



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **April 2, 2005**.

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 1-11311

**LEAR CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**13-3386776**

(I.R.S. Employer Identification No.)

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

**48034**  
(Zip code)

**(248) 447-1500**

(Registrant's telephone number, including area code)

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

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

As of April 29, 2005, the number of shares outstanding of the registrant's Common Stock, par value \$0.01 per share, was 67,090,898.

LEAR CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED APRIL 2, 2005

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**LEAR CORPORATION**

**PART I – FINANCIAL INFORMATION**

**ITEM 1 – CONSOLIDATED FINANCIAL STATEMENTS**

**INTRODUCTION TO THE CONSOLIDATED FINANCIAL STATEMENTS**

We have prepared the condensed consolidated financial statements of Lear Corporation and subsidiaries, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission for the year ended December 31, 2004.

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

## LEAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(In millions, except share data)

	April 2, 2005 (Unaudited)	December 31, 2004
<b>ASSETS</b>		
<i>CURRENT ASSETS:</i>		
Cash and cash equivalents	\$ 525.6	\$ 584.9
Accounts receivable	2,527.8	2,584.9
Inventories	620.6	621.2
Recoverable customer engineering and tooling	266.9	205.8
Other	337.8	375.2
Total current assets	<u>4,278.7</u>	<u>4,372.0</u>
<i>LONG-TERM ASSETS:</i>		
Property, plant and equipment, net	2,023.9	2,019.8
Goodwill, net	3,022.5	3,039.4
Other	496.3	513.2
Total long-term assets	<u>5,542.7</u>	<u>5,572.4</u>
	<u>\$ 9,821.4</u>	<u>\$ 9,944.4</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<i>CURRENT LIABILITIES:</i>		
Short-term borrowings	\$ 40.4	\$ 35.4
Accounts payable and drafts	2,773.6	2,777.6
Accrued liabilities	1,158.5	1,202.1
Current portion of long-term debt	628.8	632.8
Total current liabilities	<u>4,601.3</u>	<u>4,647.9</u>
<i>LONG-TERM LIABILITIES:</i>		
Long-term debt	1,853.3	1,866.9
Other	714.9	699.5
Total long-term liabilities	<u>2,568.2</u>	<u>2,566.4</u>
<i>STOCKHOLDERS' EQUITY:</i>		
Common stock, \$0.01 par value, 150,000,000 shares authorized; 73,210,278 shares issued as of April 2, 2005, and 73,147,178 shares issued as of December 31, 2004	0.7	0.7
Additional paid-in capital	1,086.0	1,064.4
Common stock held in treasury, 6,125,817 shares as of April 2, 2005, and 5,730,476 shares as of December 31, 2004, at cost	(226.7)	(204.1)
Retained earnings	1,809.3	1,810.5
Accumulated other comprehensive income (loss)	(17.4)	58.6
Total stockholders' equity	<u>2,651.9</u>	<u>2,730.1</u>
	<u>\$ 9,821.4</u>	<u>\$ 9,944.4</u>

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

**LEAR CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited; in millions, except per share data)**

	<b>Three Months Ended</b>	
	<b>April 2, 2005</b>	<b>April 3, 2004</b>
Net sales	\$ 4,286.0	\$ 4,492.1
Cost of sales	4,086.1	4,145.2
Selling, general and administrative expenses	151.1	167.7
Interest expense	44.8	39.1
Other expense, net	<u>6.9</u>	<u>14.1</u>
Income (loss) before income taxes	(2.9)	126.0
Provision (benefit) for income taxes	<u>(18.5)</u>	<u>34.6</u>
Net income	<u>\$ 15.6</u>	<u>\$ 91.4</u>
Basic net income per share	<u>\$ 0.23</u>	<u>\$ 1.34</u>
Diluted net income per share	<u>\$ 0.23</u>	<u>\$ 1.24</u>

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

**LEAR CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited; in millions)**

	<b>Three Months Ended</b>	
	<b>April 2, 2005</b>	<b>April 3, 2004</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 15.6	\$ 91.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	95.6	83.1
Net change in recoverable customer engineering and tooling	(62.7)	(3.6)
Net change in working capital items	70.9	(66.0)
Other, net	(0.9)	22.3
Net cash provided by operating activities before net change in sold accounts receivable	118.5	127.2
Net change in sold accounts receivable	—	(70.4)
Net cash provided by operating activities	<u>118.5</u>	<u>56.8</u>
<b>Cash Flows from Investing Activities:</b>		
Additions to property, plant and equipment	(129.4)	(77.3)
Other, net	(4.3)	10.3
Net cash used in investing activities	<u>(133.7)</u>	<u>(67.0)</u>
<b>Cash Flows from Financing Activities:</b>		
Long-term debt borrowings (repayments), net	5.1	(0.7)
Short-term debt borrowings (repayments), net	3.6	(7.5)
Dividends paid	(16.8)	(27.3)
Proceeds from exercise of stock options	2.2	12.3
Repurchase of common stock	(25.4)	—
Increase in drafts	2.3	11.5
Other, net	0.3	—
Net cash used in financing activities	<u>(28.7)</u>	<u>(11.7)</u>
Effect of foreign currency translation	(15.4)	(0.7)
<b>Net Change in Cash and Cash Equivalents</b>	<u>(59.3)</u>	<u>(22.6)</u>
<b>Cash and Cash Equivalents as of Beginning of Period</b>	584.9	169.3
<b>Cash and Cash Equivalents as of End of Period</b>	<u>\$ 525.6</u>	<u>\$ 146.7</u>
<b>Changes in Working Capital Items:</b>		
Accounts receivable	\$ (1.4)	\$ (400.1)
Inventories	(7.0)	(3.1)
Accounts payable	53.4	194.9
Accrued liabilities and other	25.9	142.3
Net change in working capital items	<u>\$ 70.9</u>	<u>\$ (66.0)</u>
<b>Supplementary Disclosure:</b>		
Cash paid for interest	<u>\$ 28.9</u>	<u>\$ 15.6</u>
Cash paid for income taxes	<u>\$ 63.5</u>	<u>\$ 53.3</u>

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

## LEAR CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**(1) Basis of Presentation**

The consolidated financial statements include the accounts of Lear Corporation (“Lear” or the “Parent”), a Delaware corporation and the wholly owned and less than wholly owned subsidiaries controlled by Lear (collectively, the “Company”). In addition, Lear consolidates variable interest entities in which it bears a majority of the risk of the entities’ potential losses or stands to gain from a majority of the entities’ expected returns. Investments in affiliates in which Lear does not have control, but does have the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method.

The Company and its affiliates design and manufacture interior systems and components for automobiles and light trucks. The Company’s main customers are automotive original equipment manufacturers. The Company operates facilities worldwide.

Certain amounts in the prior period’s financial statements have been reclassified to conform to the presentation used in the quarter ended April 2, 2005.

**(2) Stock-Based Compensation**

On January 1, 2003, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock-Based Compensation,” under which compensation cost for grants of stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units (collectively, “Incentive Units”) and stock options is determined on the basis of the fair value of the Incentive Units and stock options as of the grant date. SFAS No. 123 has been applied prospectively to all employee awards granted after January 1, 2003, as permitted under the provisions of SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure.” The pro forma effect on net income and net income per share, as if the fair value recognition provisions had been applied to all outstanding and unvested awards granted prior to January 1, 2003, is shown below (in millions, except per share data):

	Three Months Ended	
	April 2, 2005	April 3, 2004
Net income, as reported	\$ 15.6	\$ 91.4
Add: Stock-based employee compensation expense included in reported net income, net of tax	4.1	2.6
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(6.2)	(6.2)
Net income, pro forma	<u>\$ 13.5</u>	<u>\$ 87.8</u>
Net income per share:		
Basic – as reported	\$ 0.23	\$ 1.34
Basic – pro forma	\$ 0.20	\$ 1.28
Diluted – as reported	\$ 0.23	\$ 1.24
Diluted – pro forma	\$ 0.20	\$ 1.20

**(3) Acquisition**

On July 5, 2004, the Company completed its acquisition of the parent of GHW Grote & Hartmann GmbH (“Grote & Hartmann”) for consideration of \$160.2 million, including assumed debt of \$86.3 million, subject to adjustment. This amount excludes the cost of integration, as well as other internal costs related to the transaction which were expensed as incurred. Grote & Hartmann is based in Wuppertal, Germany, and manufactures terminals and connectors, as well as junction boxes and machinery to produce wire harnesses, primarily for the automotive industry.

The purchase price and related allocation are preliminary and may be revised as a result of adjustments made to the purchase price, additional information obtained regarding liabilities assumed, including contingent liabilities, revisions of preliminary estimates of fair values made at the date of purchase and certain tax attributes. At the time of the acquisition, the Company began to formulate plans for the restructuring of certain acquired operations. The Company is continuing to finalize these restructuring plans, which include potential plant closings and the termination or relocation of employees. The Company has made indemnity claims against the sellers for breaches of certain representations and warranties, which are pending as of the date of this Report.



**LEAR CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**(4) Inventories**

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

	April 2, 2005	December 31, 2004
Raw materials	\$ 456.6	\$ 487.8
Work-in-process	43.2	43.8
Finished goods	120.8	89.6
Inventories	<u>\$ 620.6</u>	<u>\$ 621.2</u>

**(5) Property, Plant and Equipment**

Property, plant and equipment is stated at cost. Depreciable property is depreciated over the estimated useful lives of the assets, principally using the straight-line method. A summary of property, plant and equipment is shown below (in millions):

	April 2, 2005	December 31, 2004
Land	\$ 146.6	\$ 138.6
Buildings and improvements	751.7	759.2
Machinery and equipment	2,856.5	2,844.7
Construction in progress	42.9	52.8
Total property, plant and equipment	<u>3,797.7</u>	<u>3,795.3</u>
Less – accumulated depreciation	<u>(1,773.8)</u>	<u>(1,775.5)</u>
Net property, plant and equipment	<u>\$ 2,023.9</u>	<u>\$ 2,019.8</u>

Depreciation expense was \$94.5 million and \$83.1 million in the three months ended April 2, 2005 and April 3, 2004, respectively.

