt conversion inducement expense	1,123,380	-
Noncash settlement charge expense	1,335,394	-
PIK interest	1,324,463	918,435
Change in assets and liabilities		
Increase in accounts receivable	(739,652)	(177,091)
Decrease (increase) in inventory	3,068,992	(5,784,905)
Decrease (increase) in prepaid expenses and other assets	(11,513)	(67,687)
(Decrease) increase in accounts payable and accrued liabilities	(125,371)	378,028
(Decrease) increase in deferred revenue	(3,526,541)	5,808,301
Net cash used in operating activities	(2,737,967)	(2,964,400)
Cash flows used in investing activities		
Purchase of property and equipment	(956,605)	(297,870)
Net cash used in investing activities	(956,605)	(297,870)
Cash flows from financing activities		
Payment of debt issuance costs	(22,688)	(747,969)
Payment of equity issuance costs	-	(45,325)
Proceeds from notes payable	-	300,000
Payments of notes payable	(11,574)	(600,000)
Payments on convertible promissory notes	(3,000,000)	-
Proceeds from the issuance of convertible promissory notes and related warrants	600,000	10,000,000
Proceeds from the issuance of common stock and related warrants	-	1,050,260
Proceeds from the issuance of common stock upon warrant exercise	-	7,813
Net cash (used in) provided by financing activities	(2,434,262)	9,964,779
Net (decrease) increase in cash and cash equivalents	(6,128,834)	6,702,509

Cash and cash equivalents - beginning of period		7,212,114		509,605
Cash and cash equivalents - end of period	$	1,083,280	$	7,212,114
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	69,489	$	12,007
Taxes	$	41,149	$	9,273
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS				
Equipment purchases included in accounts payable	$	-	$	34,250
Equipment purchases included in note payable	$	113,718	$	-
Accrued sales credits included in customer acquisition costs	$	-	$	936,500
Non cash debt issuance costs	$	76,200	$	1,121,500
Non cash discounts on notes payable	$	168,000	$	8,550,000
Stock issued for interest on notes payable	$	161,580	$	256,487
Conversion of advances payable to debt	$	-	$	4,167
Conversion of debt and accrued interest to equity	$	3,331,817	$	616,504
Conversion of accounts payable and other liabilities to equity	$	-	$	377,002
Conversion of accrued interest to debt	$	1,324,463	$	918,435

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

Midwest Energy Emissions Corp. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 - Organization

Midwest Energy Emissions Corp.

Midwest Energy Emissions Corp. (the "Company") is organized under the laws of the State of Delaware with 150,000,000 authorized shares of common stock, par value $.001 per share and 2,000,000 authorized shares of preferred stock, par value $0.001 per share.

MES, Inc.

MES, Inc. is incorporated in the State of North Dakota. MES, Inc. is a wholly owned subsidiary of Midwest Energy Emissions Corp. and is engaged in the business of developing and commercializing state of the art control technologies relating to the capture and control of mercury emissions from coal fired boilers in the United States and Canada.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the Generally Accepted Accounting Principles in the United States of America ("GAAP").

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments and other short-term investments with maturity of three months or less, when purchased, to be cash equivalents. The Company maintains its cash in three accounts with one financial institution, which at times may exceed federally insured limits. Cash equivalents also include restricted cash of $0 and $12,500 as of December 31, 2015 and 2014, respectively.

In addition, per the financing agreement entered into with AC Midwest LLC (the "Lender") (see Note 8), the Company is not permitted to use cash to pay interest accruing on unsecured convertible promissory notes. Also, should the Company be unable to raise sufficient capital to pay off such notes or otherwise induce the holders thereof to convert their notes to common stock, it will not be permitted to pay them off under the terms of the Financing Agreement without the prior consent of the Lender.

Accounts Receivable

Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At December 31, 2015 and 2014, the allowance for doubtful accounts was zero.

Inventory

Inventories are stated at the lower of cost (first-in, first-out basis) or market (net realizable value).

Property and Equipment

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. For consolidated financial statement purposes, property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives of 3 to 5 years.

Expenditures for repairs and maintenance which do not materially extend the useful lives of property and equipment are charged to operations. Management periodically reviews the carrying value of its property and equipment for impairment.

Recoverability of Long-Lived and Intangible Assets

The Company has adopted ASC 360-10, *Property, Plant and Equipment* ("ASC 360-10"). ASC 360-10 requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should impairment in value be indicated, the carrying value of the long-lived and or intangible assets would be adjusted, based on estimates of future discounted cash flows. The Company evaluated the recoverability of the carrying value of the Company's equipment. No impairment charges were recognized for the years ended December 31, 2015 and 2014, respectively.

Stock-Based Compensation

The Company accounts for stock-based compensation awards in accordance with the provisions of ASC 718, *Compensation—Stock Compensation* ("ASC 718"), which requires equity-based compensation, be reflected in the consolidated financial statements over the period of service which is typically the vesting period based on the estimated fair value of the awards.

Derivative Liabilities

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks; however, the Company has certain financial instruments that are embedded derivatives associated with capital raises and common stock purchase warrants. The Company evaluates all its financial instruments to determine if those contracts or any potential embedded components of those contracts qualify as derivatives to be separately accounted for in accordance with FASB ASC 815-10. This accounting treatment requires that the carrying amount of any embedded derivatives be recorded at fair value at issuance and marked-to-market at each balance sheet date. In the event that the fair value is recorded as a liability, as is the case with the Company, the change in the fair value during the period is recorded as either income or expense. Upon conversion or exercise, the derivative liability is marked to fair value at the conversion date and then the related fair value is reclassified to equity.

Fair Value of Financial Instruments

The fair value hierarchy has three levels based on the inputs used to determine fair value, which are as follows:

- *Level 1* — Unadjusted quoted prices available in active markets for the identical assets or liabilities at the measurement date.
- *Level 2* — Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- *Level 3* — Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

The fair value hierarchy requires the use of observable market data when available. In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

Cash and cash equivalents were the only asset measured at fair value on a recurring basis by the Company at December 31, 2015 and December 31, 2014 and is considered to be Level 1. Warrant liability is considered to be Level 3, and is the only liability measured at fair value on a recurring basis as of December 31, 2015 and December 31, 2014.

Financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, deferred revenue, customer credits and short-term debt. The carrying amounts of these financial instruments approximated fair value at December 31, 2015 and 2014 due to their short-term maturities. The fair value of the convertible promissory notes payable at December 31, 2015 and 2014 approximated the carrying amount as the notes were issued during the years ended December 31, 2015 and 2014 at interest rates prevailing in the market and interest rates have not significantly changed as of December 31, 2015. The fair value of the convertible promissory notes payable was determined on a Level 2 measurement.

The Company has entered into certain financial instruments and contracts; such as, equity financing arrangements for the issuance of common stock, which include anti-dilution arrangements and detachable stock warrants that are i) not afforded equity classification, ii) embody risks not clearly and closely related to host contracts, or iii) may be net-cash settled by the counterparty. These instruments are recorded as derivative liabilities, at fair value at the issuance date. Subsequent changes in fair value are recorded through the statement of operations.

The Company's derivative liabilities are related to detachable common stock purchase warrants ("warrants") issued in conjunction with debt and warrants issued to the placement agents for financial instrument issuances. We estimate fair values of the warrants that do contain "Down Round Protections" utilizing valuation models and techniques that have been developed and are widely accepted that take into account the additional value inherent in "Down Round Protection." These widely accepted techniques include "Modified Binomial", "Monte Carlo Simulation" and the "Lattice Model." The "core" assumptions and inputs to the "Modified Binomial" model are the same as for "Black-Scholes", such as trading volatility, remaining term to maturity, market price, strike price, and risk free rates; all Level 2 inputs. Fair value measurements are classified according to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable. However, a key input to a "Modified Binomial" model (in our case, the "Monte Carlo Simulation", for which we engaged an independent valuation firm to perform) is the probability of a future capital raise. By definition, this input assumption does not meet the requirements for Level 1 or Level 2 outlined above; therefore, the entire fair value calculation is deemed to be Level 3 under accounting requirements due to this single Level 3 assumption. This input to the Monte Carlo Simulation model was developed with significant input from management based on its knowledge of the business, current financial position and the strategic business plan with its best efforts.

As discussed above, financial liabilities are considered Level 3 when their fair values are determined using pricing models or similar techniques and at least one significant model assumption or input is unobservable. For the Company, the Level 3 financial liability is the derivative liability related to the warrants that include "Down Round Protection" and they were valued using the "Monte Carlo Simulation" technique. This technique, while the majority of inputs are Level 2, necessarily incorporates various assumptions associated with a Capital Raise which are unobservable and, therefore, a Level 3 input.

The table below provides a summary of the changes in fair value of the warrant liability measured at fair value on a recurring basis:

Balance at January 1, 2014	$ -
Issuance of warrants	9,801,200
Change in value of warrant liability	(4,204,189)
Balance at December 31, 2014	$ 5,597,011
Issuance of warrants	1,008,000
Warrants to be issued	55,200
Change in value of warrant liability	3,194,189
Balance at December 31, 2015	$ 9,854,400

Foreign Currency Transactions

The Company's functional currency is the United States Dollar (the "U.S. Dollar"). Transactions denominated in currencies other than the U.S. Dollar are re-measured to the U.S. Dollar at the period-end exchange rates. Any associated transactional currency re-measurement gains and losses are recognized in current operations.

Revenue Recognition

The Company records revenue from sales in accordance with ASC 605, *Revenue Recognition* ("ASC 605"). The criteria for recognition are as follows:

1. Persuasive evidence of an arrangement exists;
2. Delivery has occurred or services have been rendered;
3. The seller's price to the buyer is fixed or determinable; and
4. Collectability is reasonably assured.

Determination of criteria (3) and (4) will be based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments will be provided for in the same period the related sales are recorded.

The Company recorded customer acquisition costs totaling $1,287,500 during the year ended December 31, 2014. The Company entered into agreements with three new customers during this period. The capitalized balance of customer acquisition costs was $897,428 and $1,156,521 on December 31, 2015 and December 31, 2014, respectively. Amortization expense for the years ended December 31, 2015 and 2014 was $259,093 and $130,979, respectively.

In accordance with the terms of the its customer agreements, the Company made progress billings to four customers of $3,412,871 and $5,808,301 during the years ended December 31, 2015 and 2014, respectively, which relate to the future fabrication, delivery and installation of new equipment. During the year ended December 31, 2015, nine projects totaling $6,939,412 were completed and recognized as revenue. The remaining balance is included as deferred revenue at December 31, 2015 and 2014 and is expected to be recognized as revenue during the year ended 2016 when the equipment is commissioned for use by the customers.

The Company generated revenues of $12,631,919 and $2,794,206 for the years ended December 31, 2015 and 2014, respectively. The Company generated revenue for the years ended December 31, 2015 and 2014 by (i) delivering product to its commercial customers, (ii) completing and commissioning equipment projects at commercial customer sites and (ii) performing demonstrations of its technology at customers with the intent of entering into long term supply agreements based on the performance of the Company's products during the demonstrations.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's consolidated financial statements are based on a more-likely-than-not recognition threshold. The Company did not have any unrecognized tax benefits at December 31, 2015 or 2014. When necessary, the Company would accrue penalties and interest related to unrecognized tax benefits as a component of income tax expense.

The Company and its subsidiaries file a consolidated income tax return in the U.S. federal jurisdiction and three state jurisdictions. The Company is no longer subject to U.S. federal examinations for years prior to 2012 or state tax examinations for years prior to 2011.

Basic and Diluted Loss Per Common Share

Basic net loss per common share is computed using the weighted average number of common shares outstanding. Diluted loss per share reflects the potential dilution from common stock equivalents, such as stock issuable pursuant to the exercise of stock options and warrants. There were no dilutive potential common shares as of December 31, 2015 or 2014, because the Company incurred net losses and basic and diluted losses per common share are the same.

Concentration of Credit Risk

Financial instruments that subject the Company to credit risk consist of cash and equivalents on deposit with financial institutions and accounts receivable. The Company's cash as of December 31, 2015 is on deposit in a non-interest-bearing transaction account that is subject to FDIC deposit insurance limits. For the years ended December 31, 2015 and 2014, 100% of the Company's revenue related to eight customers and five customers, respectively. At both December 31, 2015 and 2014, 100% of the Company's accounts receivable related to five and four customers, respectively.

Contingencies

Certain conditions may exist which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they arise from guarantees, in which case the guarantees would be disclosed.

Recently Issued Accounting Standards

In May, 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) Summary - The FASB has made available Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers: Topic 606. ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of Topic 350, Intangibles-Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We are currently assessing the impact this standard will have on the Company's consolidated financial statements and required disclosures.

In June, 2014, the FASB issued Accounting Standards Update No. 2014-12, Compensation -Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation - Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Entities may apply the amendments in this ASU either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this ASU as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. In addition, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. We are currently assessing the impact this standard will have on the Company's consolidated financial statements and required disclosures.

In August, 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.* ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. We are currently assessing the impact this standard will have on the Company's consolidated financial statements and required disclosures.

In November, 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity*. The amendments in this ASU do not change the current criteria in U.S. GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. The amendments clarify how current U.S. GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The amendments in this ASU also clarify that, in evaluating the nature of a host contract, an entity should assess the substance of the relevant terms and features (i.e., the relative strength of the debt-like or equity-like terms and features given the facts and circumstances) when considering how to weight those terms and features. Specifically, the assessment of the substance of the relevant terms and features should incorporate a consideration of: (1) the characteristics of the terms and features themselves (for example, contingent versus noncontingent, in-the-money versus out-of-the-money); (2) the circumstances under which the hybrid financial instrument was issued or acquired (e.g., issuer-specific characteristics, such as whether the issuer is thinly capitalized or profitable and well-capitalized); and (3) the potential outcomes of the hybrid financial instrument (e.g., the instrument may be settled by the issuer issuing a fixed number of shares, the instrument may be settled by the issuer transferring a specified amount of cash, or the instrument may remain legal-form equity), as well as the likelihood of those potential outcomes. The amendments in this ASU apply to all entities that are issuers of, or investors in, hybrid financial instruments that are issued in the form of a share. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption, including adoption in an interim period, is permitted. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The effects of initially adopting the amendments in this ASU should be applied on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year for which the amendments are effective. Retrospective application is permitted to all relevant prior periods. We are currently assessing the impact this standard will have on the Company's consolidated financial statements and required disclosures.

In April, 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03,*Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption of the amendments is permitted for financial statements that have not been previously issued. The amendments should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (i.e., debt issuance cost asset and the debt liability). We have adopted this standard in the current presentation of the Company's consolidated financial statements and required disclosures. By adopting this standard, the Company's balance sheet presentation has changed as certain assets have been reclassified to a liability. The adoption does not alter the accounting for the amortization of debt issuance costs

In June, 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-11,*Inventory (Subtopic 330): Simplifying the measurement of Inventory.* The amendments in this ASU require inventory be measured at the lower of cost and net realizable value. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years.The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. We are currently assessing the impact this standard will have on the Company's consolidated financial statements and required disclosures.

In February, 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-11, *Leases (Topic 842).* Under the new guidance, lessees will be required to recognize a lease liability and right-of-use asset at the commencement date for all leases, with the exception of short term leases. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. We are currently assessing the impact this standard will have on the Company's consolidated financial statements and required disclosures.

Note 3 - Going Concern

The accompanying consolidated financial statements as of December 31, 2015 have been prepared assuming the Company will continue as a going concern. The Company has experienced a net loss, negative cash flows from operations and has an accumulated deficit of $38,000,000. The Company has convertible notes maturing during 2016 of $1,055,000, and current principal payments due in the third and fourth quarters of 2016 on outstanding long term convertible notes of $1,442,000. These principal payments raise doubt about the Company's ability to continue as a going concern. Although we anticipate significant revenues for the sale of capital equipment and products to be used in MATS compliance activities, no assurances can be given that the Company can obtain sufficient working capital through these activities and additional financing activities to meet its debt obligations. Due to certain covenants with our senior lender, we are not able to use current cash on hand to pay current convertible note holders as these notes mature. Convertible notes with current principal balances of approximately $1,055,000 mature in 2016. Therefore, success in our fund raising efforts and negotiations with our note holders is critical. We are actively seeking sources of additional financing in order to fund our debt repayment obligations and if extensions cannot be negotiated with our early investors who purchased convertible debt from the Company. No assurances can be given that the Company can maintain sufficient working capital through these efforts or that the continued implementation of its business plan will generate sufficient revenues in the future to sustain ongoing operations.

The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern.

Note 4 - Inventory

During the year ended December 31, 2014, the Company began the production of equipment to be sold to its customers. As of December 31, 2015 and 2014, respectively, costs totaling $2,219,476 and $5,714,905, respectively, were incurred for component purchases and progress billings from subcontractors on projects that have not yet been commissioned for use by our customers. These costs will be recorded as cost of sales at that time. The Company also held product supply inventory valued at $285,067 and $70,000 and other inventory valued at $211,370 and zero as of December 31, 2015 and December 31, 2014, respectively.

Note 5 - Property and Equipment, Net

Property and equipment at December 31, 2015 and 2014 are as follows:

	December 31 2015	December 31 2014
Equipment & Installation	$ 1,159,298	$ 787,918
Trucking equipment	743,605	168,504
Mixing Equipment	172,749	17,103
Office equipment	27,155	23,941

Computer equipment and software	97,530	88,898
Total Equipment	2,200,337	1,086,364
Less: accumulated depreciation	956,887	831,034
Property and equipment, net	$ 1,243,450	$ 255,330

The Company uses the straight-line method of depreciation over 3 to 5 years. During the years ended December 31, 2015 and 2014, depreciation expense charged to operations was $125,853 and $250,262, respectively.

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Note 6 - License Agreement

On January 15, 2009, the Company entered into an "Exclusive Patent and Know-How License Agreement Including Transfer of Ownership" with the Energy and Environmental Research Center Foundation, a non-profit entity ("EERCF"). Under the terms of the Agreement, the Company has been granted an exclusive license by EERCF for the technology to develop, make, have made, use, sell, offer to sell, lease, and import the technology in any coal-fired combustion systems (power plant) worldwide and to develop and perform the technology in any coal-fired power plant in the world. Amendments No. 4 and No. 5 to this agreement were made effective as of December 16, 2013 and August 14, 2014, respectively, expanding the number of patents covered, eliminated certain contract provisions and compliance issues and restructured the fee payments and buyout provisions while granting EERCF equity in the Company. This agreement now applies to 25 domestic and foreign patents and patent applications.

The Company paid EERCF $100,000 in 2009 for the license to use the patents and at the option of the Company can pay $2,500,000 and issue 875,000 shares of common stock for the assignment of the patents or pay the greater of the license maintenance fees or royalties on product sales for continued use of the patents. The license maintenance fees are $25,000 due monthly beginning in January 1, 2014 and continuing each month thereafter. The running royalties are $100 per one megawatt of electronic nameplate capacity and $100 per three megawatt per hour for the application to thermal systems to which licensed products or licensed processes are sold by the Company, associate and sublicensees. Running royalties are payable by the Company within 30 days after the end of each calendar year to the licensor and may be credited against license maintenance fees paid. There were no royalties due for 2015 or 2014.

The Company is required to pay EERCF 35% of all sublicense income received by the Company, excluding royalties on sales by sublicensees. Sublicense income is payable by the Company within 30 day after the end of each calendar year to the licensor. This requirement ends at the time the Company pays for the assignment of the patents. There was no sublicense income in 2015 or 2014.

License costs capitalized as of December 31, 2015 and 2014 are as follows:

	December 31, 2015	**December 31, 2014**
License	$ 100,000	$ 100,000
Less: accumulated amortization	41,175	35,293
License, net	$ 58,825	$ 64,707

The Company is currently amortizing its license to use EERCF's patents over their estimated useful life of 17 years when acquired. During the period ended December 31, 2015 and 2014, amortization expense charged to operations was $5,882 and $5,882, respectively. Estimated amortization for each of the next five years is approximately $5,900.

Note 7 - Advances Payable – Related Party

As of December 31, 2014, the Company owed Jay Rifkin a former officer and director of the Company, $250,000 for unpaid consulting fees accrued prior to the year ended 2011 and accrued interest of $31,318 accrued on advances made to the company prior to their conversion to promissory notes of the Company on June 30, 2013. These amounts were accrued in other current liabilities and accrued liabilities on the accompanying consolidated balance sheet at December 31, 2014. On January 2, 2015, the Company entered into a Payment of Debt and Release of Claims Agreement and paid the balance of this debt to Mr. Rifkin.

Note 8 - Convertible Notes Payable

The Company has the following convertible notes payable outstanding as of December 31:

	2015	2014
Unsecured convertible promissory notes which had an original term of three years, bear interest at 12% per annum, and are convertible into units, where each unit consists of: (i) one share of common stock of the Company, par value $0.001 per share, and (ii) a warrant to purchase 0.25 shares of common stock of the Company at an exercise price of $1.00 per share. The conversion ratio shall be equal to $0.75 per unit.	$ 357,483	$ 3,245,499
Unsecured convertible promissory notes which have a term of three years, bear interest at 12% per annum, and are convertible into units, where each unit consists of: (i) 1 share of common stock of the Company, par value $0.001 per share, and (ii) a warrant to purchase 0.25 shares of common stock of the Company at an exercise price of $0.75 per share. The initial conversion ratio shall be equal to $0.50 per unit.	735,293	654,408
Secured convertible promissory notes which mature on July 31, 2018, bear interest at 10% per annum, and are convertible into one share of common stock, par value $0.001 per share, with the initial conversion ratio equal to $0.50 per share.	1,645,000	1,705,000
Secured convertible note which matures on July 31, 2018, bear interest at 12% per annum, and is convertible into one share of common stock, par value $0.001 per share, with the initial conversion ratio equal to $0.50 per share.	9,062,019	10,475,388
Total convertible notes payable before discount	11,799,795	16,080,295
Less discounts	(4,413,119)	(8,275,321)
Less debt issuance costs	(1,714,477)	(2,285,696)
Total convertible notes payable	5,672,199	5,519,278
Less current portion	2,497,114	3,080,376
Convertible notes payable, net of current portion	$ 3,175,085	$ 2,438,902

As of December 31, 2015, schedule principal payments due on convertible notes payable are as follows:

Twelve months ended December 31,	
2016	2,497,114
2017	2,921,052
2018	6,381,629
	11,799,795

From April 26, 2012 to January 24, 2013, the Company sold convertible notes to unaffiliated accredited investors totaling $2,675,244. The notes have a term of three years, bear interest at 12% per annum, and are convertible into units, where each unit consists of: (i) one share of common stock of the Issuer, par value $0.001 per share, and (ii) a warrant to purchase 0.25 shares of common stock of the Issuer at an exercise price of $1.25 per share. The initial conversion ratio shall be equal to $1.00 per unit. The notes may be converted at any time and from time to time in whole or in part prior to the maturity date thereof. These securities were sold in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. Interest expense for the year ended December 31, 2015 and 2014, was $208,676 and $382,838, respectively.

During the year ended December 31, 2015, the Company and holders of these notes have entered into amendments which (i) extend the maturity dates by 12 months from their original maturity dates; (ii) reduce the conversion price from $1.00 to $0.50 per unit for a period of 45 days and $0.75 thereafter; and (iii) reduce the exercise of the warrant included in the unit from $1.25 to $1.00 per share. As of December 31, 2015, the holders of these notes totaling $3,112,883 converted their notes into equity of the Company. The Company has converted this balance and along with accrued interest of $124,352 into 6,474,717 shares of common stock and 1,618,680 warrants to purchase common stock. As of December 31, 2015, total principal of $357,483 was outstanding on these notes to the remaining note holders that did not convert. The Company recognized a non-cash inducement expense of $1,123,380 associated with these conversions as they took place during the initial 45 day period after the amendment, prior to the conversion rate resetting to $0.75.

From April 5 through May 10, 2013, the Company sold convertible notes to unaffiliated accredited investors totaling $405,000. The notes have a term of three years, bear interest at 12% per annum, and are convertible into units, where each unit consists of: (i) 1 share of common stock of the Issuer, par value $0.001 per share, and (ii) a warrant to purchase 0.25 shares of common stock of the Issuer at an exercise price of $0.75 per share. The initial conversion ratio shall be equal to $0.50 per unit. The notes may be converted at any time and from time to time in whole or in part prior to the maturity date thereof. These securities were sold in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. Interest expense for the years ended December 31, 2015 and 2014, was $60,707 and $54,029, respectively. As of December 31, 2015 and 2014, total principal of $520,625 and $463,354, respectively, was outstanding on these notes.

On June 27 and June 30, 2013, the Company converted advances payable from related parties into convertible notes totaling $1,036,195. The notes have a term of three years, bear interest at 12% per annum, and are convertible into units, where each unit consists of: (i) 1 share of common stock of the Issuer, par value $0.001 per share, and (ii) a warrant to purchase 0.25 shares of common stock of the Issuer at an exercise price of $0.75 per share. The initial conversion ratio shall be equal to $0.50 per unit. The notes may be converted at any time and from time to time in whole or in part prior to the maturity date thereof. These securities were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. On July 12, 2013, the Company converted $866,211 of these notes, along with accrued interest of $4,331, into 1,741,084 common stock and 435,271 warrants to purchase shares of common stock (see Note 13). Interest expense for the years ended December 31, 2015 and 2014, was $25,031 and $22,278, respectively. As of December 31, 2015 and 2014, total principal of $214,668 and $191,054, respectively was outstanding on these notes.

From July 30, 2013 through December 24, 2013, the Company sold convertible notes and warrants to unaffiliated accredited investors totaling $1,902,500. The notes have a term of three years, bear interest at 10% per annum, are secured by the company's assets, and are convertible into one share of common stock, par value $0.001 per share, with the initial conversion ratio equal to $0.50 per share. For each dollar invested, the investor received two warrants to purchase one shares of common stock of the Issuer at an exercise price of $0.75 per share. The notes may be converted at any time and from time to time in whole or in part prior to the maturity date thereof. These securities were sold in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. Interest expense for the years ended December 31, 2015 and 2014, was $163,054 and $311,197, respectively. A discount on the notes payable of $841,342 was recorded based on the value of the warrants issued using a Black-Scholes options pricing model. Amortized interest expense for the years ended December 31, 2015 and 2014 on this discount was $152,541 and $231,579, respectively. As of December 31, 2015 and 2014, total principal of $1,645,000 and $1,705,000, respectively, was outstanding on these notes.