**(6) Goodwill**

A summary of the changes in the carrying amount of goodwill, by reportable operating segment, for the three months ended April 2, 2005, is shown below (in millions):

	Seating	Interior	Electronic and Electrical	Total
Balance as of December 31, 2004	\$ 1,075.7	\$ 1,017.8	\$ 945.9	\$ 3,039.4
Foreign currency translation and other	(23.1)	1.8	4.4	(16.9)
Balance as of April 2, 2005	<u>\$ 1,052.6</u>	<u>\$ 1,019.6</u>	<u>\$ 950.3</u>	<u>\$ 3,022.5</u>

**LEAR CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**(7) Long-Term Debt**

A summary of long-term debt and the related weighted average interest rates, including the effect of hedging activities described in Note 16, "Financial Instruments," is shown below (in millions):

Debt Instrument	April 2, 2005		December 31, 2004	
	Long-Term Debt	Weighted Average Interest Rate	Long-Term Debt	Weighted Average Interest Rate
5.75% Senior Notes, due August 2014	\$ 399.2	5.635%	\$ 399.2	5.635%
Zero-coupon Convertible Senior Notes, due February 2022	289.8	4.75%	286.3	4.75%
8.125% Euro-denominated Senior Notes, due April 2008	323.1	8.125%	338.5	8.125%
8.11% Senior Notes, due May 2009	800.0	7.86%	800.0	7.74%
7.96% Senior Notes, due May 2005	600.0	7.21%	600.0	6.95%
Other	70.0	4.20%	75.7	4.22%
	2,482.1		2,499.7	
Current portion	(628.8)		(632.8)	
Long-term debt	<u>\$ 1,853.3</u>		<u>\$ 1,866.9</u>	

On March 23, 2005, the Company entered into a \$1.7 billion credit and guarantee agreement (the "Primary Credit Facility"), which matures on March 23, 2010. The Primary Credit Facility replaced the Company's existing \$1.7 billion amended and restated credit facility, which was due to mature on March 26, 2006 and which was terminated on March 23, 2005. As of April 2, 2005, the Company had no borrowings outstanding under the Primary Credit Facility.

The Primary Credit Facility is an unsecured facility, with obligations thereunder guaranteed by certain of the Company's subsidiaries that also guarantee the obligations under the Company's outstanding senior notes. The Primary Credit Facility provides for maximum borrowing commitments of \$1.7 billion, which may be increased to \$2.5 billion by the Company under certain circumstances. The Primary Credit Facility provides for multicurrency borrowings in a maximum aggregate amount of \$750 million, Canadian borrowings in a maximum aggregate amount of \$200 million and swing-line borrowings in a maximum aggregate amount of \$300 million, the commitments for which are part of the aggregate credit facility commitment.

The Primary Credit Facility contains operating and financial covenants that, among other things, could limit the Company's ability to obtain additional sources of capital. The principal financial covenants require that the Company maintain a leverage ratio of not more than 3.25 to 1 and an interest coverage ratio of not less than 3.5 to 1 (as such ratios are defined in the Primary Credit Facility). As of April 2, 2005, the Company was in compliance with all covenants and other requirements set forth in the Primary Credit Facility. The Company's leverage and interest coverage ratios were 1.9 to 1 and 6.4 to 1, respectively. These ratios are calculated on a trailing four quarter basis. As a result, any decline in the Company's future operating results will negatively impact its coverage ratios.

On August 3, 2004, the Company issued \$400 million aggregate principal amount of unsecured 5.75% senior notes due August 2014. The offering of the notes was not registered under the Securities Act of 1933, as amended (the "Securities Act"). On April 6, 2005, the Company completed an exchange offer of the notes for substantially identical notes registered under the Securities Act.

All of the Company's senior notes contain covenants restricting the Company's ability to incur liens and to enter into sale and leaseback transactions and restricting the Company's ability to consolidate with, to merge with or into or to sell or otherwise dispose of all or substantially all of its assets to any person. As of April 2, 2005, the Company was in compliance with all covenants and other requirements set forth in its senior notes.

The Company intends to repay the \$600 million senior notes due in May 2005 at maturity with excess cash and borrowings under the Primary Credit Facility.

The Company's obligations under the Primary Credit Facility and its senior notes are guaranteed, on a joint and several basis, by certain of its subsidiaries, which are primarily domestic subsidiaries and all of which are directly or indirectly 100% owned by the Company. See Note 18, "Supplemental Guarantor Condensed Consolidating Financial Statements."

**LEAR CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**(8) Pension and Other Postretirement Benefit Plans**

*Net Periodic Benefit Cost*

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

	<u>Pension</u>		<u>Other Postretirement</u>	
	<u>Three Months Ended</u>		<u>Three Months Ended</u>	
	<u>April 2, 2005</u>	<u>April 3, 2004</u>	<u>April 2, 2005</u>	<u>April 3, 2004</u>
Service cost	\$ 10.0	\$ 10.8	\$ 3.0	\$ 3.6
Interest cost	8.9	9.6	3.3	3.1
Expected return on plan assets	(7.1)	(7.2)	—	—
Amortization of actuarial loss	0.7	0.8	0.9	1.0
Amortization of transition (asset) obligation	—	(0.1)	0.6	0.3
Amortization of prior service cost	1.2	1.3	(1.1)	(0.7)
Special termination benefits	—	0.1	0.1	0.1
Net periodic benefit cost	<u>\$ 13.7</u>	<u>\$ 15.3</u>	<u>\$ 6.8</u>	<u>\$ 7.4</u>

*Contributions*

Employer contributions to the Company's domestic and foreign pension plans for the three months ended April 2, 2005, were approximately \$8.5 million, in aggregate. The Company expects to contribute an additional \$42 million to \$46 million, in aggregate, to its domestic and foreign pension portfolios in 2005.

**(9) Other Expense, Net**

Other expense includes state and local non-income taxes, foreign exchange gains and losses, minority interests in consolidated subsidiaries, equity in net income of affiliates, gains and losses on the sales of fixed assets and other miscellaneous income and expense. A summary of other expense, net is shown below (in millions):

	<u>April 2, 2005</u>	<u>April 3, 2004</u>
Other expense	\$ 9.5	\$ 17.7
Other income	(2.6)	(3.6)
Other expense, net	<u>\$ 6.9</u>	<u>\$ 14.1</u>

**(10) Provision (Benefit) for Income Taxes**

The benefit for income taxes was \$18.5 million in the three months ended April 2, 2005, which includes a one-time benefit of \$17.8 million resulting from a tax law change in Poland. The tax law change in Poland, effective on March 9, 2005, related to investment tax credits for companies operating in certain special economic zones within the country. The investment tax credits replace the tax holiday that was previously in effect for the Company. Excluding this one-time item, the benefit for income taxes was \$0.7 million, representing an effective tax rate of 24.5%, in the first quarter of 2005 as compared to a provision for income taxes of \$34.6 million, representing an effective tax rate of 27.5%, in the first quarter of 2004. Excluding this one-time item, the effective tax rates for the first quarters of 2005 and 2004 approximated the U.S. federal statutory income tax rate of 35% adjusted for income taxes on foreign earnings, losses and remittances, valuation adjustments, research and development credits and other items.

*American Jobs Creation Act of 2004*

In October 2004, the American Jobs Creation Act of 2004 ("the Act") was signed into law. The Act creates a temporary incentive for U.S. corporations to repatriate earnings from foreign subsidiaries by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations to the extent the dividends exceed a base amount and are invested in the United States pursuant to a domestic reinvestment plan. The temporary incentive is available to the Company in 2005. The amount of the Company's dividends potentially eligible for the deduction is limited to \$500 million.

The deduction is subject to a number of limitations and uncertainty remains as to the interpretation of numerous provisions in the Act. The U.S. Treasury Department is in the process of providing clarifying guidance on key elements of the repatriation provision, and Congress may reintroduce legislation that provides for certain technical corrections to the Act. The Company has not completed its evaluation of the repatriation provision due to the uncertainty associated with the interpretation of the provision, as well as

**LEAR CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

numerous tax, legal, treasury and business considerations. The Company expects to complete its evaluation of the potential dividends it may pursue, if any, and the related tax ramifications after additional guidance is issued.

**(11) Net Income Per Share**

Basic net income per share is computed using the weighted average common shares outstanding during the period. Diluted net income per share is computed using the average share price during the period when calculating the dilutive effect of common stock equivalents. On December 15, 2004, the Company adopted the provisions of Emerging Issues Task Force (“EITF”) 04-08, “The Effect of Contingently Convertible Debt on Diluted Earnings per Share,” which states that the impact of contingently convertible instruments that are convertible into common stock upon the achievement of a specified market price of the issuer’s shares, such as the Company’s outstanding zero-coupon convertible senior notes, should be included in net income per share computations regardless of whether the market price trigger has been met, if the impact is dilutive. The effect of EITF 04-08 on the computation of diluted net income per share is to adjust net income by adding back after-tax interest expense on convertible debt and to increase total shares outstanding by the number of shares that would be issuable upon conversion. There are 4,813,056 shares issuable upon conversion of the Company’s outstanding zero-coupon convertible senior notes. The Company has restated diluted net income per share for 2004 to include the dilutive impact of the outstanding zero-coupon convertible senior notes. Tables summarizing net income, for diluted net income per share (in millions) and shares outstanding are shown below:

	<b>Three Months Ended</b>	
	<b>April 2, 2005</b>	<b>April 3, 2004</b>
Net income, as reported	\$ 15.6	\$ 91.4
Add: After-tax interest expense on convertible debt	—	2.4
Net income, for diluted net income per share	<u>\$ 15.6</u>	<u>\$ 93.8</u>
Weighted average common shares outstanding	67,247,498	68,445,037
Dilutive effect of common stock equivalents	1,495,835	2,124,517
Shares issuable upon conversion of convertible debt	—	4,813,056
Diluted shares outstanding	<u>68,743,333</u>	<u>75,382,610</u>
Diluted net income per share	\$ 0.23	\$ 1.24

The shares issuable upon conversion of the Company’s outstanding zero-coupon convertible debt were not included in the computation of diluted net income per share for the three months ended April 2, 2005, as inclusion would have resulted in antidilution.

For further information related to the zero-coupon convertible senior notes, see Note 7, “Long-Term Debt,” to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2004.