On August 14, 2014, the Company and its wholly-owned subsidiary MES, Inc. ("MES, and together with the Company, collectively the "Companies") entered into a financing agreement (the "Financing Agreement") with a newly created independent entity, AC Midwest Energy LLC (the "Lender"). Pursuant to the Financing Agreement, the Company borrowed $10,000,000 from the Lender, evidenced by a convertible note (the "Note") maturing July 31, 2018, secured by all the assets of the Companies. All the indebtedness under the Note is convertible into common stock of the Company at $1.00 per share, subject to the following adjustments: (i) an adjustment of the price per share down to $0.75 per share if the Company fails to generate EBITDA (earnings before taxes, interest, depreciation and amortization) of at least $2,500,000 for calendar year 2015; and (ii) weighted average anti-dilution adjustments to the extent that following the issuance of the Note, the Company issues securities or rights to acquire securities at an effective purchase price below the conversion price for the Note, subject to carveouts for certain exempt issuances by the Company. Per an amendment to the Financing Agreement discussed below, the conversion price was adjusted to $0.50 per share and the adjustment to the price per share for failing to generate a certain level of EBITDA was eliminated.

The Note bears interest at 12% per annum, to be paid at the rate of: (i) 12% payment in kind or "PIK" for year one; (ii) 2% cash and 10% PIK for year two; and (iii) 12% all cash for years three and four. The PIK interest is paid by increasing the principal balance of the Note by the PIK amount. The Note is secured by the Company's assets. The Note cannot be prepaid without the Lender's consent before its second anniversary, and thereafter at 105% of the outstanding indebtedness evidenced by the Note, subject to the right of the Lender to convert the outstanding indebtedness to the Company's common stock prior to prepayment. Principal amortization of the Note is to begin with the first quarter following the second year of the Note at the rate of 7.5% of the original principal amount per quarter and to continue each quarter thereafter, with all unpaid interest to be due at maturity. In the event of default, the interest rate on the Note will be increased by an additional 3% per annum. The Financing Agreement contains numerous affirmative obligations and negative covenants. Interest expense for the years ended December 31, 2015 and 2014 was $1,052,376 and $475,388, respectively. As of December 31, 2015 and 2014, total principal of $9,062,019 and $10,475,388, respectively, was outstanding on this note.

In connection with the issuance of the Note to Lender, the Company issued Lender a five year warrant (the "Warrant") to purchase 12,500,000 shares of the Company's common stock at $1.00 per share, subject to adjustments (See Note 14). The Company also paid Lender a fee of $100,000 for issuing the loan, reimbursed it $125,000 for its legal fees and costs associated with the transactions and compensated the Placement Agent for the transaction (Drexel Hamilton, LLC, "Drexel") for the transaction with a cash fee of $350,000 and: (i) a 5-year warrant to purchase up to 800,000 shares of common stock at $1.00 per share; and (ii) a 5-year warrant to purchase up to 1,000,000 shares of common stock at $0.50 per share, both subject to adjustments similar to the Warrant issued to the Lender (See Note 14). The Company incurred legal fees and expenses of $169,000 associated with the transaction. The total transaction costs incurred in connection with the issuance of the Note were $1,999,169, including the warrants to Drexel which were valued at $1,251,200 in accordance with FASB ASC 815-10 as liabilities using a Monte Carlo Simulation Model (see Note 10). In connection with the issuance of the Amendment No. 2, the Company issued a five year warrant to the Lender to purchase up to 5,000,000 shares of common stock with an exercise price of $0.35 per share, subject to adjustments (See Note 14).

In connection with the Financing Agreement, the Lender also entered into an Investor/Registration Rights Agreement, dated as of August 14, 2014, pursuant to which the Lender received demand registration rights requiring the Company, at the direction of the Lender, to register the shares of common stock underlying the Note, the Warrant, and any 2013 Secured Notes purchased by the Lender (such underlying stock being collectively, the "Registrable Securities") as well as certain veto rights. If: (i) the Company is delayed in getting the applicable registration statement(s) filed or declared effective, (ii) the sales of all of the Registrable Securities required to be registered (subject to certain permitted cutback requirements) cannot be made pursuant to the applicable registration statement(s), or (iii) the applicable registration statement(s) is not effective for any reason other than permitted exceptions, then the Investor/Registration Rights Agreement provides penalties, cumulatively capped at 2.5% of the original principal amount of the Note. The Investor/Registration Rights Agreement also provides that once the Note has been fully paid or converted, and for so long as the Lender continues to hold at least 10% of the issued and outstanding stock of the Company, the Lender's approval is required before certain major actions may be taken by the Company.

On August 14, 2014, the Companies, the Lender, and each of the holders ("Holders") of the 2013 Secured Notes entered into an Intercreditor Agreement. The Intercreditor Agreement provides that the Lender acts as the senior secured lender to the Company in all respects, save for where it chooses to liquidate the Collateral securing the Note, in which event the first net proceeds from liquidation of the Collateral, after all associated costs and expenses, are to be applied to retire the 2013 Secured Notes. Simultaneous with entering into the Intercreditor Agreement, the Note Agent entered into an allonge ("Allonge") amending each of the 2013 Secured Notes in the following manner: (i) extension of the maturity date of all of the 2013 Secured Notes to July 31, 2018; (ii) elimination of the Company's right to mandatorily convert the 2013 Secured Notes until any time after December 20, 2016, except in the event of a listing of the Company's common stock on a national securities exchange, where the conversion of the 2013 Secured Notes is a condition preceding such listing and the Company has maintained a volume weighted average price per share of at least $1.25 for the 20 consecutive trading days prior to the conversion and subject to average volume of at least 50,000 shares per day; (iii) issuance of a "springing warrant" in the event of Lender's exercise of its purchase option to purchase the 2013 Secured Notes, to be issued as of the date of such purchase, in an amount equal to the number of shares that could have been purchased were the 2013 Secured Notes to have been exercised on such date at .50 cents per share and to run until the later of the original maturity date of the applicable note in question or two years following the date of the issuance of the warrant.

On March 16, 2015, the Company entered into a Waiver and Amendment to Financing Agreement, and Reaffirmation of Guaranty with AC Midwest Energy, LLC ("Amendment"). This Amendment decreased the conversion price of the convertible note and exercise price of the outstanding warrants to $0.50, respectively. The Company repaid $3,000,000 of outstanding principal on the convertible note as of the close of the Amendment. The Company agreed to new financial covenants as part of the Amendment, which included a waiver for the compliance of certain covenants in the periods prior to the date of the Amendment. In connection with change in the conversion terms and repayment of principal, the Company incurred a loss of $2,246,105 which was primarily related to accelerated amortization of the discount on convertible notes payable and is included in interest expense.

On November 16, 2015, the Companies entered into Waiver and Amendment No. 2 to Financing Agreement, and Reaffirmation of Guaranty (the "Amendment No. 2") with the Lender. Pursuant to Amendment No. 2, the Company issued a new Senior Secured Convertible Note of $600,000 ("First New Note") purchased by the Lender. In addition, Amendment No. 2 allows for two additional Senior Secured Convertible Notes totaling up to $1,400,000 (which together with the First New Note are referred to herein as the "New Notes") to be purchased by Lender during 2016 subject to certain conditions being met by both parties. All the indebtedness under the New Notes shall be convertible into common stock of the Company at $0.50 per share, subject to weighted average anti-dilution adjustments to the extent that following the issuance of the New Notes, the Company issues securities or rights to acquire securities at an effective purchase price below the conversion price for the New Notes. As of January 31, 2016, the Company's right to sell one additional New Note for $400,000 expired. In connection to Amendment No. 2, the Company owed Drexel approximately 200,000 warrants and $21,000 as compensation for services rendered. This liability was settled with an amendment to the engagement letter with Drexel on February 19, 2016 and (see Note 16). These warrants were valued in accordance with FASB ASC 815-10 as liabilities using a Monte Carlo Simulation Model. The fair value of the warrant liability on the issuance date for the warrants to be issued was $55,200. These costs were recorded as debt issuance costs.

Note 9 - Equipment Notes Payable

On September 30, 2015, the Company entered into a retail installment purchase contract in the amount of $57,007, secured by a 2016 Dodge Ram 5500 purchased on that date. This installment loan bears interest at a fixed rate of 4.22% and the Company shall make 60 monthly payments of $1,056 beginning October 30, 2015.

On December 15, 2015, the Company entered into a retail installment purchase contract in the amount of $56,711, secured by a 2016 Dodge Ram 5500 purchased on that date. This installment loan bears interest at a fixed rate of 4.22% and the Company shall make 60 monthly payments of $1,050 beginning January 15, 2016.

Note 10 - Warrant Liability

On August 14, 2014, Company issued the Lender a warrant to purchase 12,500,000 shares of the Company's common stock at $1.00 per share, subject to the adjustments (see Note 14 for changes to the terms of these warrants). The Company also issued to Drexel for the transaction: (i) a 5-year warrant to purchase up to 800,000 shares of common stock at $1.00 per share; and (ii) a 5-year warrant to purchase up to 1,000,000 shares of common stock at $0.50 per share, both subject to adjustments similar to the Warrant issued to the Lender (see Note 14 for changes to the terms of these warrants). These warrants were valued in accordance with FASB ASC 815-10 as liabilities using a Monte Carlo Simulation Model. The fair value of the warrant liability on the issuance date for all warrants issued was $9,801,200. The warrants issued to Drexel were valued at $1,251,200 and were recorded as transaction costs associated with Financing Agreement. As of December 31, 2014, per a new valuation performed in accordance with FASB ASC 815-10, the total value of these warrants was adjusted to $5,597,011 and a gain for the change in value of the liability of $4,204,189 was recognized. As of December 31, 2015, pursuant to a new valuation performed in accordance with FASB ASC 815-10, the total value of these warrants was adjusted to $7,872,000 and a loss for the change in value of the liability of $2,274,989 was recognized. The significant assumptions considered by the model were the remaining term of the warrants, operational forecasts provided by the Company, the fair value per share stock price of $0.33 and $0.61, a risk free treasury rate for 0.92% and 1.10% and an expected volatility rate of 85.8% and 72.8 at December 31, 2015 and December 31, 2014, respectively.

On November 16, 2015, Company issued the Lender a contingent warrant to purchase up to 5,000,000 shares of the Company's common stock at $0.35 per share, subject to adjustments, which warrant shall be immediately exercisable for 3,600,000 shares with the balance of 1,400,000 shares exercisable proportionately to such additional Senior Convertible Notes up to $1,400,000 purchased by the Lender (see Note 14 for the terms of these warrants). These warrants were valued in accordance with FASB ASC 815-10 as liabilities using a Monte Carlo Simulation Model. The fair value of the warrant liability on the issuance date for all warrants issued was $1,008,000. $840,000 of this amount was considered a waiver fee and was recorded as a settlement charge. $168,000 was recorded as a discount on notes payable. As of December 31, 2015, per a new valuation performed in accordance with FASB ASC 815-10, the total value of these warrants was adjusted to $1,872,000 and a loss for the change in value of the liability of $864,000 was recognized.

In connection to Amendment No. 2, the Company owed Drexel approximately 200,000 warrants as compensation for services rendered. This liability was settled with an amendment to the engagement letter with Drexel on February 19, 2016 (see Note 16). These warrants were valued in accordance with FASB ASC 815-10 as liabilities using a Monte Carlo Simulation Model. The fair value of the warrant liability on the issuance date for the warrants to be issued was $55,200 which was recorded as debt issuance costs. As of December 31, 2015, per a new valuation performed in accordance with FASB ASC 815-10, the total value of these warrants was adjusted to $110,400 and a loss for the change in value of the liability of $55,200 was recognized.

Note 11 - Commitments and Contingencies

As discussed in Note 6, the Company has entered in an "Exclusive Patent and Know-How License Agreement Including Transfer of Ownership" that requires minimum license maintenance costs. The Company is planning on using the intellectual property granted by the patents for the foreseeable future. The license agreement is considered expired on October 14, 2025, the date the patent expires. Future minimum maintenance fee payments are as follows:

For the year ended December 31	
2016	$ 300,000
2017	300,000
2018	300,000
2019	300,000
2020	300,000
Thereafter	1,450,000
	$ 2,950,000

The Company has the option to pay $2,500,000 and issue 925,000 shares of common stock for the assignment of the patents, and upon doing so, the requirement to make minimum license maintenance costs ends.

Property Leases

On June 1, 2011, the Company entered into a 36 month lease for warehouse space in Centralia, Washington, commencing August 1, 2011. The lease provides for the option to extend the lease on a month to month basis. Rent is $1,900 monthly throughout the term of the lease.

On January 27, 2015, the Company entered into a 13-month lease for office space in Lewis Center, Ohio, commencing February 1, 2015. The lease provides for the option to extend the lease for up to five additional years. Rent was abated for the first month of the lease. Rent is $1,378 per month for months two through thirteen. This lease was renewed for 12 months in November 2015. Rent is $1,396 for months for months fourteen through twenty-five.

On July 1, 2015, the Company entered into a five year lease for warehouse space in Corsicana, Texas. Rent is $3,750 monthly throughout the term of the lease and is waived from July 1, 2016 through September 30, 2016.

On September 1, 2015, the Company entered into a three year lease for office space in Grand Forks, North Dakota. Rent is $3,500 monthly for the first year and decreases to $2,500 throughout the remainder of the term of the lease.

Future minimum lease payments under these non-cancelable leases are approximately as follows:

For the year ended December 31	
2016	88,468
2017	77,792
2018	65,000
2019	45,000
2020	22,500
Thereafter	-
	$ 298,760

Rent expense was approximately $135,000 and $92,000 for the years ended December 31, 2015 and 2014, respectively.

Fixed Price Contract

The Company's multi-year contracts with its commercial customers contain fixed prices for product. These contracts expire through 2019 and expose the Company to the potential risks associated with rising material costs during that same period.

Legal proceedings

The Company is involved in various claims and legal proceedings arising from the normal course of business. While the ultimate liability, if any, from these proceedings is presently indeterminable, in the opinion of management, these matters should not have a material adverse effect on the Company's consolidated financial statements.

Note 12 - Equity

The Company was established with two classes of stock, common stock – 150,000,000 shares authorized at a par value of $0.001 and preferred stock – 2,000,000 shares authorized at a par value of $0.001.

Common Stock

In January 2014, the Company issued 962,500 shares of common stock to the EERCF and 412,500 shares of common stock to four individuals pursuant to Amendment No. 4 to the Exclusive Patent and Know-How License Agreement Including Transfer of Ownership dated January 15, 2009 (see Note 6). The amendment was made effective December 16, 2013 and the stock grant was valued as of that date at $825,000 in accordance with FASB ASC Topic 718.

On January 27, 2014, the Company issued 769,296 shares of common stock upon the cashless exercise of 983,000 warrants to purchase shares of common stock for $0.50 per share based on a current market value of $2.30 per share as determined under the terms of the warrant.

On January 28, 2014, the Company issued 87,144 shares of common stock to the holders of notes with a term of three years, bear interest at 10% per annum, and are convertible into one share of common stock, par value $0.001 per share, with the initial conversion ratio equal to $0.50 per share, as payment for accrued interest of $43,572 due as of December 31, 2013.

On January 28, 2014, the Company issued 399,525 shares of common stock upon the cashless exercise of 570,500 warrants to purchase shares of common stock for $0.75 per share based on a current market value of $2.50 per share as determined under the terms of the warrant.

On January 30, 2014, the Company issued 55,695 shares of common stock upon the conversion of a note with principal and accrued interest totaling $27,847, that bear interest at 10% per annum, and was convertible into one share of common stock, par value $0.001 per share, with a conversion ratio equal to $0.50 per share.

On January 31, 2014, the Company issued 25,000 shares of common stock to an unrelated third party pursuant to an executed agreement to provide public relations and investor relations services. The shares were valued at $52,500.

On February 5, 2014, the Company issued 139,319 shares of common stock to an unrelated third party pursuant to an executed Conversion and Settlement Agreement in satisfaction of the outstanding principal balance of $50,000 and accrued interest totaling $11,300.

On March 19, 2014, the Company issued 25,000 shares of common stock and 6,250 warrants to purchase shares of common stock upon the conversion of a note principal totaling $25,000, that bear interest at 12% per annum, and was convertible into units, where each unit consists of: (i) 1 share of common stock, par value $0.001 per share, and (ii) a warrant to purchase 0.25 shares of common stock at an exercise price of $1.25 per share with a conversion ratio equal to $1.00 per unit.

On March 19, 2014, the Company issued 6,250 shares of common stock upon the exercise of warrants to purchase shares of common stock for $1.25.

From April 21, 2014 to May 8, 2014, the Company sold securities to unaffiliated accredited investors totaling $1,050,260. The securities consist of units, where each unit consists of: (i) one share of common stock of the Issuer, par value $0.001 per share, and (ii) a warrant to purchase one shares of common stock of the Issuer at an exercise price of $1.10 per share. The price of each unit was $1.10 and 954,782 units were sold.These securities were sold in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. As of February 19, 2016, pursuant to the terms of the warrants issued, the exercise price has been reset to $0.87 due to dilutive issuances made by the Company subsequent to the issuance of these warrants.

On May 16, 2014, the Company issued 70,000 shares of common stock upon the partial conversion of a note principal totaling $35,000, that bear interest at 10% per annum, and was convertible into one share of common stock, par value $0.001 per share, with a conversion ratio equal to $0.50 per share.

On May 23, 2014, the Company issued 60,427 shares of common stock and 15,107 warrants to purchase shares of common stock upon the conversion of a note principal and accrued interest totaling $60,427, that bear interest at 12% per annum, and was convertible into units, where each unit consists of: (i) one share of common stock, par value $0.001 per share, and (ii) a warrant to purchase 0.25 shares of common stock at an exercise price of $1.25 per share with a conversion ratio equal to $1.00 per unit.

On June 16, 2014, the Company entered into a Debt Conversion Agreement with Richard MacPherson, the current CEO and a director of the Company ("MacPherson"), 3253517 Nova Scotia Limited (the "Nova Scotia Company") and Eastern Emissions Consultants Incorporated ("Eastern Emissions"). MacPherson is the controlling principal of both the Nova Scotia Company and Eastern Emissions. Pursuant to the Debt Conversion Agreement, the amount of $381,169 (the "MacPherson Debt") due and owing to MacPherson and Eastern Emissions was converted into 346,518 Units of the Company at a conversion price of $1.10 per Unit with each Unit consisting of one share of the Company's common stock, and a five-year warrant to purchase one additional share of common stock at an exercise price of $1.10 per share. The MacPherson Debt consisted of (i) $4,167 of remaining principal owing to MacPherson from a prior debt due to MacPherson for advances payable, most of which was converted into equity of the Company in 2013; (ii) $216,502 of accrued interest owing to MacPherson on such prior advances; (iii) $10,500 owing to MacPherson for certain truck rental fees incurred in 2011; and (iv) $150,000 owing to Eastern Emissions for unpaid consulting fees through December 31, 2013 under a Consulting Agreement between the Company and Eastern Emissions entered into as of January 10, 2012. The Units acquired by the Nova Scotia Company have the same terms as the units recently sold to certain accredited investors in a private placement. As of February 19, 2016, pursuant to the terms of the warrants issued, the exercise price has been reset to $0.87 due to dilutive issuances made by the Company subsequent to the issuance of these warrants.

On June 24, 2014, the Company issued 41,922 shares of common stock upon the conversion of a note with principal and accrued interest totaling $20,961, that bear interest at 10% per annum, and was convertible into one share of common stock, par value $0.001 per share, with a conversion ratio equal to $0.50 per share.

On July 14, 2014, the Company issued 50,181 shares of common stock upon the conversion of a note with principal and accrued interest totaling $25,090, that bear interest at 10% per annum, and was convertible into one share of common stock, par value $0.001 per share, with a conversion ratio equal to $0.50 per share.

On August 28, 2014, the Company issued 30,475 shares of common stock upon the conversion of a note with principal and accrued interest totaling $15,237, that bear interest at 10% per annum, and was convertible into one share of common stock, par value $0.001 per share, with a conversion ratio equal to $0.50 per share.

On September 22, 2014, the Company issued 12,174 shares of common stock and 3,044 warrants to purchase shares of common stock upon the conversion of a note principal and accrued interest totaling $12,174, that bear interest at 12% per annum, and was convertible into units, where each unit consists of: (i) one share of common stock, par value $0.001 per share, and (ii) a warrant to purchase 0.25 shares of common stock at an exercise price of $1.25 per share with a conversion ratio equal to $1.00 per unit.

On September 25, 2014, the Company issued 5,238 shares of common stock upon the cashless exercise of 10,000 warrants to purchase shares of common stock for $0.50 per share based on a market value of $1.05 per share as determined under the terms of the warrant.

On October 6, 2014, the Company issued 153,958 shares of common stock upon the conversion of a note with principal and accrued interest totaling $76,979, that bear interest at 10% per annum, and was convertible into one share of common stock, par value $0.001 per share, with a conversion ratio equal to $0.50 per share.

On October 9, 2014, the Company issued 50,000 shares of common stock to an unrelated third party pursuant to an executed agreement to provide public relations and investor relations services. The shares were valued at $44,000.

On January 1, 2015, the Company issued 170,500 shares of common stock to the holders of notes which mature in 2018, bearing interest at 10% per annum, and are convertible into one share of common stock, par value $0.001 per share, with the initial conversion ratio equal to $0.50 per share, as payment for accrued interest due as of December 31, 2014.

On January 30, 2015, the Company issued 20,161 shares of common stock upon the conversion of a note with principal totaling $10,000 and accrued interest of $81, that bears interest at 10% per annum, and was convertible into one share of common stock, par value $0.001 per share, with a conversion ratio equal to $0.50 per share.

On February 20, 2015, the Company issued 32,604 shares of common stock and 8,151 warrants to purchase shares of common stock upon the conversion of a note principal and accrued interest totaling $32,603, that bear interest at 12% per annum, and was convertible into units, where each unit consists of: (i) one share of common stock, par value $0.001 per share, and (ii) a warrant to purchase 0.25 shares of common stock at an exercise price of $1.25 per share with a conversion ratio equal to $1.00 per unit.

From April 28, 2015 through September 30, 2015, the Company issued 6,474,703 shares of common stock and 1,618,680 warrants to purchase shares of common stock upon the conversion of a note principal and accrued interest totaling $3,237,370, that bear interest at 12% per annum, and was convertible into units, where each unit consists of: (i) one share of common stock, par value $0.001 per share, and (ii) a warrant to purchase 0.25 shares of common stock at an exercise price of $1.00 per share with a conversion ratio equal to $0.50 per unit. The Company recognized a non-cash inducement expense of $1,123,380 associated with these conversions as they took place during the initial 45 day period after the amendment, prior to the conversion rate resetting to $0.75.

On May 8, 2015, the Company issued 103,527 shares of common stock upon the conversion of a note with principal totaling $50,000 and accrued interest of $1,764, that bears interest at 10% per annum, and was convertible into one share of common stock, par value $0.001 per share, with a conversion ratio equal to $0.50 per share.

On July 1, 2015, the Company issued 164,500 shares of common stock to the holders of notes which mature in 2018, bear interest at 10% per annum, and are convertible into one share of common stock, par value $0.001 per share, with the initial conversion ratio equal to $0.50 per share, as payment for accrued interest due as of June 30, 2015.

Note 13 - Stock Based Compensation

Effective July 20, 2005, the Board of Directors of the Company approved the 2005 Stock Option and Restricted Stock Plan (the "*2005 Plan*"). The 2005 Plan reserves approximately 136,364 post Reverse Stock Split shares of common stock for grants of incentive stock options, nonqualified stock options, warrants and restricted stock awards to employees, non-employee directors and consultants performing services for the Company. Options and warrants granted under the 2005 Plan have an exercise price equal to or greater than the fair market value of the underlying common stock at the date of grant and become exercisable based on a vesting schedule determined at the date of grant. The options expire 10 years from the date of grant whereas warrants generally expire 5 years from the date of grant. Restricted stock awards granted under the 2005 Plan are subject to a vesting period determined at thedate of grant.

On May 6, 2009, the Board of Directors adopted, subject to stockholder approval, which was obtained at the annual stockholders meeting held on June 19, 2009, an amendment to the 2005 Plan that increased the number of shares subject to the Stock Plan. The total number of shares subject to the Stock Plan was revised to 454,545 shares by the Reverse Stock Split. On October 9, 2014, the Board of Directors terminated this plan upon the approving an amendment to the 2014 Equity Incentive Plan.

On January 10, 2014, the Board of Directors of the Company approved and adopted, subject to stockholder approval, which was obtained at the annual stockholders meeting held on November 16, 2014, the Midwest Energy Emissions Corp. 2014 Equity Incentive Plan (the "Equity Plan"). The number of shares of the Company's Common Stock that may be issued under the Equity Plan is 2,500,000 shares, subject to the adjustment for stock dividends, stock splits, recapitalizations and similar corporate events.Eligible participants under the Equity Plan shall include officers, employees of or consultants to the Company or any of its subsidiaries, or any person to whom an offer of employment is extended, or any person who is a non-employee director of the Company. On October 9, 2014, the Board of Directors approved and adopted the First Amendment to the plan, subject to stockholder approval, which was obtained at the annual stockholders meeting held on November 18, 2014, which increased the number of shares issuable under the plan to 7,500,000.

The Company accounts for stock-based compensation awards in accordance with the provisions of ASC 718, which addresses the accounting for employee stock options which requires that the cost of all employee stock options, as well as other equity-based compensation arrangements, be reflected in the consolidated financial statements over the vesting period based on the estimated fair value of the awards.

A summary of stock option activity for the years ended December 31, 2015 and 2014 is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
December 31, 2013	385,458	10.83	4.2	-
Grants	4,710,000	0.95	4.5	-
Cancellations	-	-	-	-
December 31, 2014	5,095,458	1.70	4.5	-
Grants	2,150,000	0.55	4.6	-
Cancellations	(525,000)	-	-	-
December 31, 2015	6,720,458	1.35	3.7	-
Options exercisable at:				
December 31, 2014	3,095,458	2.31	4.5	-
December 31, 2015	3,420,458	2.05	3.3	-

The Company utilized the Black-Scholes options pricing model. The significant assumptions utilized for the Black Scholes calculations consist of an expected life of equal to the expiration term of the option, historical volatility of 85.8%, and a risk free interest rate of 3%.

On January 1, 2014, the Company granted nonqualified stock options to acquire 250,000 shares each of the Company's common stock to James Trettel and Keith McGee. The options granted are exercisable at $0.595 per share, representing the fair market value of the common stock as of the date of grant. The options are fully vested and exercisable as of the date of grant and will expire five years thereafter. Based on a Black-Sholes valuation model these options were valued at $224,850 in accordance with FASB ASC Topic 718.