Certain options and restricted stock units were not included in the computation of diluted shares outstanding, as inclusion would have resulted in antidilution. A summary of these options, their exercise prices and these restricted stock units is shown below:

	<b>Three Months Ended</b>	
	<b>April 2, 2005</b>	<b>April 3, 2004</b>
<b>Options</b>		
Antidilutive options	437,200	—
Exercise price	\$54.22 - \$55.33	—
<b>Restricted stock units</b>	607,280	—

**LEAR CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**(12) Comprehensive Income (Loss)**

Comprehensive income (loss) is defined as all changes in a Company's net assets except changes resulting from transactions with stockholders. It differs from net income in that certain items currently recorded in equity are included in comprehensive income (loss). A summary of comprehensive income (loss) is shown below (in millions):

	<b>Three Months Ended</b>	
	<b>April 2, 2005</b>	<b>April 3, 2004</b>
Net income	\$ 15.6	\$ 91.4
Other comprehensive income (loss):		
Derivative instruments and hedging activities	(12.0)	0.6
Foreign currency translation adjustment	(64.0)	(18.4)
Other comprehensive loss	(76.0)	(17.8)
Comprehensive income (loss)	<u>\$ (60.4)</u>	<u>\$ 73.6</u>

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

The Company incurs pre-production engineering, research and development ("ER&D") and tooling costs related to the products produced for its customers under long-term supply agreements. The Company expenses all pre-production ER&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 customer has not provided a non-cancelable right to use the tooling. During the first quarters of 2005 and 2004, the Company capitalized \$75.4 million and \$56.6 million, respectively, of pre-production ER&D costs for which reimbursement is contractually guaranteed by the customer. In addition, during the first quarters of 2005 and 2004, the Company capitalized \$134.3 million and \$105.5 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 customer has provided a non-cancelable right to use the tooling. These amounts are included in recoverable customer engineering and tooling and other long-term assets in the consolidated balance sheets. During the first quarters of 2005 and 2004, the Company collected \$151.0 million and \$148.5 million, respectively, of cash related to ER&D and tooling costs.

During the first quarters of 2005 and 2004, the Company capitalized \$11.1 million and \$0.9 million, respectively, of Company-owned tooling. These amounts are included in property, plant and equipment, net in the consolidated balance sheets.

The classification of recoverable customer engineering and tooling is shown below (in millions):

	<b>April 2, 2005</b>	<b>December 31, 2004</b>
Current	\$ 266.9	\$ 205.8
Long-term	237.2	245.1
Recoverable customer engineering and tooling	<u>\$ 504.1</u>	<u>\$ 450.9</u>

Gains and losses related to ER&D and tooling projects are reviewed on an aggregated program basis. Net gains on projects are deferred and recognized over the life of the long-term supply agreement. Net losses on projects are recognized as costs are incurred.

**(14) Legal and Other Contingencies**

As of April 2, 2005 and December 31, 2004, the Company had recorded reserves for pending legal disputes, including commercial litigation and other matters, of \$24.0 million and \$25.2 million, respectively. Such reserves reflect amounts recognized in accordance with accounting principles generally accepted in the United States and exclude the cost of legal representation. Product warranty liabilities are recorded separately from legal liabilities, as described below.

*Commercial Disputes*

The Company is involved from time to time in legal proceedings and claims relating to commercial or contractual disputes, including disputes with its suppliers. The Company will continue to vigorously defend itself against these claims. Based on present information, including the Company's assessment of the merits of the particular claims, the Company does not expect that these legal proceedings or claims, either individually or in the aggregate, will have a material adverse effect on its business, consolidated financial position or results of operations, although the outcomes of these matters are inherently uncertain.

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On January 29, 2002, Seton Company, one of the Company's leather suppliers, filed a suit alleging that the Company had breached a purported agreement to purchase leather from Seton for seats for the life of the General Motors GMT 800 program. This suit presently is pending in the U.S. District Court for the Eastern District of Michigan. Seton seeks compensatory and exemplary damages on breach of contract and promissory estoppel claims and has submitted a revised report now alleging up to \$96.5 million in damages plus interest. The Company will challenge several of the assumptions and bases for this revised report. The Company continues to believe that it has meritorious defenses to Seton's liability and damages claims and intends to vigorously defend this lawsuit. The trial is expected to begin in May 2005.

#### *Product Liability 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. In addition, the Company is a party to warranty-sharing and other agreements with its customers relating to its products. These customers may pursue claims against the Company for contribution of all or a portion of the amounts sought in connection with product liability and warranty claims. The Company can provide no assurances that it will not experience material claims in the future or that it will not incur significant costs to defend such claims. In addition, if any of the Company's products are, or are alleged to be, defective, the Company may be required or requested by its customers to participate in a recall or other corrective action involving such products. Certain of the Company's customers have asserted claims against the Company for costs related to recalls involving the Company's products. In certain instances, the allegedly defective products were supplied by tier II suppliers against whom the Company has sought or will seek contribution. 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 recall matters.

The Company records product warranty liabilities based on its individual customer agreements. Product warranty liabilities are recorded for known warranty issues when amounts related to such issues are probable and reasonably estimable. In certain product liability and warranty matters, the Company may seek recoveries from its suppliers that supply materials or services included within the Company's products that are associated with the related claims.

A summary of the changes in product warranty liabilities for the three months ended April 2, 2005, is shown below (in millions):

Balance as of December 31, 2004	\$ 43.4
Expense, net	13.8
Settlements	(5.6)
Foreign exchange and other	(1.6)
Balance as of April 2, 2005	<u>\$ 50.0</u>

#### *Environmental Matters*

The Company is subject to local, state, federal and foreign laws, regulations and ordinances which govern activities or operations that may have adverse environmental effects and which impose liability for the costs of cleaning up certain damages 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. 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 the 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 acquisition of UT Automotive. UTC manages and directly funds these environmental liabilities pursuant to its agreements and indemnities with the Company.

As of April 2, 2005 and December 31, 2004, the Company had recorded reserves for environmental matters of \$6.0 million and \$5.9 million, respectively. While the Company does not believe that the environmental liabilities associated with its current and former properties will have a material adverse effect on its business, consolidated financial position or results of operations, no assurances can be given in this regard.

One of the Company's subsidiaries and certain predecessor companies were named as defendants in an action filed by three plaintiffs in August 2001 in the Circuit Court of Lowndes County, Mississippi, asserting claims stemming from alleged environmental

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contamination caused by an automobile parts manufacturing plant located in Columbus, Mississippi. The plant was acquired by the Company as part of the UT Automotive acquisition in May 1999 and sold almost immediately thereafter, in June 1999, to Johnson Electric Holdings Limited (“Johnson Electric”). In December 2002, 61 additional cases were filed by approximately 1,000 plaintiffs in the same court against the Company and other defendants relating to similar claims. In September 2003, the Company was dismissed as a party to these cases. In the first half of 2004, the Company was named again as a defendant in these same 61 additional cases and was also named in five new actions filed by approximately 150 individual plaintiffs related to alleged environmental contamination from the same facility. The plaintiffs in these actions are persons who allegedly were either residents and/or owned property near the facility or worked at the facility. In November 2004, two additional lawsuits were filed by 28 plaintiffs (individuals and organizations), alleging property damage as a result of the alleged contamination. Each of these complaints seeks compensatory and punitive damages.

Most of the original plaintiffs have filed motions to dismiss their claims for health effects and personal injury damages; therefore, approximately three-fourths of the plaintiffs should be voluntarily dismissed from these lawsuits. Upon the completion of these dismissals, the Company anticipates that there will be approximately 300 plaintiffs remaining in the lawsuits to proceed with property damage claims only. There is the potential that the dismissed plaintiffs could seek separate counsel to re-file their personal injury claims. In March 2005, the venue for these lawsuits was transferred from Lowndes County, Mississippi, to Lafayette County, Mississippi. In April 2005, certain plaintiffs filed an amended complaint alleging negligence, nuisance, intentional tort and conspiracy claims and seeking compensatory and punitive damages. In late April 2005, the court scheduled the first trial date for the initial plaintiffs to commence in March 2006.

To date, there has been limited discovery in these cases and the probability of liability and the amount of damages in the event of liability are unknown. UTC, the former owner of UT Automotive, and Johnson Electric have each sought indemnification from the Company under the respective acquisition agreements, and the Company has claimed indemnification from them under the same agreements. To date, no company admits to, or has been found to have, an obligation to fully defend and indemnify any other. The Company intends to vigorously defend against these claims and believes that it will eventually be indemnified by either UTC or Johnson Electric for resulting losses, if any.

*Other Matters*

In January 2004, the Securities and Exchange Commission (“SEC”) commenced an informal inquiry into the Company’s September 2002 amendment of its 2001 Form 10-K. The amendment was filed to report the Company’s employment of relatives of certain of its directors and officers and certain related party transactions. The SEC’s inquiry does not relate to the Company’s financial statements. In February 2005, the staff of the SEC informed the Company that it proposed to recommend to the SEC that it issue an administrative “cease and desist” order as a result of the Company’s failure to disclose the related party transactions in question prior to the amendment of its 2001 Form 10-K. The Company expects to consent to the entry of the order as part of a settlement of this matter.

Prior to the Company’s acquisition of UT Automotive from UTC in May 1999, a subsidiary of Lear purchased the stock of a UT Automotive subsidiary. In connection with the acquisition, the Company agreed to indemnify UTC for certain tax consequences if the Internal Revenue Service (the “IRS”) overturned UTC’s tax treatment of the transaction. The IRS has proposed an adjustment to UTC’s tax treatment of the transaction seeking an increase in tax of approximately \$87.5 million, excluding interest. A protest objecting to the proposed adjustment has been filed with the IRS. An indemnity payment by the Company to UTC for the ultimate amount due to the IRS would constitute an adjustment to the purchase price and resulting goodwill of the UT Automotive acquisition, if and when made, and would not be expected to have a material effect on the Company’s reported earnings. The Company believes that valid support exists for UTC’s tax positions and intends to vigorously contest the IRS’s proposed adjustment. However, the ultimate outcome of this matter is not certain.

The Company is involved in certain other legal actions and claims arising in the ordinary course of business, including, without limitation, intellectual property matters, personal injury claims, tax claims and employment matters. Although the outcome of any legal matter cannot be predicted with certainty, the Company does not believe that any of these other legal proceedings or matters in which it is currently involved, either individually or in the aggregate, will have a material adverse effect on its business, consolidated financial position or results of operations.

**(15) Segment Reporting**

The Company has three reportable operating segments: seating, interior and electronic and electrical. The seating segment includes seat systems and components thereof. The interior segment includes instrument panels and cockpit systems, overhead systems, door

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panels, flooring and acoustic systems and other interior products. The electronic and electrical segment includes electronic products and electrical distribution systems, primarily wire harnesses and junction boxes; interior control and entertainment systems; and wireless systems. The Other category includes the corporate headquarters, geographic headquarters, the technology centers and the elimination of intercompany activities, none of which meets the requirements of being classified as an operating segment.

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

	<b>Three Months Ended April 2, 2005</b>				
	<b>Seating</b>	<b>Interior</b>	<b>Electronic and Electrical</b>	<b>Other</b>	<b>Consolidated</b>
Revenues from external customers	\$ 2,748.7	\$ 762.8	\$ 774.5	\$ —	\$ 4,286.0
Income before interest, other expense and income taxes	50.1	(8.4)	58.3	(51.2)	48.8
Depreciation and amortization	35.1	30.0	25.3	5.2	95.6
Capital expenditures	59.1	37.5	20.4	12.4	129.4
Total assets	4,544.0	2,558.0	2,538.6	180.8	9,821.4

	<b>Three Months Ended April 3, 2004</b>				
	<b>Seating</b>	<b>Interior</b>	<b>Electronic and Electrical</b>	<b>Other</b>	<b>Consolidated</b>
Revenues from external customers	\$ 3,007.8	\$ 817.3	\$ 667.0	\$ —	\$ 4,492.1
Income before interest, other expense and income taxes	147.6	28.7	59.3	(56.4)	179.2
Depreciation and amortization	32.3	27.1	17.9	5.8	83.1
Capital expenditures	34.1	21.3	21.9	—	77.3
Total assets	4,192.9	2,476.6	2,246.4	12.0	8,927.9

A reconciliation of consolidated income before interest, other expense and income taxes to consolidated income (loss) before income taxes is shown below (in millions):

	<b>Three Months Ended</b>	
	<b>April 2, 2005</b>	<b>April 3, 2004</b>
Income before interest, other expense and income taxes	\$ 48.8	\$ 179.2
Interest expense	44.8	39.1
Other expense, net	6.9	14.1
Income (loss) before income taxes	<u>\$ (2.9)</u>	<u>\$ 126.0</u>

**(16) Financial Instruments**

Certain of the Company's European and Asian subsidiaries periodically factor their accounts receivable with financial institutions. Such receivables are factored without recourse to the Company and are excluded from accounts receivable in the consolidated balance sheets. As of April 2, 2005 and December 31, 2004, there were no factored accounts receivable.

*Asset-Backed Securitization Facility*

The Company and several of its U.S. subsidiaries sell certain accounts receivable to a wholly-owned, consolidated, bankruptcy-remote special purpose corporation (Lear ASC Corporation) under an asset-backed securitization facility (the "ABS facility"). In turn, Lear ASC Corporation transfers undivided interests in up to \$150 million of the receivables to bank-sponsored commercial-paper conduits. As of April 2, 2005 and December 31, 2004, accounts receivable totaling \$614.6 million and \$654.4 million, respectively, had been transferred to Lear ASC Corporation, but no undivided interests in the receivables were transferred to the conduits. As such, this retained interest is included in accounts receivable in the consolidated balance sheets. A discount on the sale of receivables of



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\$0.8 million and \$0.4 million was recognized in the three months ended April 2, 2005 and April 3, 2004, respectively, and is reflected in other expense, net in the consolidated statements of income.

The Company retains a subordinated ownership interest in the pool of receivables sold to Lear ASC Corporation. This retained interest is recorded at fair value, which is generally based on a discounted cash flow analysis. The Company continues to service the transferred receivables for an annual servicing fee. The conduit investors and Lear ASC Corporation have no recourse to the Company or its subsidiaries.

The following table summarizes certain cash flows received from and paid to Lear ASC Corporation (in millions):

	<b>Three Months Ended</b>	
	<b>April 2, 2005</b>	<b>April 3, 2004</b>
Proceeds from collections reinvested in securitizations	\$ 1,093.3	\$ 1,179.6
Servicing fees received	1.3	1.4

*Derivative Instruments and Hedging Activities*

Forward foreign exchange, futures and option contracts – The Company uses forward foreign exchange, futures and option contracts to reduce the effect of fluctuations in foreign exchange rates on short-term, foreign currency denominated intercompany transactions and other 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 the earnings volatility resulting from fluctuations in foreign exchange rates. The principal currencies hedged by the Company include the Mexican peso, Canadian dollar and the Euro. Forward foreign exchange and futures contracts are accounted for as fair value hedges when the hedged item is a recognized asset or liability or an unrecognized firm commitment. As of April 2, 2005, contracts designated as fair value hedges with \$861.4 million of notional amount were outstanding with maturities of less than six months. As of April 2, 2005, the fair market value of these contracts was approximately negative \$8.5 million. Forward foreign exchange, futures and option contracts are accounted for as cash flow hedges when the hedged item is a forecasted transaction or the variability of cash flows to be paid or received relates to a recognized asset or liability. As of April 2, 2005, contracts designated as cash flow hedges with \$740.5 million of notional amount were outstanding with maturities of less than nine months. As of April 2, 2005, the fair market value of these foreign exchange contracts was approximately \$10.0 million.

Interest rate swap contracts – The Company uses interest rate swap contracts to manage its exposure to fluctuations in interest rates. Interest rate swap contracts which fix the interest payments of certain variable rate debt instruments or fix the market rate component of anticipated fixed rate debt instruments are accounted for as cash flow hedges. Interest rate swap contracts which hedge the change in fair market value of certain fixed rate debt instruments are accounted for as fair value hedges. As of April 2, 2005, contracts representing \$600.0 million of notional amount were outstanding with maturity dates of May 2005 through May 2009. All of these contracts are designated as fair value hedges and modify the fixed rate characteristics of the Company's outstanding long-term debt instruments with fixed coupons and maturities of 7.96% in May 2005 and 8.11% in May 2009. These contracts convert these fixed coupon liabilities into variable rate obligations with coupons which reset semi-annually based on LIBOR plus spreads of 6.08% and 4.58%, respectively. However, the effective cost of these contracts, including the impact of swap contract restructuring, is LIBOR plus 2.76% and 3.27%, respectively. The fair market value of these interest rate swap contracts is subject to changes in value due to changes in interest rates. As of April 2, 2005, the fair market value of these interest rate swap contracts was approximately negative \$16.5 million.

As of April 2, 2005 and December 31, 2004, net gains of approximately \$14.2 million and \$17.4 million, respectively, related to derivative instruments and hedging activities were recorded in accumulated other comprehensive income (loss). Net gains of \$5.5 million and \$1.4 million related to the Company's hedging activities were reclassified from accumulated other comprehensive income (loss) into earnings in the three months ended April 2, 2005 and April 3, 2004, respectively. As of April 2, 2005, all cash flow hedges were scheduled to mature within nine months, all fair value hedges of the Company's fixed rate debt instruments were scheduled to mature within five years, and all fair value hedges of the Company's foreign exchange exposure were scheduled to mature within six months. During the twelve month period ended April 1, 2006, the Company expects to reclassify into earnings net gains of approximately \$10.0 million recorded in accumulated other comprehensive income (loss). Such gains will be reclassified at the time the underlying hedged transactions are realized. During the three months ended April 2, 2005 and April 3, 2004, amounts recognized in the consolidated statements of income related to changes in the fair value of cash flow and fair value hedges excluded from the effectiveness assessments and the ineffective portion of changes in the fair value of cash flow and fair value hedges were not material.

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Non-U.S. dollar financing transactions – The Company has designated its 8.125% Euro-denominated senior notes (Note 7) as a net investment hedge of long-term investments in its Euro-functional subsidiaries. As of April 2, 2005, the amount recorded in cumulative translation adjustment related to the effective portion of the net investment hedge of foreign operations was approximately negative \$99.2 million.

**(17) Accounting Pronouncements**

*Inventory Costs*

The Financial Accounting Standards Board (“FASB”) issued SFAS No. 151, “Inventory Costs – an amendment of ARB No. 43, Chapter 4.” This statement clarifies the requirement that abnormal inventory-related costs be recognized as current-period charges and requires that the allocation of fixed production overheads to inventory conversion costs be based on the normal capacity of the production facilities. The provisions of this statement are to be applied prospectively to inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect the effects of adoption to be significant.

*Nonmonetary Assets*

The FASB issued SFAS No. 153, “Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29.” APB Opinion No. 29, in general, requires the use of fair value as the measurement basis for exchanges of nonmonetary assets. This statement eliminates the exception to the fair value measurement principle for nonmonetary exchanges of similar productive assets and replaces it with a general exception for nonmonetary asset exchanges that lack commercial substance. The provisions of this statement are to be applied prospectively to nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect the effects of adoption to be significant.

*Stock-Based Compensation*

The FASB issued a revised SFAS No. 123, “Share-Based Payment.” This statement requires that all share-based payments to employees be recognized in the financial statements based on their grant-date fair value. Under previous guidance, companies had the option of recognizing the fair value of stock-based compensation in the consolidated financial statements or disclosing the proforma impact of stock-based compensation on the consolidated statement of income in the notes to the consolidated financial statements. As described in Note 2, “Summary of Significant Accounting Policies,” the Company adopted the fair value recognition provisions of SFAS No. 123 for all employee awards issued after January 1, 2003. The revised statement is effective at the beginning of the first annual period beginning after December 15, 2005, and provides two methods of adoption, the modified-prospective method and the modified-retrospective method. The Company anticipates adopting the revised statement using the modified-prospective method. The Company is currently evaluating the provisions of the revised statement but does not expect the impact of adoption to be significant.