On January 30, 2014, the Company granted the following nonqualified stock options to acquire an aggregate of 1,140,000 shares of the Company's common stock under the Company's Equity Plan:

Alan Kelley	500,000
John Norris	150,000
Rich Gross	100,000
Marc Sylvester	250,000
Jay Rifkin	105,000
Chris Greenberg	35,000
	1,140,000

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The options granted are exercisable at $1.20 per share, representing the fair market value of the common stock as of the date of grant as determined under the Equity Plan. The options are fully vested and exercisable as of the date of grant and will expire five years thereafter. Based on a Black-Sholes valuation model, these options were valued at $1,963,825 in accordance with FASB ASC Topic 718. On November 9, 2015, Jay Rifkin resigned as a director of the Company. Per the terms of the option issued, Mr. Rifkin's stock options were terminated on February 7, 2016.

On January 31, 2014, pursuant to a representation agreement to provide public and investor relations services, the Company issued QualityStocks, LLC 25,000 shares of common stock. The shares were valued at $52,500.

On April 8, 2014, the Company entered into an agreement with Acorn Management Partners, LLC to provide financial advisory, strategic business planning and professional relations services. The agreement was for one year and can be terminated at any time by either party. Compensation under the agreement includes $50,000 of restricted common stock issued quarterly with the number of shares issued determined by dividing $50,000 by the closing price on the first day of each quarter the contract is in force. On April 22, 2014, the Company issued 38,760 shares of common stock based on a market value of $1.29 per share as determined under the terms of the agreement. On July 10, 2014, the Company issued 47,619 shares of common stock based on a market value of $1.05 per share as determined under the terms of the agreement.

On April 29, 2014, the Company issued nonqualified stock options to acquire 250,000 shares of the Company's common stock to Chris Greenberg, a current director of the Company, under the Company's Equity Plan. The options granted are exercisable at $1.50 per share, representing the fair market value of the common stock as of the date of the grant as determined under the Equity Plan. The options are fully vested and exercisable as of the date of grant and will expire five years thereafter. Based on a Black-Sholes valuation model, these options were valued at $265,833 in accordance with FASB ASC Topic 718.

On May 1, 2014, the Company issued nonqualified stock options to acquire 25,000 shares each of the Company's common stock to Chris Greenberg, Jay Rifkin and John Norris, each then a director of the Company, under the Company's Equity Plan. Mr. Greenberg remains a director of the Company. The options granted are exercisable at $1.49 per share, representing the fair market value of the common stock as of the date of the grant as determined under the Equity Plan. The options are fully vested and exercisable as of the date of grant and will expire five years thereafter. Based on a Black-Sholes valuation model, these options were valued at $85,122 in accordance with FASB ASC Topic 718. On November 9, 2015, Jay Rifkin resigned as a director of the Company. Per the terms of the option issued, Mr. Rifkin's stock option was terminated on February 7, 2016.

On May 1, 2014, the Company issued nonqualified stock options to acquire 10,000 shares each of the Company's common stock to Chris Greenberg and Jay Rifkin and nonqualified stock options to acquire 25,000 shares of the Company's common stock to John Norris, each then a director of the Company, under the Company's Equity Plan. Mr. Greenberg remains a director of the Company. The options are granted and exercisable at $1.49 per share, representing the fair market value of the common stock as of the date of the grant as determined under the Equity Plan. The options are fully vested and exercisable as of the date of grant and will expire five year thereafter. Based on a Black-Sholes valuation model, these options were valued at $51,073 in accordance with FASB ASC Topic 718. On November 9, 2015, Jay Rifkin resigned as a director of the Company. Per the terms of the option issued, Mr. Rifkin's stock option was terminated on February 7, 2016.

On September 1, 2014, the Company granted nonqualified stock options to acquire 500,000 shares of the Company's common stock to Keith McGee. The options granted are exercisable at $1.15 per share, representing the fair market value of the common stock as of the date of grant. The options are fully vested and exercisable as of the date of grant and will expire five years thereafter. Based on a Black-Sholes valuation model, these options were valued at $353,683 in accordance with FASB ASC Topic 718. On August 14, 2015, Mr. McGee resigned from the

Company. Per the terms of the option issued, Mr. McGee's stock option was terminated on November 12, 2015.

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On September 19, 2014, the Company granted nonqualified stock options to acquire 100,000 shares of the Company's common stock to Robert W. O'Neal. The options granted are exercisable at $1.05 per share, representing the fair market value of the common stock as of the date of grant. The options are fully vested and exercisable as of the date of grant and will expire five years thereafter. Based on a Black-Sholes valuation model, these options were valued at $64,586 in accordance with FASB ASC Topic 718.

On October 9, 2014, per an agreement that the Company entered into with Bristol Institutional Relations, the Company issued 50,000 shares of common stock.The shares were valued at $44,000.

On November 16, 2014, the Company entered into an employment agreement with John Pavlish which terms include the issuance of stock options for the purchase of shares of the Company's common stock in the aggregate amount of three million shares, two million of which was issued on November 16, 2014 and one million of which was issued on November 16, 2015, in each case pursuant to the terms of the Company's 2014 Equity Incentive Plan. The options granted are exercisable at $0.74 and $0.45 per share, respectively, representing the fair market value of the common stock as of the date of grant. These options are to vest two years and one year after the original grant dates, respectively, subject to his continued employment. Based on a Black-Sholes valuation model, the value of the issued options was $910,350 and $200,360, respectively in accordance with FASB ASC Topic 718. Compensation expense for the years ended December 31, 2015 and 2014 on the issued options was $480,218 and $56,898, respectively.

On November 24, 2014, the Company granted nonqualified stock options to acquire 100,000 shares of the Company's common stock to Johnny Battle. The options granted are exercisable at $0.93 per share, representing the fair market value of the common stock as of the date of grant. The options are fully vested and exercisable as of the date of grant and will expire five years thereafter. Based on a Black-Sholes valuation model, these options were valued at $56,388 in accordance with FASB ASC Topic 718.

On January 1, 2015, the Company granted nonqualified stock options to acquire 250,000 shares of the Company's common stock to Nick Lentz. The options granted are exercisable at $0.61 per share, representing the fair market value of the common stock as of the date of grant. These options are to vest two years after the original grant date, subject to his continued employment, are exercisable as of the date of vesting and will expire five years thereafter. Based on a Black-Sholes valuation model, these options were valued at $93,803 in accordance with FASB ASC Topic 718. Compensation expense for the year ended December 31, 2015 on the issued options was $46,907.

On May 1, 2015, the Company issued nonqualified stock options to acquire 25,000 shares each of the Company's common stock to Chris Greenberg, Jay Rifkin and Brian Johnson, each then a director of the Company, under the Company's Equity Plan. Messrs. Greenberg and Johnson remain directors of the Company. The options granted are exercisable at $0.67 per share, representing the fair market value of the common stock as of the date of the grant as determined under the Equity Plan. These options are to vest one year after the original grant date, subject to continuing service to the Company, are exercisable as of the date of vesting and will expire five years thereafter. Based on a Black-Sholes valuation model, these options were valued at $30,909 in accordance with FASB ASC Topic 718. Compensation expense for year ended December 31, 2015 on the issued options was $20,605. On November 9, 2015, Jay Rifkin resigned as a director of the Company, and his stock option was terminated.

On May 4, 2015, the Company issued nonqualified stock options to acquire 25,000 shares each of the Company's common stock to Jay Rifkin and Brian Johnson, nonqualified stock options to acquire 50,000 shares of the Company's common stock to Chris Lee and nonqualified stock options to acquire 75,000 shares of the Company's common stock to Chris Greenberg, each then a director of the Company, under the Company's Equity Plan. Other than Mr. Rifkin, each remains a director of the Company. The options are granted and exercisable at $0.67 per share, representing the fair market value of the common stock as of the date of the grant as determined under the Equity Plan. The options are fully vested and exercisable as of the date of grant and will expire five year thereafter. Based on a Black-Sholes valuation model, these options were valued at $74,991 in accordance with FASB ASC Topic 718. Compensation expense for the year ended December 31, 2015 on the issued options was $74,991. On November 9, 2015, Jay Rifkin resigned as a director of the Company. Per the terms of the option issued, Mr. Rifkin's stock option was terminated on February 7, 2016.

On August 14, 2015, pursuant to an agreement for separation and release effective on that date, the Company issued a five year, fully vested stock option to purchase 100,000 shares of common stock to Keith McGee. The options granted are exercisable at $0.37 per share, representing the fair market value of the common stock as of the date of grant. Based on a Black-Sholes valuation model, these options were valued at $24,050 in accordance with FASB ASC Topic 718. Compensation expense for the year ended December 31, 2015 on the issued options was $24,050.

On September 11, 2015, the Company issued nonqualified stock options to acquire 250,000 shares each of the Company's common stock to James Trettel and Marc Sylvester under the Company's Equity Plan. The options are granted and exercisable at $0.42 per share, representing the fair market value of the common stock as of the date of the grant as determined under the Equity Plan. The options are fully vested and exercisable as of the date of grant and will expire five year thereafter. Based on a Black-Sholes valuation model, these options were valued at $122,690 in accordance with FASB ASC Topic 718. Compensation expense for the year ended December 31, 2015 on the issued options was $122,690.

On December 23, 2015, the Company issued nonqualified stock options to acquire 50,000 shares of the Company's common stock to Richard Gross under the Company's Equity Plan. The options are granted and exercisable at $0.59 per share, representing the fair market value of the common stock as of the date of the grant as determined under the Equity Plan. The options are fully vested and exercisable as of the date of grant and will expire five year thereafter. Based on a Black-Sholes valuation model, these options were valued at $19,626 in accordance with FASB ASC Topic 718. Compensation expense for the year ended December 31, 2015 on the issued options was $19,626.

Note 14 - Warrants

Unless sold and issued warrants are subject to the provisions of FASB ASC 815-10, the Company utilized a Black-Scholes options pricing model to value the warrants sold and issued. This model requires the input of highly subjective assumptions such as the expected stock price volatility and the expected period until the warrants are exercised. When calculating the value of warrants issued, the Company uses a volatility factor of 72.4%, a risk free interest rate and the life of the warrant for the exercise period. When sold and issued warrants were valued in accordance with FASB ASC 815-10, the fair value was determined using a Monte Carlo Simulation Model.

On April 21, 2014, the Company entered into an amended and restated letter agreement with ViewTrade Securities Inc. to act as a placement agent for the Company in connection with its private placement offering that was opened on March 19, 2014. Pursuant to this agreement, the Company agreed to issue cashless warrants with an exercise period of five years to ViewTrade entitling ViewTrade to acquire an amount equal to 8% of the shares of common stock sold to investors that are introduced to the Company by ViewTrade. On May 8, 2014, the Company issued ViewTrade cashless warrants with a term of five years to purchase 2,000 shares of common stock with an exercise price of $1.10 per share as compensation for the shares of common stock sold to such investors. The agreement was terminated on May 14, 2014. As of February 19, 2016, pursuant to the terms of the warrants issued, the exercise price has been reset to $0.87 due to dilutive issuances made by the Company subsequent to the issuance of these warrants.

On August 14, 2014, in connection with the issuance of the Note to Lender (see Note 8), the Company issued the Lender a five year warrant (the "Warrant") to purchase 12,500,000 shares of the Company's common stock at $1.00 per share, subject to the following adjustments: (i) adjustment down to $0.75 per share exercise price if the Company fails to achieve EBITDA for 2015 of at least $2,500,000; and (ii) weighted average anti-dilution adjustments to the extent that following the issuance of the Note, the Company issues equity securities or rights to acquire equity securities at an effective purchase price per share of common stock below the conversion price for the Note, subject to carveouts for certain issuances by the Company. At issuance of the Warrant, the Lender shall be entitled upon any exercise of the Warrant to a number of shares of common stock in an amount at least equal to 15% of the aggregate number of then-outstanding shares of capital stock of the Company (as determined on a fully-diluted basis). In addition, if the aggregate number of Warrant Shares purchasable under the Warrant calculated at the time of the initial exercise of the Warrant is less than 15% of the outstanding shares of capital stock of the Company at the time of the initial exercise of the Warrant, the Lender's number of Warrant Shares shall be increased by an amount of shares necessary to cause the number of Warrant Shares to represent 15% of the aggregate number of then-outstanding shares of capital stock of the Company on a fully diluted basis. The Warrant can be converted to shares of common stock through a cashless exercise at the option of the Lender. Per an amendment to the Financing Agreement on March 16, 2015, the purchase price per share was adjusted to $0.50 per share and the purchase price adjustment should the Company fail to meet certain EBITDA levels was eliminated. Per the weighted average anti-dilution adjustment provision, the number of shares to be purchased with warrant has increased to 12,743,728 shares as of December 31, 2015 due to dilutive issuances made subsequent to the issuance of these warrants.

On August 14, 2014, the Company issued to Drexel, the placement agent for the Financing Agreement (see Note 10) (i) a 5-year warrant to purchase up to 800,000 shares of common stock at $1.00 per share; and (ii) a 5-year warrant to purchase up to 1,000,000 shares of common stock at $0.50 per share, both subject to adjustments similar to the Warrant issued to the Lender. Per the weighted average anti-dilution adjustment provision, the number of shares to be purchased with warrant has increased to 994,862 shares and 1,002,231 shares, respectively, as of December 31, 2015 due to dilutive issuances made subsequent to the issuance of these warrants. Per an amendment of the Company's agreement with Drexel, the purchase price of both of these warrants was decreased to $0.35.

On November 16, 2015, In connection with entering into Amendment No. 2 with the Lender, the Company issued a five year contingent warrant to the Lender to purchase up to 5,000,000 shares of common stock with an exercise price of $0.35 per share, subject to adjustment in a manner similar to the adjustments on the New Notes, which warrant shall be immediately exercisable for 3,600,000 shares with the balance of 1,400,000 shares exercisable proportionately to such additional Senior Convertible Notes up to $1,400,000 purchased by the Lender as described Note 8. At issuance of this warrant, the Lender shall be entitled upon any exercise of the warrant to a number of shares of common stock in an amount at least equal to 4.32% of the aggregate number of then-outstanding shares of capital stock of the Company (as determined on a fully-diluted basis). In addition, if the aggregate number of Warrant Shares purchasable under the Warrant calculated at the time of the initial exercise of the Warrant is less than 4.32% of the outstanding shares of capital stock of the Company at the time of the initial exercise of the Warrant, the Lender's number of Warrant Shares shall be increased by an amount of shares necessary to cause the number of Warrant Shares to represent 4.32% of the aggregate number of then-outstanding shares of capital stock of the Company on a fully diluted basis. The Warrant can be converted to shares of common stock through a cashless exercise at the option of the Lender.

On February 16, 2016, the Company entered into a 2013 Noteholder Modification Agreement (the "Noteholder Modification Agreement") with each of the investors (through their designated Note Agent) of certain secured promissory notes issued by the Company in 2013 (the "2013 Secured Notes"). Such 2013 Secured Notes contain a most favored nations clause ("MFN") which provides that following the Company's completion of an equity or equity-linked new financing (each a "New Financing"), the Company shall provide each of the holders of the 2013 Secured Notes (the "Holders") written notice thereof and a 60 day period in which to exchange the 2013 Secured Notes at a value equal to the outstanding principal balance plus accrued outstanding interest into the same securities as issued in the New Financing. Pursuant to the Noteholder Modification Agreement, which was entered into in order to resolve the differences between the parties as to the applicability of the MFN provision to the Second Amended Financing Agreement, the Company (i) agreed that the exercise price for each share of common stock purchasable with respect to the 2013 Warrants held by currently outstanding Holders be reduced to $0.35 per share of common stock (resulting in the exercise price being reduced for 2013 Warrants exercisable for 3,290,000 shares), and (ii) agreed to issue to such currently outstanding Holders of 2013 Secured Notes in the aggregate warrants to purchase up to 1,600,000 shares of common stock at $0.35 per share, exercisable at any time on or before November 15, 2020. In addition, the Noteholder Modification Agreement provided additional carveouts to the applicability of the MFN provision to certain other transactions in the future as described therein. The warrants are fully vested and exercisable as of the date of grant and will expire five year thereafter. Based on a Black-Sholes valuation model, these options were valued at $495,394 in accordance with FASB ASC Topic 718 and this cost was recorded as settlement charge expense during the year ended December 31, 2015. These warrants are not included in the table of outstanding common stock warrants below.

On February 19, 2016, the Company issued to Drexel pursuant to an amendment to its engagement agreement a 5-year warrant to purchase up to 300,000 shares of common stock at $0.35 per share. The warrant is subject to adjustments similar to the Warrant issued to the Lender on November 16, 2014. Approximately 200,000 of these warrants were owed to Drexel as of December 31, 2015 for services rendered. These warrants are not included in the table of outstanding common stock warrants below.

The following table summarizes information about common stock warrants outstanding at December 31, 2015:

	Outstanding			Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 3.30	11,364	0.36	$ 3.30	11,364	$ 3.30
1.25	26,302	0.67	1.25	26,302	1.25
1.00	1,642,680	1.44	1.00	1,642,680	1.00
0.87	1,303,300	3.36	0.87	1,303,300	0.87
0.65	515,000	2.83	0.65	515,000	0.65
0.50	12,743,728*	3.62	0.50	12,743,728	0.50
0.48	577,750	2.77	0.48	577,750	0.48
0.35	8,887,093*	3.82	0.35	8,887,093	0.35
$ 0.50 - $3.30	25,707,217	3.50		25,707,217	

Note * All warrants exercisable at $0.50 and 5,597,093 warrants exercisable at $0.35 contain dilution protections that increase the number of shares purchasable at exercise upon the issuance of securities at a price below the current exercise price.

Note 15 - Tax

A reconciliation of the provision (benefit) for income taxes with amounts determined by applying the statutory U.S. federal income tax rate to income before income taxes is as follows for the years ended December 31:

	2015	2014
Computed tax at the federal statutory rate of 34%	$ (4,849,000)	$ (1,703,000)
Return to provision adjustment	-	420,000
Debt discounts	3,399,000	(1,010,000)
Other	10,000	7,000
Valuation allowance	1,440,000	2,286,000
Provision for income taxes	$ -	$ -

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows at December 31:

	2015	2014
Deferred tax assets:		
Accrued Compensation	$ 2,907,000	$ 2,638,000
Net operating loss carryforwards	8,303,000	7,185,000
Property and equipment	(3,000)	38,000
Other	62,000	-
Valuation Allowance	(11,269,000)	(9,861,000)
Det deferred tax assets	$ -	$ -

For the years ended December 31, 2015 and 2014, the Company incurred net operating losses and, accordingly, no provision for income taxes has been recorded. In addition, no benefit for income taxes has been recorded due to the uncertainty of the realization of any tax assets. At December 31, 2015, the Company had approximately $24,421,000 of net operating losses. The net operating loss carryforwards, if not utilized, will begin to expire in 2031.

Section 382 of the Internal Code allows post-change corporations to use pre-change net operating losses, but limit the amount of losses that may be used annually to a percentage of the entity value of the corporation at the date of the ownership change. The applicable percentage is the federal long-term tax-exempt rate for the month during which the change in ownership occurs.

The Company's effective income tax rates for the years ended December 31, 2015 and December 31, 2014, respectively are different than what would be expected if the statutory rate were applied to net income before income tax expense primarily because of non-deductible change in the fair value of the warrant liability, expense charges in connection with various non-cash financing transactions and other permanent differences.

Note 16 - Subsequent Events

On January 1, 2016, the Company issued 164,500 shares of common stock to the holders of notes with a term of three years, bear interest at 10% per annum, and are convertible into one share of common stock, par value $0.001 per share, with the initial conversion ratio equal to $0.50 per share, as payment for accrued interest due as of December 31, 2015.

On January 28, 2016, the Company entered into Amendment No. 3 to Financing Agreement and Reaffirmation of Guaranty (the "Third Amended Financing Agreement") with Lender, pursuant to which Lender agreed to cause its bank to arrange for the issuance to a certain customer of the Company a standby letter of credit in the amount of $2,000,000 (the "Letter of Credit") to permit the Company to enter into a contract for mercury capture program with such customer. The Letter of Credit is to guarantee the Company's performance under its contract with such customer.

Under the Third Amended Financing Agreement, and in consideration for the issuance of the Letter of Credit for the benefit of the Company, the Company shall pay AC Midwest a fee equal to 12.0% per annum of the amount available to be drawn under the Letter of Credit (the "Letter of Credit Fee") payable on the last day of each calendar month. In addition, and in consideration for the issuance of the Letter of Credit, the Company has agreed to issue to AC Midwest (i) a five year warrant to purchase 2,000,000 shares of common stock at an exercise price of $0.35 per share of common stock (the "Third Warrant"), and (ii) a Senior Secured Letter of Credit Note (the "LC Note") to evidence any indebtedness owed by the Company arising from any draws made under the Letter of Credit. The Third Warrant shall be subject to certain anti-dilution adjustments including percentage based anti-dilution protection requiring that the aggregate number of shares of common stock purchasable upon its initial exercise not be less than an amount equal to 7.2% of the Company's then outstanding shares of capital stock on a fully diluted basis.

ITEM 9 – CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A – CONTROLS AND PROCEDURES

Report of Disclosure Controls and Procedures

Regulations under the Exchange Act require public companies to maintain "disclosure controls and procedures," which are defined as controls and other procedures that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including the principal executive officer and principal financial officer, we have evaluated the effectiveness, the design and operations of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the principal executive officer and principal financial officer determined that as of December 31, 2015, the Company's disclosure controls and procedures were ineffective.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, the Company conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 (COSO). The Company has not adopted the new framework due to its size and limited resources available for developing an internal control program compliant with the new framework.

Our internal control over financial reporting is a process designed 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 in the United States of America. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Despite these controls, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives. Furthermore, smaller reporting companies, like us, face additional limitations. Smaller reporting companies employ fewer individuals and can find it difficult to employ resources for complicated transactions and effective risk management. Additionally, smaller reporting companies tend to utilize general accounting software packages that lack a rigorous set of software controls.

Our management, including our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2015 based on the criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on this evaluation, our management concluded our internal control over financial reporting was not effective as of December 31, 2015. The ineffectiveness of our internal control over financial reporting was due to the following material weaknesses which are indicative of many small companies: (i) lack of a sufficient complement of personnel commensurate with the Company's reporting requirements; and (ii) insufficient written documentation or training of our internal control policies and procedures which provide staff with guidance or framework for accounting and disclosing financial transactions.

This annual report does not include an attestation report of our registered public accounting firm regarding our internal controls over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to Section 404(c) of the Sarbanes-Oxley Act that permit us to provide only management's report in this annual report.

Despite the existence of the material weaknesses above, we believe that our consolidated financial statements contained in this Form 10-K fairly present our financial position, results of operations and cash flows as of and for the periods presented in all material respects.

Changes in Internal Control over Financial Reporting

Except as discussed below, there have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15 (f) under the Exchange Act) during 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Material Weakness

In connection with our annual audit for the year ended December 31, 2015, management determined that controls as described above constitute material weaknesses in disclosure controls and internal control over financial reporting. As a result, it was determined that a control deficiency that constitutes a material weakness in the design and operation of our internal control over financial reporting was present. Management believes that these material weaknesses did not have an effect on our financial results. However, management believes that the lack of these items results in ineffective internal controls, which could result in a material misstatement in our financial statements in future periods.

Due to our size and nature, segregation of duties within our internal control system may not always be possible or economically feasible. Likewise, we may not be able to engage sufficient resources to enable us to have adequate staff and supervision within our accounting function.

Remediation

Our management team is taking immediate action to remediate the material weaknesses disclosed above, including:

- Hiring a full-time Controller as well as additional administrative personnel with the goal of creating a an effective internal control system with the necessary segregation of duties;
- Engaging additional resources to evaluate and write the necessary policies;
- Providing increased training on our internal controls and procedures, including these remedial measures, to our current and new personnel.

The aforementioned assumes that we are able to secure sufficient additional working capital. While certain aspects of these remedial actions have been completed, we continue to actively plan for and implement additional control procedures to improve our overall control environment and expect these efforts to continue throughout 2016.

ITEM 9B – OTHER INFORMATION

None.

PART III

ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is hereby incorporated by reference to our definitive proxy statement to be filed by us within 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 11 – EXECUTIVE COMPENSATION

The information required by this Item 11 is hereby incorporated by reference to our definitive proxy statement to be filed by us within 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 12 – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 is hereby incorporated by reference to our definitive proxy statement to be filed by us within 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 13 – CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is hereby incorporated by reference to our definitive proxy statement to be filed by us within 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 14 – PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 is hereby incorporated by reference to our definitive proxy statement to be filed by us within 120 days after the end of the fiscal year covered by this Form 10-K.