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**(18) Supplemental Guarantor Condensed Consolidating Financial Statements**

	April 2, 2005				<u>Consolidated</u>
	<u>Parent</u>	<u>Guarantors</u>	<u>Non-guarantors</u> (Unaudited; in millions)	<u>Eliminations</u>	
<b>ASSETS</b>					
<i>CURRENT ASSETS:</i>					
Cash and cash equivalents	\$ 76.4	\$ 1.8	\$ 447.4	\$ —	\$ 525.6
Accounts receivable	79.4	350.3	2,098.1	—	2,527.8
Inventories	19.8	197.2	403.6	—	620.6
Recoverable customer engineering and tooling	32.8	143.3	90.8	—	266.9
Other	113.2	35.8	188.8	—	337.8
Total current assets	<u>321.6</u>	<u>728.4</u>	<u>3,228.7</u>	<u>—</u>	<u>4,278.7</u>
<i>LONG-TERM ASSETS:</i>					
Property, plant and equipment, net	169.9	779.1	1,074.9	—	2,023.9
Goodwill, net	105.0	1,922.2	995.3	—	3,022.5
Investments in subsidiaries	4,420.7	2,594.7	—	(7,015.4)	—
Other	116.0	97.2	283.1	—	496.3
Total long-term assets	<u>4,811.6</u>	<u>5,393.2</u>	<u>2,353.3</u>	<u>(7,015.4)</u>	<u>5,542.7</u>
	<u>\$ 5,133.2</u>	<u>\$ 6,121.6</u>	<u>\$ 5,582.0</u>	<u>\$ (7,015.4)</u>	<u>\$ 9,821.4</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<i>CURRENT LIABILITIES:</i>					
Short-term borrowings	\$ —	\$ —	\$ 40.4	\$ —	\$ 40.4
Accounts payable and drafts	250.6	831.2	1,691.8	—	2,773.6
Accrued liabilities	172.0	286.8	699.7	—	1,158.5
Current portion of long-term debt	623.5	2.0	3.3	—	628.8
Total current liabilities	<u>1,046.1</u>	<u>1,120.0</u>	<u>2,435.2</u>	<u>—</u>	<u>4,601.3</u>
<i>LONG-TERM LIABILITIES:</i>					
Long-term debt	1,813.1	11.5	28.7	—	1,853.3
Intercompany accounts, net	(599.4)	1,288.9	(689.5)	—	—
Other	221.5	198.5	294.9	—	714.9
Total long-term liabilities	<u>1,435.2</u>	<u>1,498.9</u>	<u>(365.9)</u>	<u>—</u>	<u>2,568.2</u>
<i>STOCKHOLDERS' EQUITY</i>	<u>2,651.9</u>	<u>3,502.7</u>	<u>3,512.7</u>	<u>(7,015.4)</u>	<u>2,651.9</u>
	<u>\$ 5,133.2</u>	<u>\$ 6,121.6</u>	<u>\$ 5,582.0</u>	<u>\$ (7,015.4)</u>	<u>\$ 9,821.4</u>

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**(18) Supplemental Guarantor Condensed Consolidating Financial Statements – (continued)**

	December 31, 2004				
	<u>Parent</u>	<u>Guarantors</u>	<u>Non- guarantors (In millions)</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>ASSETS</b>					
<i>CURRENT ASSETS:</i>					
Cash and cash equivalents	\$ 123.5	\$ 3.8	\$ 457.6	\$ —	\$ 584.9
Accounts receivable	54.6	443.2	2,087.1	—	2,584.9
Inventories	17.5	193.2	410.5	—	621.2
Recoverable customer engineering and tooling	9.8	110.5	85.5	—	205.8
Other	116.7	64.8	193.7	—	375.2
Total current assets	<u>322.1</u>	<u>815.5</u>	<u>3,234.4</u>	<u>—</u>	<u>4,372.0</u>
<i>LONG-TERM ASSETS:</i>					
Property, plant and equipment, net	156.3	759.2	1,104.3	—	2,019.8
Goodwill, net	105.0	1,920.5	1,013.9	—	3,039.4
Investments in subsidiaries	4,556.1	2,543.8	—	(7,099.9)	—
Other	119.3	90.8	303.1	—	513.2
Total long-term assets	<u>4,936.7</u>	<u>5,314.3</u>	<u>2,421.3</u>	<u>(7,099.9)</u>	<u>5,572.4</u>
	<u>\$ 5,258.8</u>	<u>\$ 6,129.8</u>	<u>\$ 5,655.7</u>	<u>\$ (7,099.9)</u>	<u>\$ 9,944.4</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<i>CURRENT LIABILITIES:</i>					
Short-term borrowings	\$ —	\$ —	\$ 35.4	\$ —	\$ 35.4
Accounts payable and drafts	229.5	810.8	1,737.3	—	2,777.6
Accrued liabilities	190.6	295.7	715.8	—	1,202.1
Current portion of long-term debt	626.5	2.4	3.9	—	632.8
Total current liabilities	<u>1,046.6</u>	<u>1,108.9</u>	<u>2,492.4</u>	<u>—</u>	<u>4,647.9</u>
<i>LONG-TERM LIABILITIES:</i>					
Long-term debt	1,826.1	12.0	28.8	—	1,866.9
Intercompany accounts, net	(549.6)	1,222.7	(673.1)	—	—
Other	205.6	190.0	303.9	—	699.5
Total long-term liabilities	<u>1,482.1</u>	<u>1,424.7</u>	<u>(340.4)</u>	<u>—</u>	<u>2,566.4</u>
<i>STOCKHOLDERS' EQUITY</i>	<u>2,730.1</u>	<u>3,596.2</u>	<u>3,503.7</u>	<u>(7,099.9)</u>	<u>2,730.1</u>
	<u>\$ 5,258.8</u>	<u>\$ 6,129.8</u>	<u>\$ 5,655.7</u>	<u>\$ (7,099.9)</u>	<u>\$ 9,944.4</u>

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**(18) Supplemental Guarantor Condensed Consolidating Financial Statements – (continued)**

	<b>For the Three Months Ended April 2, 2005</b>				
	<u>Parent</u>	<u>Guarantors</u>	<u>Non- guarantors</u> (Unaudited; in millions)	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$ 310.0	\$ 1,741.4	\$ 2,842.1	\$ (607.5)	\$ 4,286.0
Cost of sales	355.3	1,661.3	2,677.0	(607.5)	4,086.1
Selling, general and administrative expenses	39.1	30.0	82.0	—	151.1
Interest expense	17.5	20.8	6.5	—	44.8
Intercompany (income) expense, net	(120.9)	82.6	38.3	—	—
Other expense, net	0.5	6.1	0.3	—	6.9
Income (loss) before income taxes and equity in net income of subsidiaries	18.5	(59.4)	38.0	—	(2.9)
Provision (benefit) for income taxes	5.2	(19.4)	(4.3)	—	(18.5)
Equity in net income of subsidiaries	(2.3)	(54.1)	—	56.4	—
Net income	<u>\$ 15.6</u>	<u>\$ 14.1</u>	<u>\$ 42.3</u>	<u>\$ (56.4)</u>	<u>\$ 15.6</u>

	<b>For the Three Months Ended April 3, 2004</b>				
	<u>Parent</u>	<u>Guarantors</u>	<u>Non- guarantors</u> (Unaudited; in millions)	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$ 237.7	\$ 2,100.4	\$ 2,852.0	\$ (698.0)	\$ 4,492.1
Cost of sales	270.4	1,916.0	2,656.8	(698.0)	4,145.2
Selling, general and administrative expenses	35.4	58.9	73.4	—	167.7
Interest expense	12.0	18.3	8.8	—	39.1
Intercompany (income) expense, net	(98.5)	104.0	(5.5)	—	—
Other (income) expense, net	(1.8)	7.0	8.9	—	14.1
Income (loss) before income taxes and equity in net income of subsidiaries	20.2	(3.8)	109.6	—	126.0
Provision (benefit) for income taxes	(0.9)	10.6	24.9	—	34.6
Equity in net income of subsidiaries	(70.3)	(56.5)	—	126.8	—
Net income	<u>\$ 91.4</u>	<u>\$ 42.1</u>	<u>\$ 84.7</u>	<u>\$ (126.8)</u>	<u>\$ 91.4</u>

**LEAR CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Continued)

**(18) Supplemental Guarantor Condensed Consolidating Financial Statements – (continued)**

	For the Three Months Ended April 2, 2005				
	Parent	Guarantors	Non- guarantors (Unaudited; in millions)	Eliminations	Consolidated
Net cash provided by operating activities	\$ (3.6)	\$ 94.5	\$ 27.6	\$ —	\$ 118.5
<b>Cash Flows from Investing Activities:</b>					
Additions to property, plant and equipment	(30.7)	(57.0)	(41.7)	—	(129.4)
Other, net	0.1	1.1	(5.5)	—	(4.3)
Net cash used in investing activities	(30.6)	(55.9)	(47.2)	—	(133.7)
<b>Cash Flows from Financing Activities:</b>					
Long-term debt borrowings, net	5.3	(0.2)	—	—	5.1
Short-term debt borrowings, net	—	—	3.6	—	3.6
Dividends paid	(16.8)	—	—	—	(16.8)
Proceeds from exercise of stock options	2.2	—	—	—	2.2
Repurchase of common stock	(25.4)	—	—	—	(25.4)
Increase in drafts	0.3	0.5	1.5	—	2.3
Other	0.3	—	—	—	0.3
Change in intercompany accounts	21.2	(43.4)	22.2	—	—
Net cash used in financing activities	(12.9)	(43.1)	27.3	—	(28.7)
Effect of foreign currency translation	—	2.5	(17.9)	—	(15.4)
<b>Net Change in Cash and Cash Equivalents</b>	<b>(47.1)</b>	<b>(2.0)</b>	<b>(10.2)</b>	<b>—</b>	<b>(59.3)</b>
<b>Cash and Cash Equivalents as of Beginning of Period</b>	<b>123.5</b>	<b>3.8</b>	<b>457.6</b>	<b>—</b>	<b>584.9</b>
<b>Cash and Cash Equivalents as of End of Period</b>	<b>\$ 76.4</b>	<b>\$ 1.8</b>	<b>\$ 447.4</b>	<b>\$ —</b>	<b>\$ 525.6</b>

	For the Three Months Ended April 3, 2004				
	Parent	Guarantors	Non- guarantors (Unaudited; in millions)	Eliminations	Consolidated
Net cash provided by operating activities	\$ 70.7	\$ 84.7	\$ (98.6)	\$ —	\$ 56.8
<b>Cash Flows from Investing Activities:</b>					
Additions to property, plant and equipment	(11.7)	(23.5)	(42.1)	—	(77.3)
Other, net	8.0	0.9	1.4	—	10.3
Net cash used in investing activities	(3.7)	(22.6)	(40.7)	—	(67.0)
<b>Cash Flows from Financing Activities:</b>					
Long-term debt repayments, net	(0.2)	(0.8)	0.3	—	(0.7)
Short-term debt repayments, net	(0.3)	—	(7.2)	—	(7.5)
Dividends paid	(27.3)	—	—	—	(27.3)
Proceeds from exercise of stock options	12.3	—	—	—	12.3
Increase in drafts	7.0	2.5	2.0	—	11.5
Change in intercompany accounts	(44.4)	(82.2)	126.6	—	—
Net cash used in financing activities	(52.9)	(80.5)	121.7	—	(11.7)
Effect of foreign currency translation	—	11.9	(12.6)	—	(0.7)
<b>Net Change in Cash and Cash Equivalents</b>	<b>14.1</b>	<b>(6.5)</b>	<b>(30.2)</b>	<b>—</b>	<b>(22.6)</b>
<b>Cash and Cash Equivalents as of Beginning of Period</b>	<b>40.9</b>	<b>9.7</b>	<b>118.7</b>	<b>—</b>	<b>169.3</b>
<b>Cash and Cash Equivalents as of End of Period</b>	<b>\$ 55.0</b>	<b>\$ 3.2</b>	<b>\$ 88.5</b>	<b>\$ —</b>	<b>\$ 146.7</b>