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PART IV

ITEM 15 – EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The financial statements identified below and required by Part II, Item 8 of this Form 10-K are set forth above

(1) Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheet as of December 31, 2015 and 2014

Consolidated Statements of Operations for Years Ended December 31, 2015 and 2014

Consolidated Statements of Stockholders' Deficit for Years Ended December 31, 2015 and 2014

Consolidated Statements of Cash Flows for Years Ended December 31, 2015 and 2014

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

All other schedules have been omitted because of the absence of the conditions under which they are required or because the required information, where material, is shown in the financial statements or the notes thereto

(3) Exhibits

Exhibit	Description	Filed Herewith	Incorporated by Reference Form	Incorporated by Reference Filing Date
3.1	Certificate of Incorporation and amendments thereto through November 25, 2014		10-K	03/20/15
3.2	Amended and Restated By-laws		8-K	10/16/14
10.1	Exclusive Patent and Know-How Agreement including Transfer of Ownership, dated January 15, 2009 between RLP Energy, Inc. and Energy and Environmental Research Foundation		10-K	04/12/12
10.2	Amendment No. 1 to the Exclusive Patent and Know-How License including Transfer of Ownership between RLP Energy, Inc. and Energy and Environmental Research Center Foundation dated May 12, 2009		10-Q	11/12/13
10.3			10-Q	11/12/13

	Amendment No. 2 to the Exclusive Patent and Know-How License including Transfer of Ownership between RLP Energy, Inc. and Energy and Environmental Research Center Foundation dated November 29, 2009		
10.4	Amendment No. 3 to the Exclusive Patent and Know-How License including Transfer of Ownership between RLP Energy, Inc. and Energy and Environmental Research Center Foundation dated December 22, 2009	10-Q	11/12/13
10.5	Amendment No. 4 to the Exclusive Patent and Know-How License including Transfer of Ownership between RLP Energy, Inc. and Energy and Environmental Research Center Foundation dated December 16, 2013	8-K	12/20/13

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10.6	Amendment No. 5 to the Exclusive Patent and Know-How License including Transfer of Ownership between RLP Energy, Inc. and Energy and Environmental Research Center Foundation dated August 14, 2014		10-Q	11/14/14
10.7	Employment Letter Agreement between Richard H. Gross and Midwest Energy Emissions Corp. dated August 10, 2015*	x		
10.8	Amended and Restated Employment Agreement between Marcus A. Sylvester and Midwest Energy Emissions Corp. dated March 1, 2013*		10-K	03/13/13
10.9	Employment Agreement between Jim Trettel and Midwest Energy Emissions Corp. dated January 1, 2014*		10-K	03/20/15
10.10	Employment Agreement between John Pavlish and Midwest Energy Emissions Corp. dated November 16, 2014*		8-K	11/20/14
10.11	Stock Unit Award Agreement between Midwest Energy Emissions Corp. and R. Alan Kelley dated January 1, 2014*	x		
10.12	Stock Unit Award Agreement between Midwest Energy Emissions Corp. and Johnny F. Norris, Jr. dated January 1, 2014*	x		
10.13	Stock Unit Award Agreement between Midwest Energy Emissions Corp. and Marcus A. Sylvester dated January 1, 2014*	x		
10.14	Stock Unit Award Agreement between Midwest Energy Emissions Corp. and Richard H. Gross dated January 1, 2014*	x		
10.15	Midwest Energy Emissions Corp. 2014 Equity Incentive Plan as amended*	x		
10.16	Form of Option Award Agreement *		8-K	02/05/14
10.17	Financing Agreement by and between Midwest Energy Emissions Corp., MES, Inc. and the AC Midwest Energy, LLC dated as of August 14, 2014		10-Q	11/14/14
10.18	Warrant for 12,500,000 Shares issued to AC Midwest Energy, LLC dated as of August 14, 2014		10-Q	11/14/14
10.19	Security Agreement by and between Midwest Energy Emissions Corp., MES, Inc. and AC Midwest Energy, LLC dated as of August 14, 2014		10-Q	11/14/14
10.20	Intercreditor Agreement by and between Midwest Energy Emissions Corp., the Holders of 2013 Secured Notes and AC Midwest Energy, LLC dated as of August 14, 2014		10-Q	11/14/14
10.21	Investor/Registration Rights Agreement by and between Midwest Energy Emissions Corp. and AC Midwest Energy, LLC dated August 14, 2014 dated as of August 14, 2014		10-Q	11/14/14
10.22	Form of Allonge to each of the 2013 Secured Notes dated as of August 14, 2014		10-Q	11/14/14
10.23	Waiver and Amendment to Financing Agreement, and Reaffirmation of Guaranty between Midwest Energy Emissions Corp., MES, Inc. and AC Midwest Energy, LLC dated as of March 16, 2015		10-K	03/20/15
10.24	Amendment No. 1 to Warrant for 12,500,000 Shares issued to AC Midwest Energy, LLC dated as of March 16, 2015		10-K	03/20/15
10.25	Waiver and Amendment No. 2 to Financing Agreement, and Reaffirmation of Guaranty among Midwest Energy Emissions Corp., MES, Inc. and AC Midwest Energy, LLC dated as of November 16, 2015		8-K	11/20/15
10.26	Warrant for 5,000,000 shares issued to AC Midwest Energy LLC dated as of November 16, 2015		8-K	11/20/15
10.27	Amendment No. 1 to Investor/Registration Rights Agreement by and between Midwest Energy Emissions Corp. and AC Midwest Energy LLC dated as of November 16, 2015		8-K	11/20/15
10.28	Amendment No. 3 to Financing Agreement, and Reaffirmation of Guaranty among Midwest Energy Emissions Corp., MES, Inc. and AC Midwest Energy, LLC dated as of January 28, 2016		8-K	02/03/16
10.29	Warrant for 2,000,000 shares issued to AC Midwest Energy LLC dated as of January 28, 2016		8-K	02/03/16
10.30	2013 Noteholder Modification Agreement between Midwest Energy Emissions Corp. and each of the investors listed therein dated as of February 16, 2016		8-K	02/22/16
14.1	Code of Ethics		10-K	03/20/15
21.1	Subsidiaries of the registrant	x		
31.1		x		

	Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act	
31.2	Certification by Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act	x
32.1	Certification by Chief Executive Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code	x
32.2	Certification by Chief Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code	x
101.INS	XBRL Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	

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* Compensation-related Agreement

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MIDWEST ENERGY EMISSIONS CORP.

Date: March 30, 2016

By: */s/ Richard MacPherson*
Richard MacPherson
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

Signature	Title	Date
/s/ Richard MacPherson Richard MacPherson	President, Chief Executive Officer and Director (Principal Executive Officer)	March 30, 2016
/s/ Richard H. Gross Richard H. Gross	Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 30, 2016
/s/ Chris Greenberg Chris Greenberg	Chairman of the Board and Director	March 30, 2016
/s/ Brian L. Johnson Brian L. Johnson	Director	March 30, 2016
/s/ Christopher J. Lee Christopher J. Lee	Director	March 30, 2016

nt-size:10pt;">431.4

Other comprehensive income (loss)
—

—

—

—

—

Total comprehensive income (loss)
—

—

—

—

431.4

Issuance of 195,974 shares of common stock related to exercises of warrants
—

—

—

—

—

Stock-based compensation
—

—

59.4

(4.1
)

—

Excess tax benefits related to stock-based compensation
—

—

0.1

—

—

Issuances of 207,468 shares held in treasury at an average price of $45.11 per share in settlement of stock-based compensation
—

—

(9.4
)

9.4

—

Repurchases of 15,533,758 shares of common stock at an average price of $54.08 per share
—

—

(160.0
)

(840.1
)

—

Retirement of 20,000,000 shares held in treasury at average price of $49.53 per share
—

(0.2
)

(389.7
)

990.6

(600.7
)
Dividends declared to Lear Corporation stockholders
—

—

—

—

(59.4
)
Dividends paid to noncontrolling interests
—

—

—

—

—

Acquisition of outstanding noncontrolling interests
—

—

(3.2
)

—

—

Balance at December 31, 2013
$
—

$
0.9

$
1,652.9

$
(362.1
)

$
1,920.3

Comprehensive income (loss):

Net income
—

—

—

—

672.4

Other comprehensive income (loss)
—

—

—

—

—

Total comprehensive income (loss)
—

—

—

—

672.4

Issuance of 205,526 shares of common stock related to exercises of warrants
—

—

—

—

—

Stock-based compensation
—

—

70.7

(22.4
)

—

Excess tax benefits related to stock-based compensation
—

—

0.9

—

—

Issuances of 868,746 shares held in treasury at an average price of $50.19 per share in settlement of stock-based compensation
—

—

(43.6
)

43.6

—

Repurchases of 3,805,114 shares of common stock at an average price of $93.52 per share
—

—

(55.5
)

(355.9
)

—

Retirement of 8,000,000 shares held in treasury at average price of $64.98 per share
—

(0.1
)

(155.9
)

519.9

(363.9
)
Dividends declared to Lear Corporation stockholders
—

—

—

—

(67.1
)
Dividends paid to noncontrolling interests
—

—

—

—

—

Acquisition of outstanding noncontrolling interests
—

—

5.7

—

—

Sale of controlling interest
—

—

—

—

—

Balance at December 31, 2014
$
—

$
0.8

$
1,475.2

$

(176.9
)

$
2,161.7

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

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LEAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY (continued)
(In millions, except share data)

	Accumulated Other Comprehensive Loss, net of tax					
	Defined Benefit Plans	Derivative Instruments and Hedging Activities	Cumulative Translation Adjustments	Lear Corporation Stockholders' Equity	Non-controlling Interests	Equity
Balance at December 31, 2011	$ (239.1)	$ (37.6)	$ (55.3)	$2,436.4	$ 124.7	$2,561.1
Comprehensive income (loss):						
Net income	—	—	—	1,282.8	34.4	1,317.2
Other comprehensive income (loss)	(10.8)	40.3	1.7	31.2	1.2	32.4
Total comprehensive income (loss)	(10.8)	40.3	1.7	1,314.0	35.6	1,349.6
Issuance of 38,017 shares of common stock related to exercises of warrants	—	—	—	—	—	—
Stock-based compensation	—	—	—	26.8	—	26.8
Excess tax benefits related to stock-based compensation	—	—	—	0.3	—	0.3
Issuances of 541,890 shares held in treasury at an average price of $43.46 per share in settlement of stock-based compensation	—	—	—	—	—	—
Repurchases of 5,357,443 shares of common stock at an average price of $41.59 per share	—	—	—	(222.8)	—	(222.8)
Dividends declared to Lear Corporation stockholders	—	—	—	(56.1)	—	(56.1)
Dividends paid to noncontrolling interests	—	—	—	—	(23.1)	(23.1)
Acquisition of outstanding noncontrolling interests	—	—	—	(11.5)	(12.1)	(23.6)
Balance at December 31, 2012	$ (249.9)	$ 2.7	$ (53.6)	$3,487.1	$ 125.1	$3,612.2
Comprehensive income (loss):						
Net income	—	—	—	431.4	24.4	455.8
Other comprehensive income (loss)	145.4	(8.0)	(2.7)	134.7	1.5	136.2
Total comprehensive income (loss)	145.4	(8.0)	(2.7)	566.1	25.9	592.0
Issuance of 195,974 shares of common stock related to exercises of warrants	—	—	—	—	—	—
Stock-based compensation	—	—	—	55.3	—	55.3
Excess tax benefits related to stock-based compensation	—	—	—	0.1	—	0.1
Issuances of 207,468 shares held in treasury at an average price of $45.11 per share in settlement of stock-based compensation	—	—	—	—	—	—

Repurchases of 15,533,758 shares of common stock at an average price of $54.08 per share	—	—	—	(1,000.1)	—	(1,000.1)
Retirement of 20,000,000 shares held in treasury at average price of $49.53 per share	—	—	—	—	—	—
Dividends declared to Lear Corporation stockholders	—	—	—	(59.4)	—	(59.4)
Dividends paid to noncontrolling interests	—	—	—	—	(44.0)	(44.0)
Acquisition of outstanding noncontrolling interests	—	—	—	(3.2)	(3.4)	(6.6)
Balance at December 31, 2013	$ (104.5)	$ (5.3)	$ (56.3)	$3,045.9	$ 103.6	$3,149.5
Comprehensive income (loss):						
Net income	—	—	—	672.4	29.9	702.3
Other comprehensive income (loss)	(114.7)	(27.9)	(193.3)	(335.9)	(1.9)	(337.8)
Total comprehensive income (loss)	(114.7)	(27.9)	(193.3)	336.5	28.0	364.5
Issuance of 205,526 shares of common stock related to exercises of warrants	—	—	—	—	—	—
Stock-based compensation	—	—	—	48.3	—	48.3
Excess tax benefits related to stock-based compensation	—	—	—	0.9	—	0.9
Issuances of 868,746 shares held in treasury at an average price of $50.19 per share in settlement of stock-based compensation	—	—	—	—	—	—
Repurchases of 3,805,114 shares of common stock at an average price of $93.52 per share	—	—	—	(411.4)	—	(411.4)
Retirement of 8,000,000 shares held in treasury at average price of $64.98 per share	—	—	—	—	—	—
Dividends declared to Lear Corporation stockholders	—	—	—	(67.1)	—	(67.1)
Dividends paid to noncontrolling interests	—	—	—	—	(25.9)	(25.9)
Acquisition of outstanding noncontrolling interests	—	—	—	5.7	(23.7)	(18.0)
Sale of controlling interest	—	—	—	—	(11.5)	(11.5)
Balance at December 31, 2014	$ (219.2)	$ (33.2)	$ (249.6)	$2,958.8	$ 70.5	$3,029.3

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

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LEAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

For the year ended December 31,	2014	2013	2012
Cash Flows from Operating Activities:			
Consolidated net income	$702.3	$455.8	$1,317.2
Adjustments to reconcile consolidated net income to net cash provided by operating activities –			
Equity in net income of affiliates	(36.3)	(38.4)	(30.3)
Loss on extinguishment of debt	17.9	3.6	3.7
Fixed asset impairment charges	2.6	11.1	6.5
Deferred tax provision (benefit)	(58.0)	45.4	(693.7)
Depreciation and amortization	310.9	285.5	239.5
Stock-based compensation	70.7	59.4	39.8
Net change in recoverable customer engineering, development and tooling	7.6	3.2	(36.7)
Net change in working capital items (see below)	(140.2)	(8.2)	(48.8)
Changes in other long-term liabilities	5.4	(25.6)	(22.8)
Changes in other long-term assets	41.4	12.9	(20.3)
Other, net	3.5	15.4	(24.3)
Net cash provided by operating activities	927.8	820.1	729.8
Cash Flows from Investing Activities:			
Additions to property, plant and equipment	(424.7)	(460.6)	(458.3)
Insurance proceeds	—	7.1	19.2
Cash restricted for use — acquisition of Eagle Ottawa	(350.0)	—	—
Cash paid for acquisition of Guilford, net of cash acquired	—	—	(243.9)
Other, net	(5.9)	49.6	(4.9)
Net cash used in investing activities	(780.6)	(403.9)	(687.9)
Cash Flows from Financing Activities:			
Proceeds from the issuance of senior notes	975.0	500.0	—
Repurchase of senior notes	(327.1)	(72.1)	(72.1)
Payment of debt issuance and other financing costs	(18.1)	(13.4)	—
Cash restricted for use — repurchase of senior notes	(250.0)	—	—
Repurchase of common stock	(411.4)	(1,000.1)	(222.8)
Dividends paid to Lear Corporation stockholders	(65.3)	(58.4)	(54.6)
Dividends paid to noncontrolling interests	(25.9)	(44.0)	(23.1)
Other, net	(38.0)	(10.5)	(23.5)
Net cash used in financing activities	(160.8)	(698.5)	(396.1)
Effect of foreign currency translation	(30.0)	17.8	2.1
Net Change in Cash and Cash Equivalents	(43.6)	(264.5)	(352.1)
Cash and Cash Equivalents as of Beginning of Period	1,137.7	1,402.2	1,754.3
Cash and Cash Equivalents as of End of Period	$1,094.1	$1,137.7	$1,402.2
Changes in Working Capital Items:			
Accounts receivable	$(358.7)	$(239.6)	$(111.5)
Inventories	(91.2)	(102.0)	(60.0)
Accounts payable	231.3	189.5	174.6
Accrued liabilities and other	78.4	143.9	(51.9)
Net change in working capital items	$(140.2)	$(8.2)	$(48.8)

Supplementary Disclosure:			
Cash paid for interest	$70.7	$64.2	$58.4
Cash paid for income taxes, net of refunds received of $24.0 in 2014, $12.6 in 2013 and $12.7 in 2012	$154.6	$152.9	$85.0

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

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Lear Corporation and Subsidiaries
Notes to 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 consolidated financial statements include the accounts of Lear, a Delaware corporation, and the wholly owned and less than wholly owned subsidiaries controlled by Lear.
(2) Summary of Significant Accounting Policies
Consolidation
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 (Note 5, "Investments in Affiliates and Other Related Party Transactions").
Fiscal Period Reporting
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.
Cash and Cash Equivalents
Cash and cash equivalents include all highly liquid investments with original maturities of ninety days or less.
Accounts Receivable
The Company records accounts receivable as title is transferred to its customers. The Company's customers are the world's major automotive manufacturers. The Company records accounts receivable reserves for known collectibility issues, as such issues relate to specific transactions or customer balances. As of December 31, 2014 and 2013, accounts receivable are reflected net of reserves of $27.5 million and $34.5 million, respectively. The Company writes off accounts receivable when it becomes apparent, based upon age or customer circumstances, that such amounts will not be collected. Generally, the Company does not require collateral for its accounts receivable.
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. The Company records inventory reserves for inventory in excess of production and/or forecasted requirements and for obsolete inventory in production and service inventories. As of December 31, 2014 and 2013, inventories are reflected net of reserves of $95.1 million and $98.8 million, respectively. A summary of inventories is shown below (in millions):

December 31,	2014	2013
Raw materials	$668.3	$633.5
Work-in-process	45.6	45.8
Finished goods	139.8	139.4
Inventories	$853.7	$818.7

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 2014 and 2013, the Company capitalized $232.3 million and $202.1 million, respectively, of pre-production E&D costs for which reimbursement is contractually guaranteed by the customer. During 2014 and 2013, the Company also capitalized $177.7 million and $233.1 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 consolidated balance sheets. During 2014 and 2013, the Company collected $395.8 million and $423.9 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):

December 31,	2014	2013
Current	$121.1	$134.2
Long-term	47.6	52.9
Recoverable customer E&D and tooling	$168.7	$187.1

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 as follows:

Buildings and improvements	10 to 40 years
Machinery and equipment	5 to 10 years

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

December 31,	2014	2013
Land	$105.2	$113.4
Buildings and improvements	523.5	532.0
Machinery and equipment	1,847.0	1,645.0
Construction in progress	186.9	155.2
Total property, plant and equipment	2,662.6	2,445.6
Less – accumulated depreciation	(1,037.9)	(858.4)
Net property, plant and equipment	$1,624.7	$1,587.2

For the years ended December 31, 2014, 2013 and 2012, depreciation expense was $277.2 million, $251.1 million and $206.6 million, respectively. As of December 31, 2014, 2013 and 2012, capital expenditures recorded in accounts payable totaled $112.8 million, $98.9 million and $103.6 million, respectively.

Impairment of Goodwill

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 utilizes an income approach to estimate the fair value of each of its reporting units and a market valuation approach to further support this analysis. The income approach is based on projected debt-free cash flow which is discounted to the present value using discount factors that consider the timing and risk of cash flows. The Company believes that this approach is appropriate because it provides a fair value estimate based upon the reporting unit's expected long-term operating cash flow performance. This approach also mitigates the impact of cyclical trends that occur in the industry. Fair value is

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Lear Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

estimated using recent automotive industry and specific platform production volume projections, which are based on both third-party and internally developed forecasts, as well as commercial, wage and benefit, inflation and discount rate assumptions. The discount rate used is the value-weighted average of the Company's estimated cost of equity and of debt ("cost of capital") derived using both known and estimated customary market metrics. The Company's weighted average cost of capital is adjusted by reporting unit to reflect a risk factor, if necessary. Other significant assumptions include terminal value growth rates, terminal value margin rates, future capital expenditures and changes in future working capital requirements. While there are inherent uncertainties related to the assumptions used and to management's application of these assumptions to this analysis, the Company believes that the income approach provides a reasonable estimate of the fair value of its reporting units. The market valuation approach is used to further support the Company's analysis and is based on recent transactions involving comparable companies.
In 2014, the Company performed a combination of qualitative and quantitative assessments of its reporting units. All assessments were completed as of the first day of the Company's fourth quarter. The assessments indicated that the fair value of each of the reporting units exceeded its respective carrying value. The Company does not believe that any of its reporting units is at risk for impairment.
A summary of the changes in the carrying amount of goodwill, all of which relates to the seating segment, for each of the periods in the two years ended December 31, 2014, is shown below (in millions):

Balance as of December 31, 2012	$746.5	
Foreign currency translation and other	10.7	
Balance as of December 31, 2013	757.2	
Foreign currency translation and other	(31.0	)
Balance as of December 31, 2014	$726.2	

Intangible Assets
Intangible assets consist primarily of certain intangible assets recorded in connection with the adoption of fresh-start accounting in 2009 and the acquisition of Guilford Mills ("Guilford") in 2012. These intangible assets were recorded at their estimated fair value, based on independent appraisals, as of the transaction or acquisition date. The technology intangible asset includes the Company's proprietary patents. The value assigned to technology intangibles is based on the royalty savings method, which applies a hypothetical royalty rate to projected revenues attributable to the identified technologies. Royalty rates were determined based on analysis of market information and discussions with the Company's management. The customer-based intangible asset includes the Company's established relationships with its customers and the ability of these customers to generate future economic profits for the Company. The value assigned to customer-based intangibles is based on the present value of future earnings attributable to the asset group after recognition of required returns to other contributory assets. A summary of intangible assets as of December 31, 2014 and 2013, is shown below (in millions):

	Gross Carrying Value	Accumulated Amortization		Net Carrying Value	Weighted Average Useful Life (years)
Technology	$31.4	$(16.3	)	$15.1	9.0
Customer-based	214.9	(137.5	)	77.4	8.2
Balance as of December 31, 2014	$246.3	$(153.8	)	$92.5	8.4
	Gross Carrying Value	Accumulated Amortization		Net Carrying Value	Weighted Average Useful Life (years)
Technology	$32.7	$(13.0	)	$19.7	8.9
Customer-based	223.1	(113.1	)	110.0	8.0
Balance as of December 31, 2013	$255.8	$(126.1	)	$129.7	8.1

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Lear Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

Excluding the impact of the Eagle Ottawa acquisition and any future acquisitions, the Company's estimated annual amortization expense for the five succeeding years is shown below (in millions):

Year	Expense
2015	$32.8
2016	28.7
2017	7.7
2018	5.9
2019	5.8

Impairment of Long-Lived Assets

The Company monitors its long-lived assets for impairment indicators on an ongoing basis in accordance with accounting principles generally accepted in the United States ("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. An impairment loss is measured as the difference between the net book value and the fair value of the long-lived assets. Fair value is estimated based upon either discounted cash flow analyses or estimated salvage values. Cash flows are estimated using internal budgets based on recent sales data, independent automotive production volume estimates and customer commitments, as well as assumptions related to discount rates.

For the years ended December 31, 2014, 2013 and 2012, the Company recognized fixed asset impairment charges of $0.5 million, $9.2 million and $6.0 million, respectively, in conjunction with its restructuring actions (Note 4, "Restructuring"), as well as additional fixed asset impairment charges of $2.1 million, $1.9 million and $0.5 million, respectively.

Fixed asset impairment charges are recorded in cost of sales in the accompanying consolidated statements of income for the years ended December 31, 2014, 2013 and 2012.

Impairment of Investments in Affiliates

The Company monitors its investments in affiliates for indicators of other-than-temporary declines in value on an ongoing basis in accordance with GAAP. If the Company determines that an other-than-temporary decline in value has occurred, it recognizes an impairment loss, which is measured as the difference between the recorded book value and the fair value of the investment. Fair value is generally determined using an income approach based on discounted cash flows or negotiated transaction values.

Revenue Recognition and Sales Commitments

The Company enters into agreements with its customers to produce products at the beginning of a vehicle's life cycle. Although such agreements do not provide for a specified quantity of products, once the Company enters into such agreements, the Company is generally required to fulfill its customers' purchasing requirements for the production life of the vehicle. These agreements generally may be terminated by the Company's customers at any time. Historically, terminations of these agreements have been minimal. Sales are generally recorded upon shipment of product to customers and transfer of title under standard commercial terms. In certain instances, the Company may be committed under existing agreements to supply products to its customers at selling prices which are not sufficient to cover the direct cost to produce such products. In such situations, the Company recognizes losses as they are incurred.

The Company receives purchase orders from its customers on an annual basis. Generally, each purchase order provides the annual terms, including pricing, related to a particular vehicle model. Purchase orders do not specify quantities. The Company recognizes revenue based on the pricing terms included in its annual purchase orders. The Company is asked to provide its customers with annual price reductions as part of certain agreements. The Company accrues for such amounts as a reduction of revenue as its products are shipped to its customers. In addition, the Company has ongoing adjustments to its pricing arrangements with its customers based on the related content, the cost of its products and other commercial factors. Such pricing accruals are adjusted as they are settled with the Company's customers.

Amounts billed to customers related to shipping and handling costs are included in net sales in the consolidated statements of income. Shipping and handling costs are included in cost of sales in the consolidated statements of income.

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Lear Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

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.

Restructuring Costs

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 GAAP. Generally, charges are recorded as restructuring actions are approved and/or implemented.

Engineering and Development

Costs incurred in connection with the development of new products and manufacturing methods within one year of launch, to the extent not recoverable from the Company's customers, are charged to cost of sales as incurred. Such costs are charged to selling, general and administrative expenses when incurred more than one year prior to launch. Engineering and development costs charged to selling, general and administrative expenses totaled $102.0 million, $108.4 million and $104.3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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 6, "Debt"), gains and losses on the disposal of fixed assets (Note 11, "Commitments and Contingencies") and other miscellaneous income and expense. A summary of other expense, net is shown below (in millions):

For the year ended December 31,	2014	2013	2012
Other expense	$82.4	$59.9	$33.9
Other income	(8.1)	(1.8)	(27.5)
Other expense, net	$74.3	$58.1	$6.4

Income Taxes

The Company accounts for income taxes in accordance with GAAP. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax loss and credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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

The calculation of the Company’s gross unrecognized tax benefits and liabilities includes uncertainties in the application of, and changes in, complex tax regulations in a multitude of jurisdictions across its global operations. The Company recognizes tax benefits and liabilities based on its estimates of whether, and the extent to which, additional taxes will be due. The Company adjusts these benefits and liabilities based on changing facts and circumstances; however, due to the complexity of these uncertainties and the impact of tax audits, the ultimate resolutions may differ significantly from the Company’s estimates.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries that use a functional currency other than the U.S. dollar are translated into U.S. dollars at the foreign exchange rates in effect at the end of the period. Revenues and expenses of foreign subsidiaries are translated into U.S. dollars using an average of the foreign exchange rates in effect during the period. Translation adjustments that arise from translating a foreign subsidiary’s financial statements from the functional currency to the U.S. dollar are reflected in accumulated other comprehensive loss in the consolidated balance sheets. Transaction gains and losses that arise from foreign exchange rate fluctuations on transactions denominated in a currency other than the functional currency, except certain long-term intercompany transactions, are included in the consolidated statements of income as incurred. For the years ended December 31, 2014, 2013 and 2012, other expense, net includes net foreign currency transaction losses of $32.1 million, $28.3 million and $11.4 million, respectively.

Stock-Based Compensation

The Company measures stock-based employee compensation expense at fair value in accordance with GAAP and recognizes such expense over the vesting period of the stock-based employee awards.

Net Income Per Share Attributable to Lear

Basic net income per share attributable to Lear is computed using the two-class method by dividing net income attributable to Lear, after deducting undistributed earnings allocated to participating securities, by the average number of common shares outstanding during the period. Common shares issuable upon the satisfaction of certain conditions pursuant to a contractual agreement are considered common shares outstanding and are included in the computation of basic net income per share attributable to Lear.

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

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

For the year ended December 31,	2014	2013	2012
Net income attributable to Lear	$672.4	$431.4	$1,282.8
Average common shares outstanding	80,187,516	85,094,889	98,388,228
Basic net income per share attributable to Lear	$8.39	$5.07	$13.04

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

For the year ended December 31,	2014	2013	2012
Net income attributable to Lear	$672.4	$431.4	$1,282.8
Average common shares outstanding	80,187,516	85,094,889	98,388,228
Dilutive effect of common stock equivalents	1,540,963	1,320,897	1,437,458
Average diluted shares outstanding	81,728,479	86,415,786	99,825,686
Diluted net income per share attributable to Lear	$8.23	$4.99	$12.85

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 changes in accumulated other comprehensive income (loss), net of tax is shown below (in millions):

For the year ended December 31,	2014	2013	2012
Defined benefit plans:			
Balance at beginning of year	$(104.5)	$(249.9)	$(239.1)
Reclassification adjustments	0.2	11.0	4.2
Other comprehensive income (loss) recognized during the period	(114.9)	134.4	(15.0)
Balance at end of year	$(219.2)	$(104.5)	$(249.9)
Derivative instruments and hedging activities:			
Balance at beginning of year	$(5.3)	$2.7	$(37.6)
Reclassification adjustments	(6.4)	(21.0)	2.0
Other comprehensive income (loss) recognized during the period	(21.5)	13.0	38.3
Balance at end of year	$(33.2)	$(5.3)	$2.7
Cumulative translation adjustments:			
Balance at beginning of year	$(56.3)	$(53.6)	$(55.3)
Other comprehensive income (loss) recognized during the period	(193.3)	(2.7)	1.7
Balance at end of year	$(249.6)	$(56.3)	$(53.6)

Other comprehensive income (loss) related to the Company’s defined benefit plans includes pretax reclassification adjustments of $0.1 million, $15.4 million and $5.4 million for the years ended December 31, 2014, 2013 and 2012, respectively. See Note 8, "Pension and Other Postretirement Benefit Plans." Other comprehensive income (loss) related to the Company’s derivative instruments and hedging activities includes pretax reclassification adjustments of ($8.2) million, ($32.2) million and $3.2 million for the years ended December 31, 2014, 2013 and 2012, respectively. See Note 13, "Financial Instruments."

Product Warranty

Product warranty reserves are recorded when liability is probable and related amounts are reasonably estimable.

Segment Reporting

The Company has two reportable operating segments: seating, which includes seats and related components, such as seat structures and mechanisms, seat covers and surface materials such as fabric and leather, seat foam and headrests, and electrical, which includes electrical distribution systems for both traditional powertrain vehicles, as well as high-power for hybrid and electric vehicles. Key components of the Company’s electrical business include wiring harnesses, terminals and connectors, junction boxes, battery chargers, electronic control modules and wireless control devices. 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.

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

The Company evaluates the performance of its operating segments based primarily on (i) revenues from external customers, (ii) pretax income 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.

The accounting policies of the Company’s operating segments are the same as those described in this note to the consolidated financial statements.

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. The Company’s derivative financial instruments are subject to master netting arrangements that provide for the net settlement of contracts, by counterparty, in the event of default or termination. On the date that a derivative contract is entered into, the Company designates the derivative as either (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or of an unrecognized firm commitment (a fair value hedge), (2) a hedge of the exposure of a forecasted transaction or of the variability in the cash flows of a recognized asset or liability (a cash flow hedge) or (3) a hedge of a net investment in a foreign operation (a net investment hedge).

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

The Company formally documents its hedge relationships, including the identification of the hedging instruments and the related hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. Derivatives are recorded at fair value in other current and long-term assets and other current and long-term liabilities in the consolidated balance sheet. The Company also formally assesses, both at inception and at least quarterly thereafter, whether a derivative used in a hedging transaction is highly effective in offsetting changes in either the fair value or the cash flows of the hedged item. When it is determined that a derivative ceases to be highly effective, the Company discontinues hedge accounting.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires 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. During 2014, there were no material changes in the methods or policies used to establish estimates and assumptions. Other matters subject to estimation and judgment include amounts related to accounts receivable realization, inventory obsolescence, asset impairments, useful lives of fixed and intangible assets and unsettled pricing discussions with customers and suppliers (Note 2, "Summary of Significant Accounting Policies"); restructuring accruals (Note 4, "Restructuring"); deferred tax asset valuation allowances and income taxes (Note 7, "Income Taxes"); pension and other postretirement benefit plan assumptions (Note 8, "Pension and Other Postretirement Benefit Plans"); accruals related to litigation, warranty and environmental remediation costs (Note 11, "Commitments and Contingencies"); and self-insurance accruals. Actual results may differ significantly from the Company’s estimates.

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Reclassifications
Certain amounts in prior years' financial statements have been reclassified to conform to the presentation used in the year ended December 31, 2014.
(3) Acquisitions
Guilford
On May 31, 2012, the Company completed the acquisition of Guilford, which manufactures fabrics for the automotive and specialty markets, for $243.9 million, net of cash acquired. In addition, the Company incurred transaction costs of $5.0 million related to advisory services in 2012, which have been expensed as incurred.
The Guilford acquisition was accounted for as a purchase, and accordingly, the assets acquired and liabilities assumed are included in the accompanying consolidated balance sheets as of December 31, 2014 and 2013. The operating results and cash flows of Guilford are included in the accompanying consolidated financial statements from the date of acquisition.
The pro forma effects of this acquisition would not materially impact the Company's reported results for any period presented.
Subsequent Event
On January 5, 2015, the Company completed the acquisition of Everett Smith Group, Ltd., the parent company of Eagle Ottawa, LLC ("Eagle Ottawa"), for approximately $850 million on a cash and debt free basis (subject to certain adjustments). Eagle Ottawa is a leading provider of leather for the automotive industry, with annual sales of approximately $1 billion. The acquisition was financed with $350 million of the proceeds from the offering of $650 million in aggregate principal amount of senior unsecured notes due 2025 at a stated coupon rate of 5.25% (the "2025 Notes") issued in November 2014 and borrowings under a $500 million delayed-draw term loan facility ("Term Loan Facility") established in November 2014 under the Company's amended and restated senior secured credit agreement (the "Credit Agreement") (see Note 6, "Debt").
The acquisition of Eagle Ottawa will be accounted for as a business combination, and the assets acquired and liabilities assumed will be recognized and measured as of the acquisition date at fair value. The operating results and cash flows of Eagle Ottawa will be included in the consolidated financial statements from the date of acquisition. The Company is in the process of preparing the preliminary estimate of the fair value of assets acquired and liabilities assumed, which will be included in the Company's Quarterly Report on Form 10-Q for the period ending March 28, 2015.
(4) Restructuring
In 2014, the Company recorded charges of $107.0 million in connection with its restructuring actions. These charges consist of $86.8 million recorded as cost of sales, $19.2 million recorded as selling, general and administrative expenses and $1.0 million recorded as other expense, net. The restructuring charges consist of employee termination benefits of $88.6 million, asset impairment charges of $0.5 million and contract termination costs of $0.5 million, as well as other related costs of $17.4 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 equipment with carrying values of $0.5 million in excess of related estimated fair values. The Company expects to incur approximately $30.4 million of additional restructuring costs related to activities initiated as of December 31, 2014, and expects that the components of such costs will be consistent with its historical experience. Any future restructuring actions will depend upon market conditions, customer actions and other factors.

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Lear Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

A summary of 2014 activity, is shown below (in millions):

	Accrual as of January 1, 2014	2014 Charges	Utilization Cash	Non-cash	Accrual as of December 31, 2014
Employee termination benefits	$38.7	$88.6	$(82.2)	$—	$ 45.1
Asset impairments	—	0.5	—	(0.5)	—
Contract termination costs	5.6	0.5	(1.0)	—	5.1
Other related costs	—	17.4	(17.4)	—	—
Total	$44.3	$107.0	$(100.6)	$(0.5)	$ 50.2

In 2013, the Company recorded charges of $77.9 million in connection with its restructuring actions. These charges consist of $52.6 million recorded as cost of sales and $25.3 million recorded as selling, general and administrative expenses. The restructuring charges consist of employee termination benefits of $54.1 million, asset impairment charges of $9.2 million and contract termination costs of $2.8 million, as well as other related costs of $11.8 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 equipment with carrying values of $9.2 million in excess of related estimated fair values. Contract termination costs include pension benefit plan settlement charges of $2.5 million and other various costs of $0.3 million.

A summary of 2013 activity, excluding pension benefit plan settlement charges of $2.5 million, is shown below (in millions):

	Accrual as of January 1, 2013	2013 Charges	Utilization Cash	Non-cash	Accrual as of December 31, 2013
Employee termination benefits	$38.5	$54.1	$(53.9)	$—	$ 38.7
Asset impairments	—	9.2	—	(9.2)	—
Contract termination costs	5.7	0.3	(0.4)	—	5.6
Other related costs	—	11.8	(11.8)	—	—
Total	$44.2	$75.4	$(66.1)	$(9.2)	$ 44.3

In 2012, the Company recorded charges of $55.1 million in connection with its restructuring actions. These charges consist of $44.8 million recorded as cost of sales, $10.4 million recorded as selling, general and administrative expenses and ($0.1) million recorded as other expense, net. The restructuring charges consist of employee termination benefits of $45.4 million, asset impairment charges of $6.0 million and contract termination costs of $1.9 million, as well as other related costs of $1.8 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 equipment with carrying values of $6.0 million in excess of related estimated fair values.

A summary of 2012 activity is shown below (in millions):

	Accrual as of January 1, 2012	2012 Charges	Utilization Cash	Non-cash	Accrual as of December 31, 2012
Employee termination benefits	$56.8	$45.4	$(63.7)	$—	$ 38.5
Asset impairments	—	6.0	—	(6.0)	—
Contract termination costs	5.7	1.9	(1.9)	—	5.7
Other related costs	—	1.8	(1.8)	—	—
Total	$62.5	$55.1	$(67.4)	$(6.0)	$ 44.2

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Lear Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

(5) Investments in Affiliates and Other Related Party Transactions

The Company’s beneficial ownership in affiliates accounted for under the equity method is shown below:

December 31,	2014	2013	2012
Shanghai Lear STEC Automotive Parts Co., Ltd. (China)	55%	55%	55%
Beijing BAI Lear Automotive Systems Co., Ltd. (China)	50	50	50
Beijing Lear Automotive Electronics and Electrical Products Co., Ltd. (China)	50	50	50
Dong Kwang Lear Yuhan Hoesa (Korea)	50	50	50
Industrias Cousin Freres, S.L. (Spain)	50	50	50
Jiangxi Jiangling Lear Interior Systems Co., Ltd. (China)	50	50	50
Lear Dongfeng Automotive Seating Co., Ltd. (China)	50	50	50
Changchun Lear FAWSN Automotive Electrical and Electronics Co., Ltd. (China)	49	49	49
Changchun Lear FAWSN Automotive Seat Systems Co., Ltd. (China)	49	49	49
Honduras Electrical Distribution Systems S. de R.L. de C.V. (Honduras)	49	49	49
Kyungshin-Lear Sales and Engineering LLC	49	49	49
Beijing Lear Dymos Automotive Systems Co., Ltd. (China)	40	40	40
Dymos Lear Automotive India Private Limited (India)	35	35	35
eLumigen, LLC	30	15	—
RevoLaze, LLC	20	20	—
HB Polymer Company, LLC	10	10	—
Tacle Seating USA, LLC	—	49	49
International Automotive Components Group North America, LLC	—	—	23

Summarized group financial information for affiliates accounted for under the equity method as of December 31, 2014 and 2013, and for the years ended December 31, 2014, 2013 and 2012, is shown below (unaudited; in millions):

December 31,	2014	2013
Balance sheet data:		
Current assets	$794.3	$767.1
Non-current assets	183.4	143.5
Current liabilities	627.6	548.9
Non-current liabilities	5.6	5.8

For the year ended December 31,	2014	2013	2012
Income statement data:			
Net sales	$1,802.7	$1,686.5	$6,240.5
Gross profit	129.3	121.9	452.6
Income (loss) before provision for income taxes	117.8	110.1	(109.0)
Net income (loss) attributable to affiliates	92.9	89.0	(76.1)

As of December 31, 2014 and 2013, the Company’s aggregate investment in affiliates was $171.5 million and $172.0 million, respectively. In addition, the Company had receivables due from affiliates, including notes and advances, of $75.5 million and $74.2 million and payables due to affiliates of $5.7 million and $8.8 million as of December 31, 2014 and 2013, respectively.

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Lear Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

A summary of transactions with affiliates and other related parties is shown below (in millions):

For the year ended December 31,	2014	2013	2012
Sales to affiliates	$214.7	$145.1	$93.1
Purchases from affiliates	32.1	41.5	141.9
Management and other fees for services provided to affiliates	24.5	22.3	23.0
Dividends received from affiliates	25.0	17.6	14.4

The Company’s investment in Shanghai Lear STEC Automotive Parts Co., Ltd. is accounted for under the equity method as the result of certain approval rights granted to the minority shareholders, including approval of the annual budget, business plan and the appointment or dismissal of management. The Company’s investments in eLumigen, LLC and HB Polymer Company, LLC are accounted for under the equity method as the Company’s interests in these entities are similar to partnership interests.

2014

In April 2014, the Company sold its 49% ownership interest in Tacle Seating USA, LLC. The Company did not recognize a significant gain or loss related to this transaction. Also in 2014, the Company acquired an additional ownership interest in eLumigen, LLC, thereby increasing its ownership interest to 30% from 15%.

2013

In March 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. Also in 2013, the Company established investments in RevoLaze, LLC, eLumigen, LLC and HB Polymer Company, LLC.

(6) Debt

Short-Term Borrowings

The Company utilizes uncommitted lines of credit as needed for its short-term working capital fluctuations. As of December 31, 2014 and 2013, the Company had lines of credit from banks totaling $5.3 million and $5.4 million, respectively, of which no amounts were outstanding and all of which were unused and available, subject to certain restrictions imposed by the indentures governing the Notes and the Credit Agreement.

Long-Term Debt

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

December 31,	2014		2013	
Debt Instrument	Long-Term Debt	Weighted Average Interest Rate	Long-Term Debt	Weighted Average Interest Rate
7.875% Senior Notes due 2018	$—	N/A	$278.8	8.00%
8.125% Senior Notes due 2020	243.7	8.25%	278.3	8.25%
4.75% Senior Notes due 2023	500.0	4.75%	500.0	4.75%
5.375% Senior Notes due 2024	325.0	5.375%	—	N/A
5.25% Senior Notes due 2025	650.0	5.25%	—	N/A
	1,718.7		1,057.1	
Less — Current portion	(243.7)		—	
Long-term debt	$1,475.0		$1,057.1	

Senior Notes

As of December 31, 2014, the Company’s senior notes consist of $245 million in aggregate principal amount at maturity of senior unsecured notes due 2020 at a stated coupon rate of 8.125% (the "2020 Notes"), $500 million in aggregate principal amount of senior unsecured notes due 2023 at a stated coupon rate of 4.75% (the "2023 Notes"), $325 million in aggregate

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principal amount of senior unsecured notes due 2024 at a stated coupon rate of 5.375% (the "2024 Notes") and the 2025 Notes (and together with the 2020 Notes, the 2023 Notes and the 2024 Notes, the "Notes").

2020 Notes

The 2020 Notes were issued in March 2010, at 99.164% of par, resulting in a yield to maturity of 8.25%, and mature on March 15, 2020. Interest is payable on March 15 and September 15 of each year. In November 2014, the Company's Board of Directors authorized the redemption of the remaining outstanding aggregate principal amount of the 2020 Notes on or after March 15, 2015, the first available optional redemption date under the indenture governing the 2020 Notes. In January 2015, the Company issued a notice for the redemption of the 2020 Notes, which will occur on March 15, 2015. The Notes will be redeemed at a price equal to 104.063% of the principal amount thereof, plus accrued and unpaid interest to the redemption date. Accordingly, the 2020 Notes are recorded in current liabilities in the accompanying consolidated balance sheet as of December 31, 2014. In addition, $250 million of cash proceeds from the issuance of the 2025 Notes has been restricted for the redemption of the 2020 Notes. This restricted cash is recorded in other current assets in the accompanying consolidated balance sheet as of December 31, 2014, and is reflected as cash used in financing activities in the accompanying consolidated statement of cash flows for the year ended December 31, 2014 (see "— 2025 Notes" below).

2023 Notes

The 2023 Notes were issued in January 2013 and mature on January 15, 2023. Interest is payable on January 15 and July 15 of each year. 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"). In accordance with the registration rights agreement entered into at the time of the issuance of the 2023 Notes, the Company completed an exchange offer to exchange the 2023 Notes for substantially identical notes registered under the Securities Act in the second quarter of 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 Company’s 7.875% senior unsecured notes due 2018 (the "2018 Notes") and the 2020 Notes, investments in additional component capabilities and emerging markets and share repurchases under the Company’s common stock share repurchase program (see Note 10, "Capital Stock and Equity"). In connection with the partial redemption of the 2018 Notes and 2020 Notes, the Company paid $72.1 million and recognized a loss of $3.6 million on the partial extinguishment of debt in the year ended December 31, 2013.

The Company may redeem the 2023 Notes, in whole or in part, on or after January 15, 2018, at the redemption prices set forth below, plus accrued and unpaid interest to the redemption date.

Twelve-Month Period Commencing January 15,	2023 Notes
2018	102.375%
2019	101.583%
2020	100.792%
2021 and thereafter	100.000%

Prior to January 15, 2016, the Company may redeem up to 35% of the aggregate principal amount of the 2023 Notes, in an amount not to exceed the amount of net cash proceeds of one or more equity offerings, at a redemption price equal to 104.75% of the aggregate principal amount thereof, plus accrued and unpaid interest to the redemption date, provided that at least 65% of the original aggregate principal amount of the 2023 Notes remains outstanding after the redemption and any such redemption is made within 90 days after the closing of such equity offering. Prior to January 15, 2018, the Company may redeem the 2023 Notes, in whole or in part, at a redemption price equal to 100% of the aggregate principal amount thereof, plus a "make-whole" premium as of, and accrued and unpaid interest to, the redemption date.

2024 Notes

The 2024 Notes were issued in March 2014 and mature on March 15, 2024. Interest is payable on March 15 and September 15 of each year. The proceeds from the offering of $325 million, net of related issuance costs of $3.9 million, together with existing cash on hand, were used to redeem the remaining outstanding aggregate principal amount of the 2018 Notes ($280 million) and 10% of the original aggregate principal amount of the 2020 Notes ($35 million). In connection with these transactions, the Company paid $327.1 million and recognized losses of $17.5 million on the extinguishment of debt in the year ended December 31, 2014.

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The Company may redeem the 2024 Notes, in whole or in part, on or after March 15, 2019, at the redemption prices set forth below, plus accrued and unpaid interest to the redemption date.

Twelve-Month Period Commencing March 15,	2024 Notes
2019	102.688%
2020	101.792%
2021	100.896%
2022 and thereafter	100.000%

Prior to March 15, 2017, the Company may redeem up to 35% of the aggregate principal amount of the 2024 Notes, in an amount not to exceed the amount of net cash proceeds of one or more equity offerings, at a redemption price equal to 105.375% of the aggregate principal amount thereof, plus accrued and unpaid interest to the redemption date, provided that at least 65% of the original aggregate principal amount of the 2024 Notes remains outstanding after the redemption and any such redemption is made within 90 days after the closing of such equity offering. Prior to March 15, 2019, the Company may redeem the 2024 Notes, in whole or in part, at a redemption price equal to 100% of the aggregate principal amount thereof, plus a "make-whole" premium as of, and accrued and unpaid interest to, the redemption date.

2025 Notes

The 2025 Notes were issued in November 2014 and mature on January 15, 2025. Interest is payable on January 15 and July 15 of each year. In January 2015, the Company used $350 million of the proceeds from the offering of $650 million, net of related issuance costs of $8.4 million, along with $500 million in borrowings under the Term Loan Facility (see " — Credit Agreement" below), to finance the acquisition of Eagle Ottawa (see Note 3, "Acquisitions"). The $350 million of cash proceeds from the offering restricted for the acquisition of Eagle Ottawa is recorded in other long-term assets in the accompanying consolidated balance sheet as of December 31, 2014, and is reflected as cash used in investing activities in the accompanying consolidated statement of cash flows for the year ended December 31, 2014. The remaining proceeds will be used to redeem the remaining outstanding aggregate principal amount of the 2020 Notes (see " — 2020 Notes" above) and for general corporate purposes, including the payment of fees and expenses associated with the acquisition of Eagle Ottawa and related financing transactions.

The Company may redeem the 2025 Notes, in whole or in part, on or after January 15, 2020, at the redemption prices set forth below, plus accrued and unpaid interest to the redemption date.

Twelve-Month Period Commencing January 15,	2025 Notes
2020	102.625%
2021	101.750%
2022	100.875%
2023 and thereafter	100.000%

Prior to January 15, 2018, the Company may redeem up to 40% of the aggregate principal amount of the 2025 Notes, in an amount not to exceed the amount of net cash proceeds of one or more equity offerings, at a redemption price equal to 105.25% of the aggregate principal amount thereof, plus accrued and unpaid interest to the redemption date, provided that at least 50% of the original aggregate principal amount of the 2025 Notes remains outstanding after the redemption and any such redemption is made within 120 days after the closing of such equity offering. Prior to January 15, 2020, the Company may redeem the 2025 Notes, in whole or in part, at a redemption price equal to 100% of the aggregate principal amount thereof, plus a "make-whole" premium as of, and accrued and unpaid interest to, the redemption date.

2012 Redemption of Senior Notes

In 2012, the Company redeemed 10% of the original aggregate principal amount of each of the 2018 Notes and 2020 Notes ($70 million in aggregate) at a redemption price equal to 103% of the principal amount redeemed, plus accrued and unpaid interest to the redemption date. In connection with these transactions, the Company paid $72.1 million and recognized a loss of $3.7 million on the partial extinguishment of debt in the year ended December 31, 2012.

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Guarantees

The Notes are senior unsecured obligations. The Company’s obligations under the Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by certain domestic subsidiaries, which are directly or indirectly 100% owned by Lear. See Note 16, "Supplemental Guarantor Consolidating Financial Statements."

Covenants

The indenture governing 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 2020 Notes. In addition, if in the future 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 2020 Notes for so long as the 2020 Notes have an investment grade credit rating by both rating agencies. The indenture governing the 2020 Notes also provides for customary events of default.

Subject to certain exceptions, the indentures governing the 2023 Notes, 2024 Notes and 2025 Notes contain restrictive covenants that, among other things, limit the ability of the Company to: (i) create or permit certain liens and (ii) consolidate or merge or sell all or substantially all of the Company’s assets. In addition, the indentures governing the 2023 Notes and 2024 Notes limit the ability of the Company to enter into sale and leaseback transactions. The indentures governing the Notes also provide for customary events of default.

As of December 31, 2014, the Company was in compliance with all covenants under the indentures governing the Notes.

Credit Agreement

In November 2014, the Company amended and restated its Credit Agreement to, among other things, increase the borrowing capacity of the revolving credit facility from $1.0 billion to $1.25 billion, extend the maturity date from January 30, 2018 to November 14, 2019, and establish the $500 million Term Loan Facility, which matures on January 5, 2020. In connection with this transaction, the Company paid related issuance costs of $5.8 million and recorded a loss on the extinguishment of debt of $0.4 million. As of December 31, 2014 and 2013, there were no borrowings outstanding under the revolving credit facility. Aggregate borrowings and repayments under the revolving credit facility were both $22.0 million in 2014 and $518.7 million in 2013. As of December 31, 2014, there were no borrowings outstanding under the Term Loan Facility. In January 2015, the Company borrowed $500 million under the Term Loan Facility to finance the acquisition of Eagle Ottawa.

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 (1.50% as of December 31, 2014), 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 December 31, 2014), payable quarterly. A facility fee, which ranges from 0.25% to 0.50% of the total amount committed under the revolving credit facility, is payable quarterly. Loans under the Term Loan Facility bear interest based on the Eurocurrency rate or base rate plus a margin, ranging from 1.25% to 2.25% for Eurocurrency and 0.25% to 1.25% for base rate.

The Company’s obligations under the Credit Agreement 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 16, "Supplemental Guarantor

Consolidating Financial Statements."

The Credit Agreement contains various customary representations, warranties and covenants by the Company, including, without limitation, (i) covenants regarding maximum leverage and minimum interest coverage, (ii) limitations on fundamental changes involving the Company or its subsidiaries and (iii) limitations on indebtedness, liens, investments and restricted payments. As of December 31, 2014, the Company was in compliance with all covenants under the credit agreement.

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Scheduled Maturities

As of December 31, 2014, there are no scheduled maturities of long-term debt in the next five years.

As discussed in "— 2020 Notes" above, in January 2015, the Company issued a notice for the redemption of the remaining outstanding aggregate principal amount of the 2020 Notes, which will occur on March 15, 2015. As discussed in "— Credit Agreement" above, in January 2015, the Company borrowed $500 million under the Term Loan Facility to finance the acquisition of Eagle Ottawa. Including these subsequent events, scheduled maturities for the five succeeding years, as of the date of this Report, are shown below (in millions):

2015	$254.4
2016	21.8
2017	34.4
2018	46.9
2019	37.5

(7) Income Taxes

A summary of consolidated income before provision (benefit) for income taxes and equity in net income of affiliates and the components of provision (benefit) for income taxes is shown below (in millions):

For the year ended December 31,	2014	2013	2012
Consolidated income before provision (benefit) for income taxes and equity in net income of affiliates:			
Domestic	$228.0	$218.5	$289.3
Foreign	559.4	391.6	359.6
	$787.4	$610.1	$648.9
Domestic provision (benefit) for income taxes:			
Current provision (benefit)	$24.3	$16.8	$(4.1)
Deferred provision (benefit)	47.0	64.9	(720.8)
Total domestic provision (benefit)	71.3	81.7	(724.9)
Foreign provision for income taxes:			
Current provision	155.1	130.5	59.8
Deferred provision (benefit)	(105.0)	(19.5)	27.1
Total foreign provision	50.1	111.0	86.9
Provision (benefit) for income taxes	$121.4	$192.7	$(638.0)

The domestic provision (benefit) includes withholding taxes related to dividends and royalties paid by the Company's foreign subsidiaries, as well as state and local taxes. In 2012, the domestic current benefit includes a tax benefit of $24.2 million related to certain transfer pricing items that are now recognized as a result of the release of the Company's U.S. valuation allowance. In 2012, the domestic deferred benefit includes the benefit of prior unrecognized net operating loss carryforwards of $104.8 million. In 2014, 2013 and 2012, the foreign deferred provision (benefit) includes the benefit of prior unrecognized net operating loss carryforwards of $10.0 million, $4.1 million and $4.6 million, respectively.