**LEAR CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**(18) Supplemental Guarantor Condensed Consolidating Financial Statements – (continued)**

Basis of Presentation – Certain of the Company’s wholly-owned subsidiaries (the “Guarantors”) have unconditionally fully guaranteed, on a joint and several basis, the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all of the Company’s obligations under the Primary Credit Facility and the indentures governing the Company’s senior notes, including the Company’s obligations to pay principal, premium, if any, and interest with respect to the senior notes. The senior notes consist of \$600 million aggregate principal amount of 7.96% senior notes due May 2005, \$800 million aggregate principal amount of 8.11% senior notes due May 2009, Euro 250 million aggregate principal amount of 8.125% senior notes due April 2008, \$640 million aggregate principal amount at maturity of zero-coupon convertible senior notes due February 2022 and \$400 million aggregate principal amount of 5.75% senior notes due August 2014. The Guarantors under the indentures are currently Lear Operations Corporation, Lear Seating Holdings Corp. #50, Lear Corporation EEDS and Interiors, Lear Technologies, L.L.C., Lear Midwest Automotive, Limited Partnership, Lear Automotive (EEDS) Spain S.L. and Lear Corporation Mexico, S.A. de C.V. In lieu of providing separate unaudited financial statements for the Guarantors, the Company has included the unaudited supplemental guarantor condensed consolidating financial statements above. 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.

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

Selling, General and Administrative Expenses – During the three months ended April 2, 2005 and April 3, 2004, the Parent allocated \$8.5 million and \$21.7 million, respectively, of corporate selling, general and administrative expenses to its operating subsidiaries. The allocations were based on various factors, which estimate usage of particular corporate functions, and in certain instances, other relevant factors, such as the revenues or the number of employees of the Company’s subsidiaries.

Long-term debt of the Parent and the Guarantors – A summary of long-term debt of the Parent and the Guarantors on a combined basis is shown below (in millions):

	April 2, 2005	December 31, 2004
Senior notes	\$ 2,412.1	\$ 2,424.0
Other long-term debt	38.0	43.0
	<u>2,450.1</u>	<u>2,467.0</u>
Less – current portion	(625.5)	(628.9)
	<u>\$ 1,824.6</u>	<u>\$ 1,838.1</u>

The obligations of foreign subsidiary borrowers under the Primary Credit Facility are guaranteed by the Parent.

For more information on the above indebtedness, see Note 7, “Long-Term Debt.”

LEAR CORPORATION

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

EXECUTIVE OVERVIEW

Executive Overview

We are one of the world's largest automotive interior systems suppliers based on net sales. Our net sales have grown from \$12.4 billion for the year ended December 31, 1999, to \$17.0 billion for the year ended December 31, 2004. The major source of our internal growth has been new program awards. We supply every major automotive manufacturer in the world, including General Motors, Ford, DaimlerChrysler, BMW, PSA, Fiat, Volkswagen, Renault-Nissan, Mazda, Toyota, Subaru and Hyundai.

We have capabilities in all five principal segments of the automotive interior market: seat systems; instrument panels and cockpit systems; overhead systems; door panels; and flooring and acoustic systems. We are also one of the leading global suppliers of automotive electrical distribution systems. As a result of these capabilities, we can offer our customers fully integrated automotive interiors, including electronic products and electrical distribution systems. We were awarded the first-ever total interior integrator program by General Motors for the 2006 Cadillac DTS and Buick Lucerne models. As a total interior integrator, we work closely with the customer on the design and have lead or sole responsibility for the engineering, component/module sourcing, manufacturing and delivery of the automotive interiors for these two passenger cars.

Demand for our products is directly related to automotive vehicle production. Automotive sales and production can be affected by general economic or industry conditions, labor relations issues, regulatory requirements, trade agreements and other factors. Our operating results are also significantly impacted by what is referred to in this section as "vehicle platform mix"; that is, the overall commercial success of the vehicle platforms for which we supply particular products, as well as our relative profitability on these platforms. In addition, our two largest customers, General Motors and Ford, accounted for approximately 43% of our net sales in 2004, excluding net sales to Opel, Saab, Volvo, Jaguar and Land Rover, which are affiliates of General Motors or Ford. A significant loss of business with respect to any vehicle model for which we are a significant supplier could materially and negatively affect our operating results.

Automotive industry conditions in North America and Europe continue to be challenging. In North America, the industry is characterized by significant overcapacity, fierce competition and significant pension and healthcare liabilities for the domestic automakers. In addition, the domestic automakers have recently announced production cuts which significantly impact several of our key platforms, particularly within the sport utility vehicle and light truck market segments. Our vehicle platform mix had a material adverse impact on our operating results in the first quarter of 2005. Our top fifteen platforms in North America, which have a higher than average content per vehicle, experienced an 11% decline in production volumes as compared to the first quarter of 2004. While our vehicle platform mix is expected to improve somewhat during the course of 2005, there remains considerable uncertainty regarding our customers' production schedules. In Europe, the market structure is relatively fragmented with significant overcapacity. In addition, certain of our key platforms in North America and Europe are undergoing model changeovers or refreshenings that will have a larger than normal adverse impact on our vehicle platform mix in 2005. In North America, more than half of our major platforms, representing more than 40% of our net sales in the region, are undergoing model changeovers or refreshenings in 2005. Historically, the majority of our sales have been derived from the U.S.-based automotive manufacturers in North America, as well as automotive manufacturers in Western Europe. As discussed below, our ability to increase sales in the future will depend, in part, on our ability to increase our penetration of Asian automotive manufacturers worldwide and leverage our existing North American and European customer base across all product lines.

Our customers require us to reduce costs and, at the same time, assume greater responsibility for the design, development, engineering and integration of interior products. We seek to enhance our profitability by investing in technology, design capabilities and new product initiatives that respond to the needs of our customers and consumers. Our profitability is also dependent on our ability to achieve product cost reductions, including cost reductions from our suppliers. Finally, we continually evaluate alternatives to align our business with the changing needs of our customers and to lower the operating costs of our company. This includes the realignment of our existing manufacturing capacity, facility closures, the repositioning of our product focus and similar actions.

Increases in certain raw material, energy and commodity costs (principally steel, resins and other oil-based commodities) had a material adverse impact on our operating results in 2004 and will continue to have a material adverse affect on our profitability in 2005. We have developed strategies to mitigate or partially offset the impact, which include aggressive cost reduction actions, the utilization of our cost technology optimization process, the selective in-sourcing of components where we have available capacity, the continued consolidation of our supply base and the acceleration of low-cost country sourcing and engineering. In addition, the sharing of increased raw material costs has been, and will continue to be, the subject of negotiations with our customers. While we believe



**LEAR CORPORATION**

that our mitigation strategies would offset a substantial portion of the financial impact of these increased costs, in many cases, the implementation of these strategies requires the approval and the cooperation of our customers. No assurances can be given that the magnitude and duration of these increased costs will not have a continued material adverse impact on our operating results. See “– Forward-Looking Statements.”

In evaluating our financial condition and operating performance, we focus primarily on profitable sales growth and cash flows, as well as return on invested capital on a consolidated basis. In addition to maintaining and expanding our business with our existing customers in our more established markets, we have increased our emphasis on expanding our business in the Asian market and with Asian automotive manufacturers worldwide. The Asian market presents growth opportunities, as automotive manufacturers expand production in this market to meet increasing demand. In addition, we have increased our manufacturing capabilities in Eastern Europe. We have opened new facilities to support growth in the Czech Republic and Slovakia, and we are expanding our low-cost operations in Poland and Romania. We currently have twelve joint ventures in China and several other joint ventures dedicated to serving Asian automotive manufacturers. We will continue to seek ways to expand our business in the Asian market and with Asian automotive manufacturers worldwide.

Our success in generating cash flow will depend, in part, on our ability to efficiently manage working capital. Working capital can be significantly impacted by the timing of cash flows from sales and purchases. In this regard, changes in certain customer payment terms are expected to have a negative impact on our reported cash flows through 2005 but are not expected to have a significant impact on our average daily cash flows. In addition, our cash flow is also dependent on our ability to efficiently manage our capital spending. We utilize return on invested capital as a measure of the efficiency with which assets are deployed to increase earnings. Improvements in our return on invested capital will depend on our ability to maintain an appropriate asset base for our business and to increase productivity and operating efficiency.

For further information related to other factors that have had, or may in the future have, a significant impact on our business, financial condition or results of operations, see “– Forward-Looking Statements” and Item 7, “– Management’s Discussion and Analysis of Financial Condition and Results of Operations – Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2004.

**RESULTS OF OPERATIONS**

A summary of our operating results as a percentage of net sales is shown below (dollar amounts in millions):

	Three months ended			
	April 2, 2005		April 3, 2004	
Net sales				
Seating	\$ 2,748.7	64.1%	\$ 3,007.8	67.0%
Interior	762.8	17.8	817.3	18.2
Electronic and electrical	774.5	18.1	667.0	14.8
Net sales	<u>4,286.0</u>	<u>100.0</u>	<u>4,492.1</u>	<u>100.0</u>
Gross profit	199.9	4.7	346.9	7.7
Selling, general and administrative expenses	151.1	3.5	167.7	3.7
Interest expense	44.8	1.0	39.1	0.9
Other expense, net	6.9	0.2	14.1	0.3
Provision (benefit) for income taxes	(18.5)	(0.4)	34.6	0.8
Net income	<u>\$ 15.6</u>	<u>0.4%</u>	<u>\$ 91.4</u>	<u>2.0%</u>

**Three Months Ended April 2, 2005 vs. Three Months Ended April 3, 2004**

Net sales in the first quarter of 2005 were \$4.3 billion as compared to \$4.5 billion in the first quarter of 2004, a decrease of \$206 million or 4.6%. Less favorable vehicle platform mix and lower production volumes, particularly in North America, negatively impacted net sales by \$490 million and \$219 million, respectively. This decrease was partially offset by new business, net of selling price reductions, the impact of net foreign exchange rate fluctuations and the acquisition of Grote & Hartmann, which increased net sales by \$297 million, \$115 million and \$62 million, respectively.