A summary of the differences between the provision (benefit) for income taxes calculated at the United States federal statutory income tax rate of 35% and the consolidated provision (benefit) for income taxes is shown below (in millions):

For the year ended December 31,	2014	2013	2012
Consolidated income before provision (benefit) for income taxes and equity in net income of affiliates multiplied by the United States federal statutory income tax rate	$275.6	$213.5	$227.1
Differences in income taxes on foreign earnings, losses and remittances	(47.8)	(38.7)	1.8
Valuation allowance adjustments	(74.2)	0.2	(764.5)
Tax credits	(0.7)	(16.4)	(43.5)
Tax audits and assessments	(12.8)	2.7	(48.7)
Other	(18.7)	31.4	(10.2)
Provision (benefit) for income taxes	$121.4	$192.7	$(638.0)

Internal Revenue Code of 1986, as amended ("IRC"), Sections 382 and 383 provide an annual limitation with respect to the ability of a corporation to utilize its U.S. net operating loss, capital loss and tax credit carryforwards (collectively, the "Tax Attributes"), as well as certain built-in-losses, against future U.S. taxable income in the event of a change in ownership. The Company's emergence from Chapter 11 bankruptcy proceedings is considered a change in ownership for purposes of IRC Section 382. The limitation under the IRC is based on the value of the corporation as of the emergence date. As a result, the Company's future U.S. taxable income may not be fully offset by the Tax Attributes if such income exceeds its annual limitation, and the Company may incur a tax liability with respect to such income. In addition, subsequent changes in ownership for purposes of the IRC could further limit the Company's ability to use its Tax Attributes.

For the years ended December 31, 2014, 2013 and 2012, income in foreign jurisdictions with tax holidays was $57.6 million, $73.7 million and $99.2 million, respectively. Such tax holidays generally expire from 2015 through 2027.

Deferred income taxes represent temporary differences in the recognition of certain items for financial reporting and income tax purposes. A summary of the components of the net deferred income tax asset is shown below (in millions):

December 31,	2014	2013
Deferred income tax assets:		
Tax loss carryforwards	$588.9	$690.5
Tax credit carryforwards	419.0	437.2
Retirement benefit plans	119.8	74.3
Accrued liabilities	136.7	133.9
Self-insurance reserves	8.6	9.5
Current asset basis differences	38.7	38.8
Long-term asset basis differences	(48.7)	(64.5)
Deferred compensation	48.3	40.9
Recoverable customer engineering, development and tooling	(12.1)	(22.2)
Undistributed earnings of foreign subsidiaries	(54.2)	(54.3)
Derivative instruments and hedging	12.5	(1.6)
Other	1.4	(0.8)
	1,258.9	1,281.7
Valuation allowance	(508.5)	(642.6)
Net deferred income tax asset	$750.4	$639.1

As of December 31, 2014 and 2013, the valuation allowance with respect to the Company's deferred tax assets was $508.5 million and $642.6 million, respectively, a net decrease of $134.1 million.

Concluding that a valuation allowance is not required is difficult when there is significant negative evidence, such as cumulative losses in recent years, which is objective and verifiable. When measuring cumulative losses in recent years, the Company uses a rolling three-year period of pretax book income, adjusted for permanent differences between book and taxable

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income and certain other items. The Company was profitable in the United States in 2012 but remained in a cumulative loss position through the third quarter of 2012. As of December 31, 2012, the Company was no longer in a cumulative loss position. Based on three years of profitability in the United States, as well as a forecast of taxable income in the United States in 2013 and future years, management concluded that it was more likely than not that its net deferred tax assets would be realized. As a result, substantially all of the valuation allowance that had been provided with respect to the net deferred tax assets in the United States was reversed in the fourth quarter of 2012. As of December 31, 2014, the Company continues to maintain a valuation allowance of $35.2 million with respect to certain U.S. deferred tax assets that, due to their nature, are not likely to be realized. In addition, the Company continues to maintain a valuation allowance of $473.3 million with respect to its deferred tax assets in several international jurisdictions.

The classification of the net deferred income tax asset is shown below (in millions):

December 31,	2014	2013
Deferred income tax assets:		
Current	$210.8	$187.4
Long-term	606.4	535.9
Deferred income tax liabilities:		
Current	(9.6)	(23.1)
Long-term	(57.2)	(61.1)
Net deferred income tax asset	$750.4	$639.1

Deferred income taxes have not been provided on $1.2 billion of certain undistributed earnings of the Company's foreign subsidiaries as such amounts are considered to be permanently reinvested. It is not practicable to determine the unrecognized deferred tax liability on these earnings because the actual tax liability on these earnings, if any, is dependent on circumstances existing when remittance occurs.

As of December 31, 2014, the Company had tax loss carryforwards of $2.0 billion. Of the total tax loss carryforwards, $1,794.0 million have no expiration date, and $252.9 million expire between 2015 and 2034. In addition, the Company had tax credit carryforwards of $442.2 million comprised principally of U.S. foreign tax credits, research and development credits and investment tax credits that generally expire between 2015 and 2034. As of December 31, 2014, the deferred tax asset related to domestic tax credit carryforwards is lower than the actual amount reported on the Company's domestic tax returns by approximately $23.2 million. This difference is the result of tax deductions in excess of financial statement amounts for stock-based compensation. When these amounts are realized, the Company will record the tax benefit as an increase to additional paid in capital.

As of December 31, 2014 and 2013, the Company's gross unrecognized tax benefits were $39.7 million and $45.2 million (excluding interest and penalties), respectively, of which $39.7 million and $31.9 million, respectively, if recognized, would affect the Company's effective tax rate. The gross unrecognized tax benefits are recorded in other long-term liabilities, with the exception of $0.6 million (excluding interest and penalties), which is recorded in accrued liabilities, in the accompanying consolidated balance sheets as of December 31, 2013.

A summary of the changes in gross unrecognized tax benefits is shown below (in millions):

For the year ended December 31,	2014	2013	2012
Balance at beginning of period	$45.2	$34.4	$49.4
Additions based on tax positions related to current year	5.6	5.0	5.2
Additions (reductions) based on tax positions related to prior years	(1.8)	14.3	(18.5)
Settlements	(6.5)	(6.7)	—
Statute expirations	—	(0.8)	(1.8)
Foreign currency translation	(2.8)	(1.0)	0.1
Balance at end of period	$39.7	$45.2	$34.4

The Company recognizes interest and penalties with respect to unrecognized tax benefits as income tax expense. As of December 31, 2014 and 2013, the Company had recorded gross reserves of $6.1 million and $6.7 million (excluding federal

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benefit where applicable), respectively, related to interest and penalties, of which $6.1 million and $6.6 million, respectively, if recognized, would affect the Company's effective tax rate.

The Company operates in multiple jurisdictions throughout the world, and its tax returns are periodically audited or subject to review by both domestic and foreign tax authorities. During the next twelve months, it is reasonably possible that, as a result of audit settlements, the conclusion of current examinations and the expiration of the statute of limitations in multiple jurisdictions, the Company may decrease the amount of its gross unrecognized tax benefits by approximately $0.6 million, all of which, if recognized, would affect the Company's effective tax rate. The gross unrecognized tax benefits subject to potential decrease involve issues related to transfer pricing and various other tax items in multiple jurisdictions. However, as a result of ongoing examinations, tax proceedings in certain countries, additions to the gross unrecognized tax benefits for positions taken and interest and penalties, if any, arising in 2015, it is not possible to estimate the potential net increase or decrease to the Company's gross unrecognized tax benefits during the next twelve months.

The Company considers its significant tax jurisdictions to include Brazil, China, Germany, Hungary, Italy, Mexico, Poland, Spain, the United Kingdom and the United States. The Company or its subsidiaries generally remain subject to income tax examination in certain U.S. state and local jurisdictions for years after 2009. Further, the Company or its subsidiaries remain subject to income tax examination in Mexico and Spain for years after 2006, in Brazil, Hungary and Poland for years after 2008, in Canada and Italy generally for years after 2009, in China, Germany and the United Kingdom for years after 2010 and in the United States generally for years after 2013.

Legislation

In January 2013, the American Taxpayer Relief Act of 2012 was enacted, which retroactively reinstated and extended various tax provisions applicable to the Company, including the Research & Development Tax Credit. In 2013, the Company recognized a tax benefit of $3.4 million, which reduced the Company's effective tax rate.

(8) Pension and Other Postretirement Benefit Plans

The Company has noncontributory defined benefit pension plans covering certain domestic employees and certain employees in foreign countries, principally Canada. The Company's salaried pension plans provide benefits based on final average earnings formulas. The Company's hourly pension plans provide benefits under flat benefit and cash balance formulas. The Company also has contractual arrangements with certain employees which provide for supplemental retirement benefits. In general, the Company's policy is to fund its pension benefit obligation based on legal requirements, tax and liquidity considerations and local practices.

The Company has postretirement benefit plans covering certain domestic and Canadian employees. The Company's postretirement benefit plans generally provide for the continuation of medical benefits for all eligible employees who complete a specified number of years of service and retire from the Company at age 55 or older. The Company does not fund its postretirement benefit obligation. Rather, payments are made as costs are incurred by covered retirees.

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Obligations and Funded Status
A reconciliation of the change in benefit obligation and the change in plan assets for the years ended December 31, 2014 and 2013, is shown below (in millions):

	Pension				Other Postretirement			
	December 31, 2014		December 31, 2013		December 31, 2014		December 31, 2013	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Change in benefit obligation:								
Benefit obligation at beginning of period	$586.7	$459.5	$656.3	$509.2	$91.6	$42.4	$102.0	$73.8
Service cost	3.7	8.8	2.9	10.2	0.2	0.9	0.1	1.1
Interest cost	28.5	20.4	26.2	20.7	4.0	2.0	3.6	2.0
Amendments and settlements	—	—	—	(13.8)	—	—	—	(25.5)
Actuarial (gain) loss	119.8	66.5	(79.9)	(24.3)	(8.0)	6.9	(8.4)	(2.5)
Benefits paid	(20.9)	(22.4)	(18.8)	(22.8)	(4.5)	(2.6)	(5.7)	(2.4)
Special termination benefits	—	—	—	0.1	—	0.8	—	0.8
Translation adjustment	—	(39.8)	—	(19.8)	—	(3.6)	—	(4.9)
Benefit obligation at end of period	$717.8	$493.0	$586.7	$459.5	$83.3	$46.8	$91.6	$42.4

	Pension				Other Postretirement			
	December 31, 2014		December 31, 2013		December 31, 2014		December 31, 2013	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Change in plan assets:								
Fair value of plan assets at beginning of period	$503.5	$417.0	$417.6	$390.6	$—	$—	$—	$—
Actual return on plan assets	34.2	40.7	79.1	57.6	—	—	—	—
Employer contributions	2.4	15.2	25.6	27.4	4.5	2.6	5.7	2.4
Benefits paid	(20.9)	(22.4)	(18.8)	(22.8)	(4.5)	(2.6)	(5.7)	(2.4)
Settlements	—	—	—	(13.8)	—	—	—	—
Translation adjustment	—	(35.4)	—	(22.0)	—	—	—	—
Fair value of plan assets at end of period	$519.2	$415.1	$503.5	$417.0	$—	$—	$—	$—
Funded status	$(198.6)	$(77.9)	$(83.2)	$(42.5)	$(83.3)	$(46.8)	$(91.6)	$(42.4)

	Pension				Other Postretirement			
	December 31, 2014		December 31, 2013		December 31, 2014		December 31, 2013	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Amounts recognized in the consolidated balance sheet:								
Other long-term assets	$—	$45.5	$0.3	$62.7	$—	$—	$—	$—

Accrued liabilities	(2.5)	(3.0)	(2.3)	(3.5)	(5.1)	(2.0)	(6.9)	(2.3)
Other long-term liabilities	(196.1)	(120.4)	(81.2)	(101.7)	(78.2)	(44.8)	(84.7)	(40.1)

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In 2013, the Company settled foreign defined benefit pension obligations related to the closure of a foreign facility in 2010. This settlement transaction was subject to and in accordance with regulatory requirements and was accomplished through both the purchase of individual non-participating life annuity contracts and lump-sum payments made directly to plan participants by the plans' trust. In conjunction with this settlement transaction, the Company recognized a settlement loss of $2.5 million in 2013, as disclosed in Note 4, "Restructuring," and in "— Net Periodic Benefit Cost (Credit)" below.

As of December 31, 2014 and 2013, the accumulated benefit obligation for all of the Company's pension plans was $1,192.7 million and $1,031.7 million, respectively. As of December 31, 2014 and 2013, the majority of the Company's pension plans had accumulated benefit obligations in excess of plan assets. The projected benefit obligation, the accumulated benefit obligation and the fair value of plan assets of pension plans with accumulated benefit obligations in excess of plan assets were $930.4 million, $912.5 million and $608.5 million, respectively, as of December 31, 2014, and $731.1 million, $717.5 million and $542.3 million, respectively, as of December 31, 2013.

Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss

Pretax amounts recognized in other comprehensive income (loss) for the years ended December 31, 2014 and 2013, are shown below (in millions):

	Pension				Other Postretirement			
	December 31, 2014		December 31, 2013		December 31, 2014		December 31, 2013	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Actuarial gains (losses) recognized:								
Reclassification adjustments	$(0.3)	$1.4	$4.1	$8.9	$(0.7)	$0.1	$(0.1)	$2.9
Actuarial gain (loss) arising during the period	(123.6)	(53.4)	126.6	55.9	8.0	(6.9)	8.4	2.5
Prior service cost recognized:								
Reclassification adjustments	—	—	—	—	—	(0.4)	—	(0.4)
Translation adjustment	—	4.5	—	6.6	—	0.2	—	0.5
	$(123.9)	$(47.5)	$130.7	$71.4	$7.3	$(7.0)	$8.3	$5.5

In addition, the Company recognized tax benefits (expense) in other comprehensive income (loss) related to its defined benefit plans of $56.5 million, ($70.1) million and $2.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Pretax amounts recorded in accumulated other comprehensive loss not yet recognized in net periodic benefit cost (credit) as of December 31, 2014 and 2013, are shown below (in millions):

	Pension				Other Postretirement			
	December 31, 2014		December 31, 2013		December 31, 2014		December 31, 2013	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Net unrecognized actuarial gain (loss)	$(138.1)	$(97.6)	$(14.2)	$(50.1)	$11.7	$(11.3)	$4.4	$(4.9)
Prior service credit	—	—	—	—	—	1.9	—	2.5
	$(138.1)	$(97.6)	$(14.2)	$(50.1)	$11.7	$(9.4)	$4.4	$(2.4)

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Notes to Consolidated Financial Statements (continued)

Pretax amounts recorded in accumulated other comprehensive loss as of December 31, 2014, that are expected to be recognized as components of net periodic benefit cost (credit) in the year ending December 31, 2015, are shown below (in millions):

	Pension		Other Postretirement	
	U.S.	Foreign	U.S.	Foreign
Net unrecognized actuarial gain (loss)	$(2.6)	$(3.0)	$1.2	$(0.6)
Prior service credit	—	—	—	0.4
	$(2.6)	$(3.0)	$1.2	$(0.2)

Net Periodic Pension and Other Postretirement Benefit Cost (Credit)

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

	Year Ended December 31,					
	2014		2013		2012	
Pension	U.S.	Foreign	U.S	Foreign	U.S.	Foreign
Service cost	$3.7	$8.8	$2.9	$10.2	$3.2	$9.6
Interest cost	28.5	20.4	26.2	20.7	25.4	21.0
Expected return on plan assets	(38.1)	(27.0)	(32.4)	(25.1)	(28.4)	(23.1)
Amortization of actuarial loss	(0.3)	1.3	4.1	6.4	3.9	5.8
Settlement loss	0.1	—	—	2.5	0.6	—
Net periodic benefit cost (credit)	$(6.1)	$3.5	$0.8	$14.7	$4.7	$13.3

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

	Year Ended December 31,					
	2014		2013		2012	
Other Postretirement	U.S.	Foreign	U.S	Foreign	U.S.	Foreign
Service cost	$0.2	$0.9	$0.1	$1.1	$0.5	$1.0
Interest cost	4.0	2.0	3.6	2.0	4.4	3.2
Amortization of actuarial (gain) loss	(0.7)	0.1	(0.1)	0.3	0.3	0.3
Amortization of prior service credit	—	(0.4)	—	(0.4)	—	(0.2)
Special termination benefits	—	0.8	—	0.7	—	0.4
Settlement gain	—	—	—	(5.9)	(5.4)	—
Net periodic benefit cost (credit)	$3.5	$3.4	$3.6	$(2.2)	$(0.2)	$4.7

For the year ended December 31, 2013, the Company recognized a settlement loss of $2.5 million, related to its restructuring actions (Note 4, "Restructuring").

Assumptions

The weighted average actuarial assumptions used in determining the benefit obligations are shown below:

	Pension		Other Postretirement	
December 31,	2014	2013	2014	2013
Discount rate:				
Domestic plans	4.1%	5.0%	3.9%	4.5%
Foreign plans	3.6%	4.6%	4.0%	5.0%
Rate of compensation increase:				
Foreign plans	3.1%	4.1%	N/A	N/A

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The weighted average actuarial assumptions used in determining the net periodic benefit cost (credit) are shown below:

For the year ended December 31,	2014	2013	2012
Pension			
Discount rate:			
Domestic plans	5.0 %	4.1 %	4.5 %
Foreign plans	4.7 %	4.3 %	4.8 %
Expected return on plan assets:			
Domestic plans	7.8 %	8.0 %	8.0 %
Foreign plans	6.7 %	6.7 %	6.7 %
Rate of compensation increase:			
Foreign plans	3.4 %	4.8 %	5.2 %
Other postretirement			
Discount rate:			
Domestic plans	4.5 %	3.7 %	4.0 %
Foreign plans	5.0 %	4.4 %	4.5 %

The expected return on plan assets is determined based on several factors, including adjusted historical returns, historical risk premiums for various asset classes and target asset allocations within the portfolio. Adjustments made to the historical returns are based on recent return experience in the equity and fixed income markets and the belief that deviations from historical returns are likely over the relevant investment horizon.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the postretirement benefit plans. A 1% increase in the assumed rate of healthcare cost increases each year would increase the postretirement benefit obligation by $20.0 million as of December 31, 2014, and increase the net periodic postretirement benefit cost by $1.1 million for the year then ended. A 1% decrease in the assumed rate of healthcare cost increases each year would decrease the postretirement benefit obligation by $16.0 million as of December 31, 2014, and decrease the net periodic postretirement benefit cost by $0.9 million for the year then ended.

For the measurement of postretirement benefit obligation as of December 31, 2014, domestic healthcare costs were assumed to increase 7.1% in 2015, grading down over time to 4.5% in 2021. Foreign healthcare costs were assumed to increase 5.3% in 2015, grading down over time to 4.5% in 2031 on a weighted average basis.

Plan Assets

With the exception of alternative investments, plan assets are valued at fair value using a market approach and observable inputs, such as quoted market prices in active markets (Level 1 and Level 2 inputs based on the GAAP fair value hierarchy). Alternative investments are valued at fair value based on net asset per share or unit provided for each investment fund (Level 2 input based on the GAAP fair value hierarchy). For further information on the GAAP fair value hierarchy, see Note 13, "Financial Instruments."

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The Company's pension plan assets by asset category are shown below (in millions). Pension plan assets for the foreign plans relate to the Company's pension plans in Canada and the United Kingdom.

December 31,	2014	2013
Equity securities:		
Domestic plans	$317.7	$321.2
Foreign plans	238.9	237.4
Debt securities:		
Domestic plans	137.9	114.6
Foreign plans	136.8	125.7
Alternative investments:		
Domestic plans	53.7	51.0
Foreign plans	33.1	31.5
Cash and other:		
Domestic plans	9.9	16.7
Foreign plans	6.3	22.4

The Company's investment policies incorporate an asset allocation strategy that emphasizes the long-term growth of capital. The Company believes that this strategy is consistent with the long-term nature of plan liabilities and ultimate cash needs of the plans. For the domestic portfolio, the Company targets an equity allocation of 50% — 75% of plan assets, a fixed income allocation of 15% — 40%, an alternative investment allocation of 0% — 30% and a cash allocation of 0% — 10%. For the foreign portfolio, the Company targets an equity allocation of 45% — 65% of plan assets, a fixed income allocation of 30% — 40%, an alternative investment allocation of 0% — 20% and a cash allocation of 0% — 10%. Differences in the target allocations of the domestic and foreign portfolios are reflective of differences in the underlying plan liabilities. Diversification within the investment portfolios is pursued by asset class and investment management style. The investment portfolios are reviewed on a quarterly basis to maintain the desired asset allocations, given the market performance of the asset classes and investment management styles.

The Company utilizes investment management firms to manage these assets in accordance with the Company's investment policies. Excluding alternative investments, mutual funds and ETF funds, retained investment managers are provided investment guidelines that indicate prohibited assets, which include commodities contracts, futures contracts, options, venture capital, real estate, interest-only or principal-only strips and investments in the Company's own debt or equity. Derivative instruments are also prohibited without the specific approval of the Company. Investment managers are limited in the maximum size of individual security holdings and the maximum exposure to any one industry relative to the total portfolio. Fixed income managers are provided further investment guidelines that indicate minimum credit ratings for debt securities and limitations on weighted average maturity and portfolio duration.

The Company evaluates investment manager performance against market indices which the Company believes are appropriate to the investment management style for which the investment manager has been retained. The Company's investment policies incorporate an investment goal of aggregate portfolio returns which exceed the returns of the appropriate market indices by a reasonable spread over the relevant investment horizon.

Contributions

The Company's minimum required contributions to its domestic and foreign pension plans are expected to be approximately $25 to $30 million in 2015. 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. The Company's minimum funding requirements after 2015 will depend on several factors, including investment performance and interest rates. The Company's minimum funding requirements may also be affected by changes in applicable legal requirements.

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Benefit Payments
As of December 31, 2014, the Company's estimate of expected benefit payments, excluding expected settlements relating to its restructuring actions, in each of the five succeeding years and in the aggregate for the five years thereafter are shown below (in millions):

	Pension		Other Postretirement	
Year	U.S.	Foreign	U.S.	Foreign
2015	$24.2	$19.0	$5.1	$2.0
2016	25.3	19.3	5.2	1.3
2017	26.2	19.8	5.3	1.4
2018	27.5	20.2	5.4	1.5
2019	28.9	20.6	5.5	1.5
Five years thereafter	165.0	120.6	26.7	10.2

Multi-Employer Pension Plans
The Company currently participates in two multi-employer pension plans, the U.A.W. Labor-Management Group Pension Plan and UNITE Here National Retirement Fund, for certain of its employees. Contributions to these plans are based on three collective bargaining agreements. Two of the agreements expire on July 1, 2016, and one expires on April 23, 2015. Detailed information related to these plans is shown below (amounts in millions):

	Pension Protection Act Zone Status				Contributions to Multiemployer Pension Plans		
Employer Identification Number	December 31, 2014 Certification	December 31, 2013 Certification	FIP/RP Pending or Implemented	Surcharge	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
516099782-001	Green	Green	No	No	$ 0.6	$ 0.4	$ 0.5
13-6130178	Red	Red	Yes	Yes	0.3	0.2	0.1

Defined Contribution Plan
The Company also sponsors defined contribution plans and participates in government-sponsored programs in certain foreign countries. Contributions are determined as a percentage of each covered employee's salary. For the years ended December 31, 2014, 2013 and 2012, the aggregate cost of the defined contribution pension plans was $12.0 million, $11.1 million and $7.6 million, respectively.
The Company also has a defined contribution retirement program for its salaried employees. Contributions to this program are determined as a percentage of each covered employee's eligible compensation. For the years ended December 31, 2014, 2013 and 2012, the Company recorded expense of $17.8 million, $16.4 million and $13.4 million, respectively, related to this program.
(9) Capital Stock and Equity
Common Stock
The Company is authorized to issue up to 300,000,000 shares of Common Stock. The Company's Common Stock is listed on the New York Stock Exchange under the symbol "LEA" and has the following rights and privileges:

- Voting Rights – All shares of the Company's common stock have identical rights and privileges. With limited exceptions, holders of common stock are entitled to one vote for each outstanding share of common stock held of record by each stockholder on all matters properly submitted for the vote of the Company's stockholders.
- Dividend Rights – Subject to applicable law, any contractual restrictions and the rights of the holders of outstanding preferred stock, if any, holders of common stock are entitled to receive ratably such dividends and other distributions that the Company's Board of Directors, in its discretion, declares from time to time.
- Liquidation Rights – Upon the dissolution, liquidation or winding up of the Company, subject to the rights of the holders of outstanding preferred stock, if any, holders of common stock are entitled to receive ratably the assets of the

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Company available for distribution to the Company's stockholders in proportion to the number of shares of common stock held by each stockholder.

- Conversion, Redemption and Preemptive Rights – Holders of common stock have no conversion, redemption, sinking fund, preemptive, subscription or similar rights.

Common Stock Share Repurchase Program

Since the first quarter of 2011, the Company's Board of Directors has authorized $2.25 billion in share repurchases under its common stock share repurchase program. 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 the Company's 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 price of $53.95 per share. These shares have been included in common stock held in treasury as of the applicable delivery date. The ultimate number of shares repurchased and the final price paid per share under the ASR transaction was determined 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. On March 31, 2014, the ASR agreement ended, and the initial delivery of 11,862,836 shares exceeded the ultimate number of shares repurchased under the ASR transaction by 658,903 shares. Under the terms of the ASR agreement, the Company had the contractual right to deliver either shares or cash equal to the value of those shares to the financial institution. The Company elected to settle the ASR transaction in cash and as a result, paid $55.5 million in the second quarter of 2014. Inclusive of the settlement, 11,862,836 shares were repurchased under the ASR transaction for $855.5 million, or an average price of $72.11 per share.

In 2014, the Company paid $411.4 million in aggregate for repurchases of its common stock, including $355.9 million of open market repurchases (3,805,114 shares repurchased at an average purchase price of $93.52 per share, excluding commissions) and $55.5 million to settle the ASR transaction. In 2013, the Company paid $1.0 billion in aggregate for repurchases of its common stock (15,533,758 shares repurchased, including the initial delivery of shares representing 80% of the ASR transaction's original value, at an average purchase price of $54.08 per share, excluding commissions). In 2012, the Company paid $222.8 million in aggregate for repurchases of its common stock (5,357,443 shares repurchased at an average purchase price of $41.59 per share, excluding commissions).

The Company has a remaining repurchase authorization of $338.6 million under its current common stock share repurchase program, which will expire in April 2016. 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 Credit Agreement and the indenture governing the 2020 Notes place certain limitations on the Company's ability to repurchase its common stock.

As of the date of this Report, the Company has paid $1.9 billion in aggregate for repurchases of its common stock, at an average price of $61.97 per share, excluding commissions and related fees, since the first quarter of 2011.