Gross profit and gross margin were \$200 million and 4.7% in the quarter ended April 2, 2005, as compared to \$347 million and 7.7% in the quarter ended April 3, 2004. The declines in gross profit and gross margin were largely due to less favorable vehicle platform mix and lower production volumes, which negatively impacted gross profit by \$184 million. Gross profit was also negatively affected by the net impact of higher commodity costs, which reduced gross profit by approximately \$33 million, and an

## LEAR CORPORATION

increase in warranty-related expenses. These decreases were partially offset by the benefit from our productivity initiatives and other efficiencies, as well as decreases in compensation-related expenses.

Selling, general and administrative expenses, including research and development, were \$151 million in the three months ended April 2, 2005, as compared to \$168 million in the three months ended April 3, 2004. As a percentage of net sales, selling, general and administrative expenses were 3.5% and 3.7% in the first quarters of 2005 and 2004, respectively. Research and development costs expensed decreased by \$24 million between periods, primarily due to an increase in research and development costs capitalized between periods as discussed below. A decrease in compensation-related expenses also favorably impacted selling, general and administrative expenses. These decreases were partially offset by incremental spending resulting from the acquisition of Grote & Hartmann and the impact of net foreign exchange rate fluctuations.

Research and development costs incurred in connection with the development of new products and manufacturing methods, to the extent not recoverable from the customer, are charged to selling, general and administrative expenses as incurred. Such costs are capitalized when reimbursement is contractually guaranteed by, and fully recoverable from, our customers. For the three months ended April 2, 2005 and April 3, 2004, we capitalized \$75 million and \$57 million, respectively, of such costs.

Interest expense was \$45 million in the first quarter of 2005 as compared to \$39 million in the first quarter of 2004 primarily due to an increase in short-term interest rates.

Other expense, which includes state and local non-income taxes, foreign exchange gains and losses, minority interests in consolidated subsidiaries, equity in net income (loss) of affiliates, gains and losses on the sales of fixed assets and other miscellaneous income and expense, was \$7 million in the first three months of 2005 as compared to \$14 million in the first three months of 2004. This decrease is primarily related to the impact of foreign exchange gains and losses, which favorably impacted other expense by \$8 million between quarters due to the impact of various foreign exchange rate fluctuations on certain net asset and liability balances. Decreases in minority interests in consolidated subsidiaries were largely offset by decreases in equity in net income (loss) of affiliates.

The benefit for income taxes was \$19 million in the quarter ended April 2, 2005, which includes a one-time benefit of \$18 million resulting from a tax law change in Poland. Excluding this one-time item, the benefit from income taxes was \$1 million, representing an effective tax rate of 24.5%, in the first quarter of 2005 as compared to a provision for income taxes of \$35 million, representing an effective tax rate of 27.5%, in the quarter ended April 3, 2004. The decrease in the effective rate is the result of the mix of our earnings by country. Excluding this one-time item, the effective tax rates for the first quarters of 2005 and 2004 approximated the U.S. federal statutory income tax rate of 35% adjusted for income taxes on foreign earnings, losses and remittances, valuation adjustments, research and development credits and other items.

Net income in the first quarter of 2005 was \$16 million, or \$0.23 per diluted share, as compared to \$91 million, or \$1.24 per diluted share, in the first quarter of 2004, for the reasons described above.

### *Reportable Operating Segments*

The financial information presented below is for our three reportable operating segments for the periods presented. These segments are: seating, which includes seat systems and the components thereof; interior, which includes instrument panels and cockpit systems, overhead systems, door panels, flooring and acoustic systems and other interior products; and electronic and electrical, which includes electronic products and electrical distribution systems, primarily wire harnesses and junction boxes; interior control and entertainment systems; and wireless systems. Financial measures regarding each segment's income before interest, other expense and income taxes and income before interest, other expense and income taxes divided by net sales ("margin") are not measures of performance under accounting principles generally accepted in the United States ("GAAP"). Such measures are presented because we evaluate the performance of our reportable operating segments, in part, based on income before interest, other expense and income taxes. These measures should not be considered in isolation or as a substitute for net income, net cash provided by operating activities or other income statement or cash flow statement data prepared in accordance with GAAP or as measures of profitability or liquidity. In addition, these measures, as we determine them, may not be comparable to related or similarly titled measures reported by other companies. For a reconciliation of consolidated income before interest, other expense and income taxes to income before provision for income taxes, see Note 15, "Segment Reporting."

**LEAR CORPORATION**Seating

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

	<b>Three months ended</b>	
	<b>April 2, 2005</b>	<b>April 3, 2004</b>
Net sales	\$ 2,748.7	\$ 3,007.8
Income before interest, other expense and income taxes	50.1	147.6
Margin	1.8%	4.9%

Seating net sales were \$2.7 billion in the first quarter of 2005 as compared to \$3.0 billion in the first quarter of 2004, a decrease of \$259 million or 8.6%. Less favorable vehicle platform mix and lower production volumes, particularly in North America, reduced net sales by \$559 million. This decrease was partially offset by the impact of new business, net of selling price reductions, and net foreign exchange rate fluctuations, which improved net sales by \$208 million and \$82 million, respectively. Income before interest, other expense and income taxes and the related margin on net sales were \$50 million and 1.8% in the first three months of 2005 as compared to \$148 million and 4.9% in the first three months of 2004. The declines in income before interest, other expense and income taxes and the related margin were largely due to less favorable vehicle platform mix and lower production volumes, which, collectively with the favorable impact of new business, negatively impacted income before interest, other expense and income taxes by \$112 million. Income before interest, other expense and income taxes and the related margin were also negatively affected by the net impact of higher commodity costs.

Interior

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

	<b>Three months ended</b>	
	<b>April 2, 2005</b>	<b>April 3, 2004</b>
Net sales	\$ 762.8	\$ 817.3
Income (loss) before interest, other expense and income taxes	(8.4)	28.7
Margin	(1.1)%	3.5%

Interior net sales were \$763 million in the first quarter of 2005 as compared to \$817 million in the first quarter of 2004, a decrease of \$55 million or 6.7%. Less favorable vehicle platform mix and lower production volumes, particularly in North America, reduced net sales by \$121 million. This decrease was partially offset by the impact of new business, net of selling price reductions, and net foreign exchange rate fluctuations, which improved net sales by \$61 million and \$13 million, respectively. Income (loss) before interest, other expense and income taxes and the related margin on net sales were (\$8) million and (1.1)% in the first three months of 2005 as compared to \$29 million and 3.5% in the first three months of 2004. The declines in income (loss) before interest, other expense and income taxes and the related margin were largely due to less favorable vehicle platform mix and lower production volumes, which, collectively with the favorable impact of new business, negatively impacted income (loss) before interest, other expense and income taxes by \$49 million. Income before interest, other expense and income taxes and the related margin were also negatively affected by the net impact of higher commodity costs.

Electronic and Electrical

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

	<b>Three months ended</b>	
	<b>April 2, 2005</b>	<b>April 3, 2004</b>
Net sales	\$ 774.5	\$ 667.0
Income before interest, other expense and income taxes	58.3	59.3
Margin	7.5%	8.9%

Electronic and electrical net sales were \$775 million in the first quarter of 2005 as compared to \$667 million in the first quarter of 2004, an increase of \$108 million or 16.1%. The impact of the acquisition of Grote & Hartmann, new business, net of selling price reductions, and net foreign exchange rate fluctuations improved net sales by \$62 million, \$28 million and \$20 million, respectively.

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These increases were partially offset by the impact of less favorable vehicle platform mix and lower production volumes, which reduced net sales by \$30 million. Income before interest, other expense and income taxes and the related margin on net sales were \$58 million and 7.5% in the first three months of 2005 as compared to \$59 million and 8.9% in the first three months of 2004. Income before interest, other expense and income taxes benefited from the impact of our productivity initiatives and other efficiencies and the acquisition of Grote & Hartmann, which contributed \$10 million and \$3 million, respectively. These increases were offset by the impact of selling price reductions and less favorable vehicle platform mix and lower production volumes. The decline in the related margin was largely due to the impact of selling price reductions, as well as less favorable platform mix and lower production volumes.

### LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs are to fund capital expenditures, service indebtedness and support working capital requirements. Our principal sources of liquidity are cash flows from operating activities and borrowing availability under our credit facility. A substantial portion of our operating income is generated by our subsidiaries. As a result, we are dependent on the earnings and cash flows of and the combination of dividends, distributions and advances from our subsidiaries to provide the funds necessary to meet our obligations. There are no significant restrictions on the ability of our subsidiaries to pay dividends or make other distributions to Lear. For further information regarding potential dividends from our non-U.S. subsidiaries, see Note 8, "Income Taxes," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2004.

#### Cash Flow

Cash flows from operating activities were \$119 million in the first three months of 2005 as compared to \$57 million in the first three months of 2004. A decrease of \$76 million in net income in the current quarter was more than offset by the net change in working capital, including the net change in recoverable customer engineering and tooling, and the net change in sold accounts receivable, which collectively resulted in a \$148 million increase in cash provided by operating activities between periods. Increases in accounts payable and accrued liabilities and other generated cash of \$53 million and \$26 million, respectively, in the first three months of 2005, reflecting the timing of payments made to our suppliers, as well as the timing of payroll-related and other payments.

Cash flows used in investing activities were \$134 million in the first three months of 2005 as compared to \$67 million in the first three months of 2004, primarily reflecting a \$52 million increase in capital expenditures.

Cash flows used in financing activities were \$29 million in the first three months of 2005 as compared to \$12 million in the first three months of 2004. In the current quarter, an increase in cash used to repurchase common stock was partially offset by a decrease in cash used to pay dividends resulting from the timing of dividend payments.

#### Capitalization

In addition to cash provided by operating activities, we utilize a combination of our credit facility and long-term notes to fund our capital expenditures and working capital requirements. As of April 2, 2005 and April 3, 2004, our outstanding debt balance was \$2.5 billion and \$2.1 billion, respectively. For the three months ended April 2, 2005 and April 3, 2004, the weighted average interest rate, including rates under our credit facility and the effect of hedging activities, was 6.9% and 5.9%, respectively.