In addition to shares repurchased under the Company's common stock share repurchase program described 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 consolidated balance sheets as of December 31, 2014 and December 31, 2013.

In December 2014 and 2013, the Company's Board of Directors approved the retirement of 8 million shares and 20 million shares, respectively, of common stock held in treasury. These retired shares are reflected as authorized, but not issued, in the accompanying consolidated balance sheets as of December 31, 2014 and 2013. The 2014 retirement of shares held in treasury resulted in a reduction in common stock, additional paid-in capital and retained earnings of $0.1 million, $155.9 million and $363.9 million, respectively. These reductions were offset by a corresponding reduction in shares held in treasury of $519.9 million. The 2013 retirement of shares held in treasury resulted in a reduction in common stock, additional paid-in capital and retained earnings of $0.2 million, $389.7 million and $600.7 million, respectively. These reductions were offset by a corresponding reduction in shares held in treasury of $990.6 million. Accordingly, there was no effect on stockholders' equity as a result of these transactions.

Quarterly Dividend

In 2014, 2013 and 2012, the Company's Board of Directors declared quarterly cash dividends of $0.20, $0.17 and $0.14 per share of common stock, respectively. In 2014, declared dividends totaled $67.1 million, and dividends paid totaled $65.3 million. In 2013, declared dividends totaled $59.4 million, and dividends paid totaled $58.4 million. In 2012, declared dividends totaled $56.1 million, and dividends paid totaled $54.6 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.

Warrants

The Company issued 8,157,249 warrants in connection with its emergence from Chapter 11 bankruptcy proceedings. All warrants that remained outstanding on November 9, 2014, expired in accordance with their terms on that date. As of December 31, 2013, there were 279,094 warrants outstanding, exercisable into 558,188 shares of common stock. In accordance with GAAP, the Company accounts for the warrants as equity instruments. The following is a description of the warrants:

- Exercise – Each warrant entitled its holder to purchase two shares of common stock at an exercise price of $0.005 per share of common stock, subject to adjustment, prior to November 9, 2014 (the warrant expiration date).
- No Rights as Stockholders – Prior to the exercise of the warrants, no holder of warrants (solely in its capacity as a holder of warrants) was entitled to any rights as a stockholder of the Company, including, without limitation, the right to vote, receive notice of any meeting of stockholders or receive dividends, allotments or other distributions.
- Adjustments – The number of shares of common stock for which a warrant was exercisable, the exercise price and the trigger price (as defined in the warrant agreement) were subject to adjustment from time to time upon the occurrence of certain events, including an increase in the number of outstanding shares of common stock by means of a dividend consisting of shares of common stock, a subdivision of the Company's outstanding shares of common stock into a larger number of shares of common stock or a combination of the Company's outstanding shares of common stock into a smaller number of shares of common stock. In addition, upon the occurrence of certain events constituting a reorganization, recapitalization, reclassification, consolidation, merger or similar event, each holder of a warrant had the right to receive, upon exercise of a warrant (if then exercisable), an amount of securities, cash or other property receivable by a holder of the number of shares of common stock for which a warrant was exercisable immediately prior to such event.

Noncontrolling Interests

In 2014 and 2013, the Company acquired noncontrolling interests in certain of its consolidated subsidiaries. In 2014, the Company sold its controlling interest in a less than wholly owned consolidated subsidiary. There was no significant gain or loss recognized in connection with this transaction. In 2012, the Company acquired a controlling interest in an affiliate previously accounted for under the equity method.

(10) Stock-Based Compensation

The Company adopted the Lear Corporation 2009 Long-Term Stock Incentive Plan as of November 9, 2009 (as amended, the "2009 LTSIP"). The 2009 LTSIP reserves 11,815,748 shares of common stock for issuance under stock option, restricted stock, restricted stock unit, restricted unit, performance share, performance unit and stock appreciation right awards.

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Under the 2009 LTSIP, the Company has granted restricted stock units and performance shares to certain of its employees. The restricted stock units and performance shares generally vest in three years following the grant date. For the years ended December 31, 2014, 2013 and 2012, the Company recognized compensation expense related to the restricted stock unit and performance share awards of $69.5 million, $58.4 million and $38.9 million, respectively. Unrecognized compensation expense related to the restricted stock unit and performance share awards of $59.9 million will be recognized over the next 1.6 years on a weighted average basis. In accordance with the provisions of the restricted stock unit and performance share awards, the Company withholds shares from the settlement of such awards to cover minimum statutory tax withholding requirements. The withheld shares are classified as common stock held in treasury in the accompanying consolidated balance sheets as of December 31, 2014 and 2013. A summary of restricted stock unit and performance share transactions for the year ended December 31, 2014, is shown below:

	Restricted Stock Units	Performance Shares
Outstanding as of December 31, 2013	761,423	3,330,218
Granted	227,969	636,552
Distributed (vested)	(212,411)	(656,335)
Cancelled	(12,433)	(286,314)
Outstanding as of December 31, 2014[1]	764,548	3,024,121
Vested or expected to vest as of December 31, 2014	764,548	2,510,518

(1) Outstanding performance shares are reflected at the maximum possible payout that may be earned during the relevant performance periods.

The grant date fair values of restricted stock units and performance shares are based on the share price on the grant date. The weighted average grant date fair value of restricted stock units granted in 2014, 2013 and 2012 was $79.73, $56.69 and $43.23, respectively. The weighted average grant date fair value of performance shares granted in 2014, 2013 and 2012 was $73.85, $51.03 and $45.21, respectively.

(11) Commitments and Contingencies

Legal and Other Contingencies

As of December 31, 2014 and 2013, the Company had recorded reserves for pending legal disputes, including commercial disputes and other matters, of $11.9 million and $17.5 million, respectively. Such reserves reflect amounts recognized in accordance with GAAP and typically exclude the cost of legal representation. Product liability and warranty reserves are recorded separately from legal reserves, as described below.

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

In order to avoid the costs and distraction of continuing to litigate the Consolidated Cases and the Canadian Cases, the Company entered into settlement agreements with the plaintiffs in the Consolidated Cases on May 5, 2014 (the "U.S.

Settlement Agreements") and with the plaintiffs in the Canadian Cases on November 11, 2014 (the "Canadian Settlement Agreement" and together with the U.S. Settlement Agreements, the "Settlement Agreements"), under which the class plaintiffs

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in both the Consolidated Cases and the Canadian Cases will release the Company from all claims, demands, actions, suits and causes of action. The Settlement Agreements contain no admission by the Company of any wrongdoing, and the Company maintains that it violated no laws in connection with these matters. Because the conduct alleged by the class plaintiffs overwhelmingly relates to periods prior to the Company’s emergence from bankruptcy proceedings in 2009, the U.S. Settlement Agreements provide that the aggregate settlement amount of $8.75 million will consist of $370,263 in cash contributed by the Company with the remainder paid in outstanding common stock and warrants of the Company held in the bankruptcy reserve established under the Company’s plan of reorganization. Likewise, the Canadian Settlement Agreement provides that the aggregate settlement amount of CDN$563,500 will consist of CDN$23,845 in cash contributed by the Company with the remainder paid from the proceeds of the sale of outstanding common stock and warrants of the Company held in the bankruptcy reserve established under the Company’s plan of reorganization.

The U.S. Settlement Agreements were approved by the United States Bankruptcy Court for the Southern District of New York on May 27, 2014, and preliminarily approved, on the record in open court, by the District Court on July 1, 2014. The U.S. Settlement Agreements between the Company and the class of direct purchasers received the final approval of the District Court on December 3, 2014. The U.S. Settlement Agreements between the Company and the classes of indirect purchasers remain subject to the final approval of the District Court, which will be decided following the provision of notice to purported class members and hearings, with respect to each class, to confirm the fairness of the settlement. Likewise, the Canadian Settlement Agreement remains subject to court approval in the provinces of British Columbia, Ontario and Quebec following the provision of notice to purported class members.

On February 20, 2014, the City of Richmond, California filed a putative class action lawsuit in the District Court on behalf of itself and other "Public Entities," comprising states, state subdivisions, agencies and instrumentalities, as well as local government subdivisions and agencies, and amended its complaint on October 3, 2014 (the "Public Entities Complaint"). The allegations and requests for relief in the Public Entities Complaint are substantially similar to those in the Consolidated Cases. The Public Entities dismissed the Company, without prejudice, from the Public Entities' lawsuit on October 9, 2014.

On November 21, 2014, a plaintiff filed a putative class action complaint in the District Court against the Company and several other global suppliers of wire harnesses alleging violations of federal and state antitrust and related laws regarding the sales of wire harnesses for medium and heavy duty trucks, buses, commercial vehicles and equipment. Plaintiffs purport to be truck and equipment dealers who are indirect purchasers of wire harnesses supplied by the Company and/or the other defendants during the relevant period. The allegations and requests for relief in the complaint are otherwise substantially similar to those in the Consolidated Cases. The ultimate outcome of this litigation, and consequently, an estimate of the possible loss, if any, related to this complaint, cannot reasonably be determined at this time. However, the Company believes the plaintiffs’ allegations against it are without merit and intends 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, 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

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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 each of the periods in the two years ended December 31, 2014, is shown below (in millions):

Balance as of January 1, 2013	$22.7	
Expense, net, including changes in estimates	15.2	
Settlements	(9.1	)
Foreign currency translation and other	(0.5	)
Balance as of December 31, 2013	28.3	
Expense, net, including changes in estimates	11.4	
Settlements	(9.3	)
Foreign currency translation and other	(1.5	)
Balance as of December 31, 2014	$28.9	

Environmental Matters
The Company is subject to local, state, federal and foreign laws, regulations and ordinances which govern activities or operations that may have adverse environmental effects and which impose liability for clean-up costs resulting from past spills, disposals or other releases of hazardous wastes and environmental compliance. The Company's policy is to comply with all applicable environmental laws and to maintain an environmental management program based on ISO 14001 to ensure compliance with this standard. However, the Company currently is, has been and in the future may become the subject of formal or informal enforcement actions or procedures.
The Company has been named as a potentially responsible party at several third-party landfill sites and is engaged in the cleanup of hazardous waste at certain sites owned, leased or operated by the Company, including several properties acquired in its 1999 acquisition of UT Automotive, Inc. ("UT Automotive"). Certain present and former properties of UT Automotive are subject to environmental liabilities which may be significant. The Company obtained agreements and indemnities with respect to certain environmental liabilities from United Technologies Corporation ("UTC") in connection with the Company's acquisition of UT Automotive. UTC manages and directly funds these environmental liabilities pursuant to its agreements and indemnities with the Company.
As of December 31, 2014 and December 31, 2013, the Company had recorded environmental reserves of $4.8 million and $5.0 million, respectively. The Company does not believe that the environmental liabilities associated with its current and former properties will have a material adverse impact on its business, financial condition, results of operations or cash flows; however, no assurances can be given in this regard.
Other Matters
The Company is involved from time to time in various other legal proceedings and claims, including, without limitation, intellectual property matters, tax claims and employment matters. Although the outcome of any legal matter cannot be predicted with certainty, the Company does not believe that any of the other legal proceedings or claims in which the Company is currently involved, either individually or in the aggregate, will have a material adverse impact on its business, financial condition, results of operations or cash flows. However, no assurances can be given in this regard.
Although the Company records reserves for legal disputes, product liability and warranty claims and environmental and other matters in accordance with GAAP, the ultimate outcomes of these matters are inherently uncertain. Actual results may differ significantly from current estimates.
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

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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 2013 and $34.4 million incurred in 2012). The Company also recognized in cost of sales cumulative recoveries of $59.1 million ($49.0 million recognized in 2012) and in other expense cumulative recoveries and gains of $29.9 million ($26.5 million recognized in 2012). In addition, the Company received cumulative cash proceeds of $89.0 million ($10.0 million received in 2013 and $66.4 million received in 2012), of which $59.1 million ($2.9 million received in 2013 and $47.2 million received in 2012) has been reflected in cash flows from operating activities and $29.8 million ($7.1 million received in 2013 and $19.2 million received in 2012) has been reflected in cash flows from investing activities.

Employees

Approximately 45% of the Company’s employees are members of industrial trade unions and are employed under the terms of various labor agreements. Labor agreements covering approximately 79% of the Company’s unionized workforce of approximately 57,000 employees, including approximately 1% of the Company’s unionized workforce in the United States and Canada, are scheduled to expire in 2015. Management does not anticipate any significant difficulties with respect to the renewal of these agreements.

Lease Commitments

A summary of lease commitments as of December 31, 2014, under non-cancelable operating leases with terms exceeding one year is shown below (in millions):

2015	$100.5
2016	80.1
2017	71.4
2018	66.1
2019	59.7
Thereafter	68.5
Total	$446.3

The Company’s operating leases cover principally buildings and transportation equipment. Rent expense was $128.1 million, $117.2 million and $108.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

(12) Segment Reporting

A summary of revenues from external customers and other financial information by reportable operating segment is shown below (in millions):

	Year Ended December 31, 2014			
	Seating	Electrical	Other	Consolidated
Revenues from external customers	$13,310.6	$4,416.7	$—	$17,727.3
Segment earnings [1]	655.2	556.6	(282.6)	929.2
Depreciation and amortization	199.8	103.3	7.8	310.9
Capital expenditures	268.9	138.4	17.4	424.7
Total assets	4,855.6	1,609.9	2,684.7	9,150.2

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	Year Ended December 31, 2013			
	Seating	Electrical	Other	Consolidated
Revenues from external customers	$12,018.1	$4,215.9	$—	$16,234.0
Segment earnings (1)	576.9	414.3	(254.6)	736.6
Depreciation and amortization	181.3	96.4	7.8	285.5
Capital expenditures	288.5	163.4	8.7	460.6
Total assets	4,640.0	1,658.3	2,032.6	8,330.9
	Year Ended December 31, 2012			
	Seating	Electrical	Other	Consolidated
Revenues from external customers	$11,029.6	$3,537.4	$—	$14,567.0
Segment earnings (1)	661.7	254.9	(211.4)	705.2
Depreciation and amortization	152.6	78.4	8.5	239.5
Capital expenditures	290.7	158.1	9.5	458.3
Total assets	4,341.9	1,432.2	2,420.0	8,194.1

(1) See definition in Note 2, "Summary of Significant Accounting Policies — Segment Reporting."

For the year ended December 31, 2014, segment earnings include restructuring charges of $84.0 million, $10.3 million and $12.7 million in the seating and electrical segments and in the other category, respectively (Note 4, "Restructuring").

For the year ended December 31, 2013, segment earnings include restructuring charges of $54.8 million, $13.1 million and $10.0 million in the seating and electrical segments and in the other category, respectively (Note 4, "Restructuring").

For the year ended December 31, 2012, segment earnings include restructuring charges of $47.8 million , $4.3 million and $3.1 million in the seating and electrical segments and in the other category, respectively (Note 4, "Restructuring").

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

For the year ended December 31,	2014	2013	2012
Segment earnings	$1,211.8	$991.2	$916.6
Corporate and regional headquarters and elimination of intercompany activity ("Other")	(282.6)	(254.6)	(211.4)
Consolidated income before interest, other expense, provision (benefit) for income taxes and equity in net income of affiliates	929.2	736.6	705.2
Interest expense	67.5	68.4	49.9
Other expense, net	74.3	58.1	6.4
Consolidated income before provision (benefit) for income taxes and equity in net income of affiliates	$787.4	$610.1	$648.9

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Revenues from external customers and tangible long-lived assets for each of the geographic areas in which the Company operates is shown below (in millions):

For the year ended December 31,	2014	2013	2012
Revenues from external customers:			
United States	$3,708.4	$3,046.0	$2,891.4
Mexico	2,373.9	2,225.9	1,991.8
Germany	2,327.7	2,204.6	2,142.4
China	2,092.9	1,842.9	1,467.6
Other countries	7,224.4	6,914.6	6,073.8
Total	$17,727.3	$16,234.0	$14,567.0

December 31,	2014	2013
Tangible long-lived assets:		
United States	$274.1	$246.1
Mexico	293.3	271.8
China	179.8	170.6
Germany	140.6	150.8
Other countries	736.9	747.9
Total	$1,624.7	$1,587.2

The following is a summary of the percentage of revenues from major customers:

For the year ended December 31,	2014	2013	2012
General Motors	22.0%	21.9%	21.1%
Ford	20.6%	21.9%	19.8%
BMW	11.1%	10.0%	10.6%

In addition, a portion of the Company’s remaining revenues are from the above automotive manufacturing companies through various other automotive suppliers.

(13) Financial Instruments

Debt Instruments

The carrying values of the Company’s debt instruments vary from their fair values. The fair values were determined by reference to the quoted market prices of these securities (Level 2 input based on the GAAP fair value hierarchy). As of December 31, 2014, the aggregate carrying value of the Notes was $1,718.7 million, as compared to an estimated aggregate fair value of $1,749.3 million. As of December 31, 2013, the aggregate carrying value of the 2018 Notes, 2020 Notes and 2023 Notes was $1,057.1 million, as compared to an estimated aggregate fair value of $1,077.1 million.

Accounts Receivable Factoring

In the fourth quarter of 2014, one of the Company's European subsidiaries entered into an uncommitted factoring agreement, which provides for aggregate purchases of specified customer accounts of up to €200 million. As of December 31, 2014, there were no factored receivables outstanding. The Company cannot provide any assurances that this factoring facility will be available or utilized in the future.

Derivative Instruments and Hedging Activities

Foreign exchange — The Company uses forwards, swaps and other derivative contracts to reduce the effects of fluctuations in foreign exchange rates on known foreign currency exposures. Gains and losses on the derivative instruments are intended to offset gains and losses on the hedged transaction in an effort to reduce exposure to fluctuations in foreign exchange rates. The principal currencies hedged by the Company include the Mexican peso, various European currencies, the Thai baht and the Canadian dollar. As of December 31, 2014 and 2013, contracts designated as cash flow hedges with $1,160.9 million and $917.4 million, respectively, of notional amount were outstanding with maturities of less than twenty-four months. As of

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December 31, 2014 and 2013, the fair value of these contracts was approximately ($37.7) million and $6.5 million, respectively. As of December 31, 2014 and 2013, other foreign currency derivative contracts that did not qualify for hedge accounting with $170.1 million and $149.2 million, respectively, of notional amount were outstanding. These foreign currency derivative contracts consist principally of hedges of cash transactions of up to twelve months, hedges of intercompany loans and hedges of certain other balance sheet exposures. As of December 31, 2014 and 2013, the fair value of these contracts was approximately $1.1 million and ($0.1) million, respectively.

The fair value of outstanding foreign currency derivative contracts and the related classification in the accompanying consolidated balance sheets are shown below (in millions):

December 31,	2014	2013
Contracts qualifying for hedge accounting:		
Other current assets	$6.8	$12.4
Other long-term assets	0.1	0.7
Other current liabilities	(38.5)	(6.5)
Other long-term liabilities	(6.1)	(0.1)
	(37.7)	6.5
Contracts not qualifying for hedge accounting:		
Other current assets	2.1	0.4
Other current liabilities	(1.0)	(0.5)
	1.1	(0.1)
	$(36.6)	$6.4

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

For the year ended December 31,	2014	2013	2012
Contracts qualifying for hedge accounting:			
Gains (losses) recognized in accumulated other comprehensive loss	$(36.0)	$18.8	$55.8
(Gains) losses reclassified from accumulated other comprehensive loss	(8.2)	(32.2)	3.2
Other comprehensive income (loss)	$(44.2)	$(13.4)	$59.0

For the years ended December 31, 2014, 2013 and 2012, net sales includes gains of $1.2 million, $3.9 million and $1.0 million, respectively, reclassified from accumulated other comprehensive loss related to foreign currency derivative contracts. For the years ended December 31, 2014, 2013 and 2012, cost of sales includes gains (losses) of $7.0 million, $28.3 million and ($4.2) million, respectively, reclassified from accumulated other comprehensive loss related to foreign currency derivative contracts.

Interest rate — Historically, the Company used interest rate swap and other derivative contracts to manage its exposure to fluctuations in interest rates. As of December 31, 2014 and 2013, 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 commodity swap and other derivative contracts to reduce its exposure to fluctuations in certain commodity prices. These derivative instruments were utilized to hedge forecasted inventory purchases, and to the extent that they met hedge accounting criteria, they were accounted for as cash flow hedges. Commodity swap contracts that were not accounted for as cash flow hedges were marked to market with changes in fair value recognized immediately in the accompanying consolidated statements of income (Note 2, "Summary of Significant Accounting Policies"). As of December 31, 2014 and 2013, there were no commodity swap contracts outstanding.

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Notes to Consolidated Financial Statements (continued)

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

For the year ended December 31,	2012
Contracts qualifying for hedge accounting:	
Gains recognized in accumulated other comprehensive loss	$0.1
Losses reclassified from accumulated other comprehensive loss	0.2
Other comprehensive income	$0.3

For the year ended December 31, 2012, cost of sales includes losses of $0.2 million reclassified from accumulated other comprehensive loss related to commodity swap contracts.

As of December 31, 2014 and 2013, net pretax gains (losses) of approximately ($37.7) million and $6.5 million, respectively, related to the Company's derivative instruments and hedging activities were recorded in accumulated other comprehensive loss. During the year ending December 31, 2015, the Company expects to reclassify into earnings net losses of approximately $31.7 million recorded in accumulated other comprehensive loss as of December 31, 2014. Such losses will be reclassified at the time that the underlying hedged transactions are realized.

For the years ended December 31, 2014, 2013 and 2012, amounts recognized in the accompanying consolidated statements of income related to changes in the fair value of cash flow hedges that were 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. In addition, the Company recognized tax benefits (expense) of $14.7 million, $5.4 million and ($19.0) million in other comprehensive income (loss) related to its derivative instruments and hedging activities for the years ended December 31, 2014, 2013 and 2012, respectively.

Fair Value Measurements

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

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

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

Level 1:	Observable inputs, such as quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.
Level 2:	Inputs, other than quoted market prices included in Level 1, that are observable either directly or indirectly for the asset or liability.
Level 3:	Unobservable inputs that reflect the entity's own assumptions about the exit price of the asset or liability. Unobservable inputs may be used if there is little or no market data for the asset or liability at the measurement date.

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

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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 or disclosed at fair value on a recurring basis as of December 31, 2014 and 2013, are shown below (in millions):

	December 31, 2014					
	Frequency	Liability	Valuation Technique	Level 1	Level 2	Level 3
Foreign currency derivative contracts	Recurring	$(36.6)	Market / Income	$—	$(36.6)	$—
	December 31, 2013					
	Frequency	Asset	Valuation Technique	Level 1	Level 2	Level 3
Foreign currency derivative contracts	Recurring	$6.4	Market / Income	$—	$6.4	$—

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 December 31, 2014 and 2013, 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 2014 and 2013.

For further information on fair value measurements and the Company's defined benefit pension plan assets, see Note 8, "Pension and Other Postretirement Benefit Plans."

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 December 31, 2014, there were no significant assets or liabilities measured at fair value on a non-recurring basis.

For further information on assets and liabilities measured at fair value on a non-recurring basis, see Note 2, "Summary of Significant Accounting Policies," and Note 4, "Restructuring."

(14) Quarterly Financial Data (unaudited)

(In millions, except per share data)

	Thirteen Weeks Ended			
	March 29, 2014	June 28, 2014	September 27, 2014	December 31, 2014
Net sales	$4,359.8	$4,585.1	$4,232.7	$4,549.7
Gross profit	360.5	379.1	361.2	392.0
Consolidated net income	128.6	157.8	147.9	268.0
Net income attributable to Lear	122.0	148.5	140.1	261.8
Basic net income per share attributable to Lear	1.50	1.84	1.75	3.32
Diluted net income per share attributable to Lear	1.47	1.81	1.72	3.24

In the first quarter of 2014, the Company recognized losses of $17.5 million related to the redemption of the remaining outstanding aggregate principal amount of the 2018 Notes and 10% of the original aggregate principal amount of the 2020 Notes. In the first, second, third and fourth quarters of 2014, the Company recognized $15.4 million, $17.9 million, $6.9 million and $108.9 million of net tax benefits, respectively, primarily related to net reductions in valuation allowances with respect to the deferred tax assets of certain foreign subsidiaries, reductions in tax reserves due to audit settlements, debt redemption costs, restructuring charges and various other items.

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Notes to Consolidated Financial Statements (continued)

	Thirteen Weeks Ended			
	March 30, 2013	June 29, 2013	September 28, 2013	December 31, 2013
Net sales	$3,947.1	$4,113.1	$3,917.7	$4,256.1
Gross profit	312.4	337.7	330.2	319.4
Consolidated net income	116.9	142.3	116.7	79.9
Net income attributable to Lear	108.5	137.3	112.8	72.8
Basic net income per share attributable to Lear	1.14	1.62	1.40	0.90
Diluted net income per share attributable to Lear	1.13	1.60	1.38	0.88

In the second and fourth quarters of 2013, the Company recognized $21.5 million of net tax benefits and $16.0 million of net tax expense, respectively, primarily related to changes in valuation allowances with respect to its deferred tax assets in certain foreign subsidiaries and various other items.

For further information, see Note 7, "Income Taxes," and Note 11, "Commitments and Contingencies," to the consolidated financial statements included in this Report.

(15) Accounting Pronouncements

Cumulative Translation Adjustments

The Financial Accounting Standards Board ("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 were effective as of January 1, 2014, and the effects of adoption were not significant.

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 were effective as of January 1, 2014, and are reflected in the accompanying consolidated balance sheet as of December 31, 2014. The effects of adoption were not significant.

Discontinued Operations

The FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which amends ASC 205, "Presentation of Financial Statements," and ASC 360, "Property, Plant and Equipment." This ASU changes the criteria for determining which disposals can be presented as a discontinued operation and modifies existing disclosure requirements. The provisions of this update are effective as of January 1, 2015, and are not expected to significantly impact the Company.

Revenue Recognition

The FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which amends existing revenue recognition guidance and requires additional financial statement disclosures. The provisions of this update are effective as of January 1, 2017, and may be applied through a full retrospective or a modified retrospective approach. The Company is currently evaluating the impact of this update.

Going Concern

The FASB issued ASU 2014-15, "Presentation of Financial Statements — Going Concern," which will require management to make a going concern assessment for 24 months after the financial statement date. Previously, this assessment was made by the external auditors. The provisions of this update are effective as of January 1, 2017, and are not expected to significantly impact the Company.

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Extraordinary Items
The FASB issued ASU 2015-01, "Income Statement — Extraordinary and Unusual Items," which eliminates the concept of extraordinary items. The provisions of this update are effective as of January 1, 2016, and are not expected to significantly impact the Company.

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Notes to Consolidated Financial Statements (continued)

(16) Supplemental Guarantor Consolidating Financial Statements

	December 31, 2014				
(in millions)	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$377.8	$—	$716.3	$—	$1,094.1
Accounts receivable	53.9	459.0	1,958.8	—	2,471.7
Inventories	1.8	348.1	503.8	—	853.7
Intercompany accounts	49.6	40.7	—	(90.3)	—
Other	416.9	76.2	467.0	—	960.1
Total current assets	900.0	924.0	3,645.9	(90.3)	5,379.6
Long-Term Assets:					
Property, plant and equipment, net	106.4	334.5	1,183.8	—	1,624.7
Goodwill	23.5	401.0	301.7	—	726.2
Investments in subsidiaries	2,010.6	1,815.7	—	(3,826.3)	—
Intercompany loans receivable	1,268.1	168.6	212.6	(1,649.3)	—
Other	928.8	65.9	475.2	(50.2)	1,419.7
Total long-term assets	4,337.4	2,785.7	2,173.3	(5,525.8)	3,770.6
Total assets	$5,237.4	$3,709.7	$5,819.2	$(5,616.1)	$9,150.2
Liabilities and Equity					
Current Liabilities:					
Accounts payable and drafts	$91.1	$687.7	$1,746.5	$—	$2,525.3
Accrued liabilities	138.1	203.9	846.8	—	1,188.8
Intercompany accounts	—	—	90.3	(90.3)	—
Current portion of long-term debt	243.7	—	—	—	243.7
Total current liabilities	472.9	891.6	2,683.6	(90.3)	3,957.8
Long-Term Liabilities:					
Long-term debt	1,475.0	—	—	—	1,475.0
Intercompany loans payable	138.9	698.8	811.6	(1,649.3)	—
Other	191.8	198.0	348.5	(50.2)	688.1
Total long-term liabilities	1,805.7	896.8	1,160.1	(1,699.5)	2,163.1
Equity:					
Lear Corporation stockholders' equity	2,958.8	1,921.3	1,905.0	(3,826.3)	2,958.8
Noncontrolling interests	—	—	70.5	—	70.5
Equity	2,958.8	1,921.3	1,975.5	(3,826.3)	3,029.3
Total liabilities and equity	$5,237.4	$3,709.7	$5,819.2	$(5,616.1)	$9,150.2

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Notes to Consolidated Financial Statements (continued)

(16) Supplemental Guarantor Consolidating Financial Statements

	December 31, 2013				
(in millions)	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$343.5	$0.1	$794.1	$—	$1,137.7
Accounts receivable	41.2	349.7	1,887.4	—	2,278.3
Inventories	4.8	297.9	516.0	—	818.7
Intercompany accounts	66.0	—	—	(66.0)	—
Other	147.7	77.3	462.8	—	687.8
Total current assets	603.2	725.0	3,660.3	(66.0)	4,922.5
Long-Term Assets:					
Property, plant and equipment, net	95.5	316.0	1,175.7	—	1,587.2
Goodwill	23.5	401.0	332.7	—	757.2
Investments in subsidiaries	1,791.4	1,898.6	—	(3,690.0)	—
Intercompany loans receivable	1,441.1	129.7	166.3	(1,737.1)	—
Other	591.5	71.5	454.1	(53.1)	1,064.0
Total long-term assets	3,943.0	2,816.8	2,128.8	(5,480.2)	3,408.4
Total assets	$4,546.2	$3,541.8	$5,789.1	$(5,546.2)	$8,330.9
Liabilities and Equity					
Current Liabilities:					
Accounts payable and drafts	$73.8	$582.4	$1,782.5	$—	$2,438.7
Accrued liabilities	127.9	156.1	856.4	—	1,140.4
Intercompany accounts	—	1.6	64.4	(66.0)	—
Total current liabilities	201.7	740.1	2,703.3	(66.0)	3,579.1
Long-Term Liabilities:					
Long-term debt	1,057.1	—	—	—	1,057.1
Intercompany loans payable	123.0	654.3	959.8	(1,737.1)	—
Other	118.5	143.0	336.8	(53.1)	545.2
Total long-term liabilities	1,298.6	797.3	1,296.6	(1,790.2)	1,602.3
Equity:					
Lear Corporation stockholders' equity	3,045.9	2,004.4	1,685.6	(3,690.0)	3,045.9
Noncontrolling interests	—	—	103.6	—	103.6
Equity	3,045.9	2,004.4	1,789.2	(3,690.0)	3,149.5
Total liabilities and equity	$4,546.2	$3,541.8	$5,789.1	$(5,546.2)	$8,330.9

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Lear Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

(16) Supplemental Guarantor Consolidating Financial Statements

	Year Ended December 31, 2014				
(in millions)	Lear	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$467.1	$7,086.4	$14,996.5	$(4,822.7)	$17,727.3
Cost of sales	662.7	6,468.6	13,925.9	(4,822.7)	16,234.5
Selling, general and administrative expenses	227.3	36.4	266.2	—	529.9
Intercompany operating (income) expense, net	(448.2)	287.2	161.0	—	—
Amortization of intangible assets	1.7	4.7	27.3	—	33.7
Interest expense	49.0	24.9	(6.4)	—	67.5
Other expense, net	26.5	1.0	46.8	—	74.3
Consolidated income (loss) before provision (benefit) for income taxes and equity in net income of affiliates and subsidiaries	(51.9)	263.6	575.7	—	787.4
Provision (benefit) for income taxes	(21.6)	93.3	49.7	—	121.4
Equity in net income of affiliates	0.4	(1.5)	(35.2)	—	(36.3)
Equity in net income of subsidiaries	(703.1)	(390.3)	—	1,093.4	—
Consolidated net income	672.4	562.1	561.2	(1,093.4)	702.3
Less: Net income attributable to noncontrolling interests	—	—	29.9	—	29.9
Net income attributable to Lear	$672.4	$562.1	$531.3	$(1,093.4)	$672.4
Consolidated comprehensive income	$336.5	$502.1	$320.4	$(794.5)	$364.5
Less: Comprehensive income attributable to noncontrolling interests	—	—	28.0	—	28.0
Comprehensive income attributable to Lear	$336.5	$502.1	$292.4	$(794.5)	$336.5

	Year Ended December 31, 2013				
(in millions)	Lear	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$449.0	$6,261.1	$14,042.2	$(4,518.3)	$16,234.0
Cost of sales	643.6	5,629.5	13,179.5	(4,518.3)	14,934.3
Selling, general and administrative expenses	211.4	20.6	296.7	—	528.7
Intercompany operating (income) expense, net	(395.4)	292.4	103.0	—	—
Amortization of intangible assets	1.7	4.7	28.0	—	34.4
Interest expense	52.0	19.3	(2.9)	—	68.4
Other expense, net	6.5	7.6	44.0	—	58.1
Consolidated income (loss) before provision (benefit) for income taxes and equity in net income of affiliates and subsidiaries	(70.8)	287.0	393.9	—	610.1
Provision (benefit) for income taxes	(33.9)	113.6	113.0	—	192.7
Equity in net income of affiliates	0.7	(2.0)	(37.1)	—	(38.4)
Equity in net income of subsidiaries	(469.0)	(138.2)	—	607.2	—
Consolidated net income	431.4	313.6	318.0	(607.2)	455.8
Less: Net income attributable to noncontrolling interests	—	—	24.4	—	24.4

Net income attributable to Lear	$431.4	$313.6	$293.6	$(607.2	) $431.4
Consolidated comprehensive income	$566.1	$340.8	$379.0	$(693.9	) $592.0
Less: Comprehensive income attributable to noncontrolling interests	—	—	25.9	—	25.9
Comprehensive income attributable to Lear	$566.1	$340.8	$353.1	$(693.9	) $566.1

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Notes to Consolidated Financial Statements (continued)

(16) Supplemental Guarantor Consolidating Financial Statements

	Year Ended December 31, 2012				
(in millions)	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
Net sales	$483.7	$5,850.1	$12,484.6	$(4,251.4)	$14,567.0
Cost of sales	576.7	5,274.2	11,750.0	(4,251.4)	13,349.5
Selling, general and administrative expenses	230.8	21.0	227.5	—	479.3
Intercompany operating (income) expense, net	(286.0)	156.4	129.6	—	—
Amortization of intangible assets	1.7	2.8	28.5	—	33.0
Interest expense	2.3	21.8	25.8	—	49.9
Other expense, net	2.9	2.4	1.1	—	6.4
Consolidated income (loss) before provision (benefit) for income taxes and equity in net income of affiliates and subsidiaries	(44.7)	371.5	322.1	—	648.9
Provision (benefit) for income taxes	(724.5)	(0.5)	87.0	—	(638.0)
Equity in net income of affiliates	(6.1)	(3.6)	(20.6)	—	(30.3)
Equity in net income of subsidiaries	(596.9)	(197.1)	—	794.0	—
Consolidated net income	1,282.8	572.7	255.7	(794.0)	1,317.2
Less: Net income attributable to noncontrolling interests	—	—	34.4	—	34.4
Net income attributable to Lear	$1,282.8	$572.7	$221.3	$(794.0)	$1,282.8
Consolidated comprehensive income	$1,314.0	$622.3	$259.1	$(845.8)	$1,349.6
Less: Comprehensive income attributable to noncontrolling interests	—	—	35.6	—	35.6
Comprehensive income attributable to Lear	$1,314.0	$622.3	$223.5	$(845.8)	$1,314.0

(16) Supplemental Guarantor Consolidating Financial Statements

	Year Ended December 31, 2014				
(in millions)	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
Net Cash Provided by Operating Activities	$165.4	$177.5	$597.5	$(12.6)	$927.8
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(25.6)	(88.2)	(310.9)	—	(424.7)
Cash restricted for use — acquisition of Eagle Ottawa	(350.0)	—	—	—	(350.0)
Intercompany transactions	352.5	(38.9)	(46.3)	(267.3)	—
Other, net	(6.8)	15.1	(14.2)	—	(5.9)
Net cash used in investing activities	(29.9)	(112.0)	(371.4)	(267.3)	(780.6)
Cash Flows from Financing Activities:					
Proceeds from the issuance of senior notes	975.0	—	—	—	975.0
Repurchase of senior notes	(327.1)	—	—	—	(327.1)
Payment of debt issuance and other financing costs	(18.1)	—	—	—	(18.1)
Cash restricted for use - repurchase of senior notes	(250.0)	—	—	—	(250.0)
Repurchase of common stock	(411.4)	—	—	—	(411.4)
Dividends paid to Lear Corporation stockholders	(65.3)	—	—	—	(65.3)
Dividends paid to noncontrolling interests	—	—	(25.9)	—	(25.9)
Intercompany transactions	15.9	(65.6)	(230.2)	279.9	—
Other, net	(20.2)	—	(17.8)	—	(38.0)
Net cash used in financing activities	(101.2)	(65.6)	(273.9)	279.9	(160.8)
Effect of foreign currency translation	—	—	(30.0)	—	(30.0)
Net Change in Cash and Cash Equivalents	34.3	(0.1)	(77.8)	—	(43.6)
Cash and Cash Equivalents as of Beginning of Period	343.5	0.1	794.1	—	1,137.7
Cash and Cash Equivalents as of End of Period	$377.8	$—	$716.3	$—	$1,094.1

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Lear Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

(16) Supplemental Guarantor Consolidating Financial Statements

	Year Ended December 31, 2013				
(in millions)	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
Net Cash Provided by Operating Activities	$174.3	$226.0	$480.1	$(60.3)	$820.1
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(17.9)	(110.6)	(332.1)	—	(460.6)
Insurance proceeds	—	—	7.1	—	7.1
Intercompany transactions	304.1	(2.4)	1,090.9	(1,392.6)	—
Other, net	43.0	3.8	2.8	—	49.6
Net cash used in investing activities	329.2	(109.2)	768.7	(1,392.6)	(403.9)
Cash Flows from Financing Activities:					
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	(58.4)	—	—	—	(58.4)
Dividends paid to noncontrolling interests	—	—	(44.0)	—	(44.0)
Intercompany transactions	6.5	(116.8)	(1,342.6)	1,452.9	—
Other, net	(3.9)	—	(6.6)	—	(10.5)
Net cash used in financing activities	(641.4)	(116.8)	(1,393.2)	1,452.9	(698.5)
Effect of foreign currency translation	—	—	17.8	—	17.8
Net Change in Cash and Cash Equivalents	(137.9)	—	(126.6)	—	(264.5)
Cash and Cash Equivalents as of Beginning of Period	481.4	0.1	920.7	—	1,402.2
Cash and Cash Equivalents as of End of Period	$343.5	$0.1	$794.1	$—	$1,137.7

Table of Contents
Lear Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

(16) Supplemental Guarantor Consolidating Financial Statements

	Year Ended December 31, 2012				
(in millions)	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
Net Cash Provided by Operating Activities	$54.8	$521.2	$174.9	$(21.1)	$729.8
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(11.3)	(97.4)	(349.6)	—	(458.3)
Insurance proceeds	—	—	19.2	—	19.2
Cash paid for acquisition of Guilford, net of cash acquired	(243.9)	—	—	—	(243.9)
Intercompany transactions	181.8	10.8	(1,162.0)	969.4	—
Other, net	0.4	6.3	(11.6)	—	(4.9)
Net cash used in investing activities	(73.0)	(80.3)	(1,504.0)	969.4	(687.9)
Cash Flows from Financing Activities:					
Repurchase of senior notes	(72.1)	—	—	—	(72.1)
Repurchase of common stock	(222.8)	—	—	—	(222.8)
Dividends paid to Lear Corporation stockholders	(54.6)	—	—	—	(54.6)
Dividends paid to noncontrolling interests	—	—	(23.1)	—	(23.1)
Intercompany transactions	34.9	(440.9)	1,354.3	(948.3)	—
Other, net	(6.1)	—	(17.4)	—	(23.5)
Net cash used in financing activities	(320.7)	(440.9)	1,313.8	(948.3)	(396.1)
Effect of foreign currency translation	—	—	2.1	—	2.1
Net Change in Cash and Cash Equivalents	(338.9)	—	(13.2)	—	(352.1)
Cash and Cash Equivalents as of Beginning of Period	820.3	0.1	933.9	—	1,754.3
Cash and Cash Equivalents as of End of Period	$481.4	$0.1	$920.7	$—	$1,402.2

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(16) Supplemental Guarantor Consolidating Financial Statements

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 $245 million in aggregate principal amount at maturity of 8.125% senior unsecured notes due 2020, $500 million in aggregate principal amount of 4.75% senior unsecured notes due 2023, $325 million in aggregate principal amount of 5.375% senior unsecured notes due 2024 and $650 million in aggregate principal amount of 5.25% senior unsecured noted due 2025. 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 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 supplemental guarantor consolidating financial statements have been restated to reflect certain changes to the equity investments of the Guarantors in 2013 and 2012.

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. For the years ended December 31, 2014, 2013 and 2012, $121.8 million, $111.5 million and $38.1 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):

December 31,	2014	2013
Senior notes	$1,718.7	$1,057.1
Less — Current portion	(243.7)	—
Long-term debt	$1,475.0	$1,057.1

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LEAR CORPORATION AND SUBSIDIARIES
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
(In millions)

	Balance as of Beginning of Period	Additions	Retirements	Other Changes	Balance as of End of Period
For the year ended December 31, 2014					
Valuation of accounts deducted from related assets:					
Allowance for doubtful accounts	$ 34.5	$7.6	$(10.0)	$(4.6)	$27.5
Allowance for deferred tax assets	642.6	41.3	(117.0)	(58.4)	508.5
Total	$ 677.1	$48.9	$(127.0)	$(63.0)	$536.0

	Balance as of Beginning of Period	Additions	Retirements	Other Changes	Balance as of End of Period
For the year ended December 31, 2013					
Valuation of accounts deducted from related assets:					
Allowance for doubtful accounts	$ 35.4	$11.8	$(13.9)	$1.2	$34.5
Allowance for deferred tax assets	628.2	54.9	(55.5)	15.0	642.6
Total	$ 663.6	$66.7	$(69.4)	$16.2	$677.1

	Balance as of Beginning of Period	Additions	Retirements	Other Changes	Balance as of End of Period
For the year ended December 31, 2012					
Valuation of accounts deducted from related assets:					
Allowance for doubtful accounts	$ 30.7	$5.9	$(4.2)	$3.0	$35.4
Allowance for deferred tax assets	1,397.3	90.2	(871.7)	12.4	628.2
Total	$ 1,428.0	$96.1	$(875.9)	$15.4	$663.6

ITEM 9 – CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A – CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

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

(b) Management’s Annual Report on Internal Control Over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). 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 Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on the evaluation under the framework in Internal Control – Integrated Framework, management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2014.

(c) Attestation Report of the Registered Public Accounting Firm

The attestation report of the Company’s independent registered public accounting firm regarding internal control over financial reporting is set forth in Item 8, "Consolidated Financial Statements and Supplementary Data," under the caption "Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting" and incorporated herein by reference.

(d) Changes in Internal Control over Financial Reporting

There was no change in the Company’s internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2014, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B – OTHER INFORMATION

None.

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PART III

ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 regarding our directors and corporate governance matters is incorporated by reference herein to the Proxy Statement sections entitled "Election of Directors" and "Directors and Corporate Governance." The information required by Item 10 regarding our executive officers appears as a supplementary item following Item 4 under Part I of this Report. The information required by Item 10 regarding compliance with section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated by reference herein to the Proxy Statement section entitled "Directors and Corporate Governance — Section 16(a) Beneficial Ownership Reporting Compliance."

Code of Ethics

We have adopted a code of ethics that applies to our executive officers, including our Principal Executive Officer, our Principal Financial Officer and our Principal Accounting Officer. This code of ethics is entitled "Specific Provisions for Executive Officers" within our Code of Business Conduct and Ethics, which can be found on our website at http://www.lear.com. We will post any amendment to or waiver from the provisions of the Code of Business Conduct and Ethics that applies to the executive officers above on the same website and will provide it to shareholders free of charge upon written request by contacting Lear Corporation at 21557 Telegraph Road, Southfield, Michigan 48033, Attention: Investor Relations.

ITEM 11 – EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference herein to the Proxy Statement sections entitled "Directors and Corporate Governance — Director Compensation," "Compensation Discussion and Analysis," "Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report." Notwithstanding anything indicating the contrary set forth in this Report, the "Compensation Committee Report" section of the Proxy Statement shall be deemed to be "furnished" not "filed" for purposes of the Securities Exchange Act of 1934, as amended.

ITEM 12 – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except as set forth herein, the information required by Item 12 is incorporated by reference herein to the Proxy Statement section entitled "Directors and Corporate Governance — Security Ownership of Certain Beneficial Owners, Directors and Management."

Equity Compensation Plan Information

As of December 31, 2014	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted average exercise price of outstanding options, warrants and rights (b)		Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	3,788,669	(1)	$—	(2)	4,101,063
Equity compensation plans not approved by security holders	—		—		—
Total	3,788,669		$—		4,101,063

(1) Includes 764,548 of outstanding restricted stock units and 3,024,121 of outstanding performance shares. Outstanding performance shares are reflected at the maximum possible payout that may be earned during the relevant performance periods.

(2) Reflects outstanding restricted stock units and performance shares at a weighted average price of zero.

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ITEM 13 – CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference herein to the Proxy Statement sections entitled "Certain Relationships and Related Party Transactions" and "Directors and Corporate Governance — Independence of Directors."

ITEM 14 – PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is incorporated by reference herein to the Proxy Statement section entitled "Fees of Independent Accountants."

PART IV

ITEM 15 – EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

The following documents are filed as part of this Form 10-K.

1. Consolidated Financial Statements:

Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2014 and 2013

Consolidated Statements of Income for the years ended December 31, 2014, 2013 and 2012

Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012

Consolidated Statements of Equity for the years ended December 31, 2014, 2013 and 2012

Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012

Notes to Consolidated Financial Statements

2. Financial Statement Schedule:

Schedule II — Valuation and Qualifying Accounts

All other financial statement schedules are omitted because such schedules are not required or the information required has been presented in the aforementioned financial statements.

3. The exhibits listed on the "Index to Exhibits" on pages 111 through 113 are filed with this Form 10-K or incorporated by reference as set forth below.

(b) The exhibits listed on the "Index to Exhibits" on pages 111 through 113 are filed with this Form 10-K or incorporated by reference as set forth below.

(c) Additional Financial Statement Schedules

None.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) 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 on February 10, 2015.

Lear Corporation

By: /s/ Matthew J. Simoncini
Matthew J. Simoncini
President and Chief Executive Officer and a Director (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of Lear Corporation and in the capacities indicated on February 10, 2015.

/s/ Matthew J. Simoncini Matthew J. Simoncini President and Chief Executive Officer and a Director (Principal Executive Officer)	/s/ Kathleen A. Ligocki Kathleen A. Ligocki a Director
/s/ Jeffrey H. Vanneste Jeffrey H. Vanneste Senior Vice President and Chief Financial Officer (Principal Financial Officer)	/s/ Conrad L. Mallett, Jr. Conrad L. Mallett, Jr. a Director
/s/ Wendy L. Foss Wendy L. Foss Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)	/s/ Donald L. Runkle Donald L. Runkle a Director
/s/ Richard H. Bott Richard H. Bott a Director	/s/ Gregory C. Smith Gregory C. Smith a Director
/s/ Thomas P. Capo Thomas P. Capo a Director	/s/ Henry D.G. Wallace Henry D.G. Wallace Non-Executive Chairman of the Board of Directors and a Director
/s/ Jonathan F. Foster Jonathan F. Foster a Director	

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Index to Exhibits

Exhibit Number	Exhibit
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated November 9, 2009).
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K dated November 9, 2009).
3.3	Certificate of Designations of Series A Convertible Participating Preferred Stock of the Company, as filed with the Secretary of State of the State of Delaware on November 9, 2009 (incorporated by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K dated November 9, 2009).
4.1	Warrant Agreement by and between the Company and Mellon Investor Services LLC, as Warrant Agent, dated as of November 9, 2009 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated November 9, 2009).
4.2	Indenture, dated March 26, 2010, among the Company, the subsidiary guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated March 23, 2010).
4.3	First Supplemental Indenture, dated March 26, 2010, among the Company, the subsidiary guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K dated March 23, 2010).
4.4	Second Supplemental Indenture, dated as of August 15, 2012, by and among Lear Corporation, the Subsidiary Guarantors party thereto and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).
4.5	Third Supplemental Indenture, dated as of January 17, 2013, by and among Lear Corporation, the Subsidiary Guarantors party thereto and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated January 14, 2013).
4.6	Registration Rights Agreement, dated as of January 17, 2013, by and among the Company and each of the other parties thereto (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K dated January 14, 2013).
4.7	Fourth Supplemental Indenture, dated as of March 14, 2014, by and among Lear Corporation, the Subsidiary Guarantors party thereto and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated March 11, 2014).
4.8	Fifth Supplemental Indenture, dated November 21, 2014, among the Company, the Subsidiary Guarantors party thereto and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated November 21, 2014).

10.1	Amended and Restated Credit Agreement, dated as of November 14, 2014, among the Company, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 14, 2014).
10.2*	Lear Corporation 2009 Long-Term Stock Incentive Plan, amended and restated effective January 1, 2014 (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013).
10.3*	Lear Corporation Pension Equalization Program, as amended through August 15, 2003 (incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
10.4*	First Amendment to the Lear Corporation Pension Equalization Program, dated as of December 21, 2006 (incorporated by reference to Exhibit 10.45 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006).
10.5*	Second Amendment to the Lear Corporation Pension Equalization Program, dated as of May 9, 2007 (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007).
10.6*	Third Amendment to the Lear Corporation Pension Equalization Program, effective as of December 18, 2007 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 18, 2007).

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10.7*	Lear Corporation Outside Directors Compensation Plan, amended and restated effective January 1, 2014 (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013).
10.8*	Lear Corporation Outside Directors Compensation Plan – Form of Retainer and Stock Grant Deferral Elections (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011).
10.9*	Form of 2014 Restricted Stock Unit Terms and Conditions under the Lear Corporation 2009 Long-Term Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2011).
10.10*	Form of Performance Share Terms and Conditions under the Lear Corporation 2009 Long-Term Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2011).
10.11*	March 2012 Restricted Stock Unit Terms and Conditions for Jeffrey H. Vanneste (2-Year Vesting) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.12*	March 2012 Restricted Stock Unit Terms and Conditions for Jeffrey H. Vanneste (3-Year Vesting) (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.13*	Lear Corporation Salaried Retirement Restoration Program (f/k/a Lear Corporation PSP Excess Plan), amended and restated effective January 1, 2013 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated November 14, 2012).
10.14*	Form of Career Share Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 14, 2012).
10.15*	Form of 2013 Restricted Stock Unit Terms and Conditions under the Lear Corporation 2009 Long-Term Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 2013).
10.16*	Amended and Restated Employment Agreement, dated as of August 9, 2011, between the Company and Matthew J. Simoncini (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2011).
10.17*	Employment Agreement, dated March 15, 2012, between the Company and Jeffrey H. Vanneste (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.18*	Amended and Restated Employment Agreement, dated September 12, 2012, between the Company and Frank C. Orsini (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 29, 2012).
10.19*	

	Amended and Restated Employment Agreement, dated September 11, 2013, between the Company and Raymond E. Scott (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 28, 2013).
10.20*	Amended and Restated Employment Agreement, dated September 11, 2013, between the Company and Terrence B. Larkin (incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 28, 2013).
10.21*	Amended and Restated Employment Agreement, dated September 11, 2013, between the Company and Melvin L. Stephens (incorporated by reference to Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 28, 2013).
10.22	Agreement, dated April 1, 2013, by and among Lear Corporation, Marcato, L.P., Marcato II, L.P., Marcato International Master Fund, Ltd., Marcato Capital Management LLC, Oskie Master Fund, LP and Oskie Capital Management, LLC (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K dated April 1, 2013).
10.23	Letter Agreement Re: Accelerated Share Repurchase between Citibank, N.A. and Lear Corporation, dated April 25, 2013 (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K dated April 25, 2013).
10.24*	Lear Corporation Annual Incentive Plan (Amended and Restated as of January 1, 2014) (incorporated by reference to Appendix B to the Company’s definitive proxy statement on Schedule 14A filed with the Securities and Exchange Commission on April 1, 2014).

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**10.25*	First Amendment to the Lear Corporation Salaried Retirement Restoration Program (as amended and restated effective January 1, 2013).
**12.1	Computation of ratios of earnings to fixed charges.
**21.1	List of subsidiaries of the Company.
**23.1	Consent of Ernst & Young LLP.
**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.
99.1	Debtors' First Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code dated September 18, 2009 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated November 5, 2009).
***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.