We utilize uncommitted lines of credit as needed for our short-term working capital fluctuations. As of April 2, 2005 and April 3, 2004, our outstanding unsecured short-term debt balance was \$40 million and \$9 million, respectively. For the three months ended April 2, 2005 and April 3, 2004, the weighted average interest rate, including the effect of hedging activities, was 3.4% and 2.7%, respectively.

#### Primary Credit Facility

On March 23, 2005, we entered into a \$1.7 billion credit and guarantee agreement (the "primary credit facility"), which matures on March 23, 2010. The primary credit facility replaced our existing \$1.7 billion amended and restated credit facility, which was due to mature on March 26, 2006 and which was terminated on March 23, 2005. As of April 2, 2005, we had no borrowings outstanding under our primary credit facility and \$58 million committed under outstanding letters of credit, resulting in more than \$1.6 billion of unused availability.

The primary credit facility is an unsecured facility, with obligations thereunder guaranteed by certain of our subsidiaries that also guarantee the obligations under our outstanding senior notes. The guarantees may be released at our option. We have not sought to release the guarantees at this time. The primary credit facility provides for maximum borrowing commitments of \$1.7 billion, which may be increased to \$2.5 billion by us under certain circumstances. The primary credit facility provides for multicurrency borrowings in a maximum aggregate amount of \$750 million, Canadian borrowings in a maximum aggregate amount of \$200 million and swing-line borrowings in a maximum aggregate amount of \$300 million, the commitments for which are part of the aggregate credit facility commitment.

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The primary credit facility contains operating and financial covenants that, among other things, could limit our ability to obtain additional sources of capital. The principal financial covenants require that we maintain a leverage ratio of not more than 3.25 to 1 and an interest coverage ratio of not less than 3.5 to 1 (as such ratios are defined in the primary credit facility). As of April 2, 2005, we were in compliance with all covenants and other requirements set forth in our primary credit facility. Our leverage and interest coverage ratios were 1.9 to 1 and 6.4 to 1, respectively. These ratios are calculated on a trailing four quarter basis. As a result, any decline in our future operating results will negatively impact our coverage ratios. See “– Other Matters – Outlook.”

### *Senior Notes*

As of April 2, 2005, we had \$2.5 billion of debt outstanding, including short-term borrowings, consisting primarily of \$399 million aggregate principal amount of senior notes due August 2014, \$290 million accreted value of zero-coupon senior notes due February 2022, Euro 250 million (approximately \$323 million based on the exchange rate in effect as of April 2, 2005) aggregate principal amount of senior notes due April 2008, \$600 million aggregate principal amount of senior notes due May 2005 and \$800 million aggregate principal amount of senior notes due May 2009. We intend to repay the \$600 million senior notes due in May 2005 at maturity with excess cash and borrowings under the primary credit facility.

On August 3, 2004, we issued \$400 million aggregate principal amount of unsecured 5.75% senior notes due August 2014. The offering of the notes was not registered under the Securities Act of 1933, as amended (the “Securities Act”). On April 6, 2005, we completed an exchange offer of the notes for substantially identical notes registered under the Securities Act.

All of our senior notes contain covenants restricting our ability to incur liens and to enter into sale and leaseback transactions and restricting our ability to consolidate with, to merge with or into or to sell or otherwise dispose of all or substantially all of our assets to any person. As of April 2, 2005, we were in compliance with all covenants and other requirements set forth in our senior notes.

All of our senior notes are guaranteed by the same subsidiaries that guarantee the primary credit facility. In the event that any such subsidiary ceases to be a guarantor under the primary credit facility, such subsidiary will be released as a guarantor of the senior notes.

Scheduled cash interest payments on our outstanding senior notes are \$114 million in the last nine months of 2005.

### *Off-Balance Sheet Arrangements*

#### Asset-Backed Securitization Facility

We have an asset-backed securitization facility (the “ABS facility”) in place which provides for maximum purchases of adjusted accounts receivable of \$150 million. Although we utilized the ABS facility throughout 2005 and 2004, as of April 2, 2005 and December 31, 2004, there were no accounts receivable sold under the facility. The level of funding utilized under this facility is based on the credit ratings of our major customers, the level of aggregate accounts receivable in a specific month and our funding requirements. Should our major customers experience further reductions in their credit ratings, we may be unable to utilize the ABS facility in the future. Should this occur, we would utilize our credit facility to replace the funding currently provided by the ABS facility.

#### Guarantees and Commitments

We guarantee the residual value of certain of our leased assets. As of April 2, 2005, these guarantees totaled \$27 million. In addition, we guarantee certain of the debt of some of our unconsolidated affiliates. The percentages of debt guaranteed of these entities are based on our ownership percentages. As of April 2, 2005, the aggregate amount of debt guaranteed was approximately \$14 million.

### *Accounts Receivable Factoring*

Certain of our European and Asian subsidiaries periodically factor their accounts receivable with financial institutions. Such receivables are factored without recourse to us and are excluded from accounts receivable in our consolidated balance sheets. As of April 2, 2005 and December 31, 2004, there were no factored accounts receivable. We cannot provide any assurances that these factoring facilities will be available or utilized in the future.

### *Credit Ratings*

The credit ratings below are not recommendations to buy, sell or hold our securities and are subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

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The credit ratings of our senior unsecured debt as of April 2, 2005, are shown below. All such ratings are “investment grade.”

	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings
Credit rating of senior unsecured debt	BBB-	Baa3	BBB-
Ratings outlook	Negative	Negative	Stable

In April 2005, Standard & Poor's Ratings Services and Moody's Investors Service moved their ratings outlook from stable to negative.

**Dividends**

A summary of 2005 dividend activity is shown below:

<u>Dividend Amount</u>	<u>Declaration Date</u>	<u>Record Date</u>	<u>Payment Date</u>
\$0.25 per share	January 13, 2005	February 25, 2005	March 14, 2005

We expect to pay quarterly cash dividends in the future, although such payment is dependent upon our financial condition, results of operations, capital requirements, alternative uses of capital and other factors. See “– Forward-Looking Statements.”

**Common Stock Repurchase Program**

In November 2004, our Board of Directors approved a common stock repurchase program which permits the discretionary repurchase of up to 5,000,000 shares of our common stock through November 15, 2006. During the first three months of 2005, we repurchased 490,900 shares of our outstanding common stock at an average purchase price of \$51.72 per share, excluding commissions of \$0.03 per share. As of April 2, 2005, 4,509,100 shares of common were available for repurchase under the common stock repurchase program. The extent to which we will repurchase our common stock and the timing of such repurchases will depend upon prevailing market conditions, alternative uses of capital and other factors. See “– Forward-Looking Statements.”

**Adequacy of Liquidity Sources**

We believe that cash flows from operations and availability under our credit facility will be sufficient to meet our long-term debt maturities, projected capital expenditures and anticipated working capital requirements for the foreseeable future. However, our cash flows from operations, borrowing availability and overall liquidity are subject to risks and uncertainties. Please see “– Executive Overview,” “– Forward-Looking Statements” and Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2004.

**Market Rate Sensitivity**

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

**Foreign Exchange**

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

Our most significant foreign currency transactional exposures relate to the Mexican peso, the Canadian dollar and the Euro. We have performed a quantitative analysis of our overall currency rate exposure as of April 2, 2005. The potential earnings benefit related to transactional exposures from a hypothetical 10% strengthening of the U.S. dollar relative to all other currencies for a twelve-month period is approximately \$5 million. The potential earnings exposure related to transactional exposures from a similar strengthening of the Euro relative to all other currencies for a twelve-month period is approximately \$7 million.

As of April 2, 2005, foreign exchange contracts representing \$1.6 billion of notional amount were outstanding with maturities of less than nine months. As of April 2, 2005, the fair market value of these foreign exchange contracts was approximately \$1 million. A

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10% change in the value of the U.S. dollar relative to all other currencies would result in a \$1 million change in the aggregated fair market value of these contracts. A 10% change in the value of the Euro relative to all other currencies would result in a \$8 million change in the aggregated fair market value of these contracts.

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

In addition to the transactional exposure described above, our operating results are impacted by the translation of our foreign operating income into U.S. dollars ("translation exposure"). We do not enter into foreign currency contracts to mitigate this exposure.

### *Interest Rates*

We use a combination of fixed and variable rate debt and interest rate swap contracts to manage our exposure to interest rate movements. Our exposure to variable interest rates on outstanding variable rate debt instruments indexed to United States or European Monetary Union short-term money market rates is partially managed by the use of interest rate swap contracts to convert certain variable rate debt obligations to fixed rate, matching effective and maturity dates to specific debt instruments. We also utilize interest rate swap contracts to convert certain fixed rate debt obligations to variable rate, matching effective and maturity dates to specific debt instruments. All of our interest rate swap contracts are executed with banks that we believe are creditworthy and are denominated in currencies that match the underlying debt instrument. Net interest payments or receipts from interest rate swap contracts are recorded as adjustments to interest expense in our consolidated statements of income on an accrual basis. As of April 2, 2005, there were no contracts outstanding which convert variable rate debt obligations to fixed rate, only contracts which convert fixed rate debt obligations to variable rate.

We have performed a quantitative analysis of our overall interest rate exposure as of April 2, 2005. This analysis assumes an instantaneous 100 basis point parallel shift in interest rates at all points of the yield curve. The potential earnings exposure from this hypothetical increase for a twelve-month period is approximately \$7 million.

As of April 2, 2005, interest rate swap contracts representing \$600 million of notional amount were outstanding with maturity dates of May 2005 through May 2009. All of these contracts are designated as fair value hedges and modify the fixed rate characteristics of our outstanding long-term debt instruments. The fair market value of all outstanding interest rate swap contracts is subject to changes in value due to changes in interest rates. As of April 2, 2005, the fair market value of these contracts was approximately negative \$17 million. A 100 basis point parallel shift in interest rates would result in a \$14 million change in the aggregated fair market value of these contracts.

### *Commodity Prices*

We have commodity price risk with respect to purchases of certain raw materials, including steel, leather, resins and diesel fuel. In limited circumstances, we have used financial instruments to mitigate this risk. Increases in certain raw material, energy and commodity costs (principally steel, resins and other oil-based commodities) had a material adverse impact on our operating results in 2004 and will continue to have a material adverse affect on our profitability in 2005. We have developed strategies to mitigate or partially offset the impact, which include aggressive cost reduction actions, the utilization of our cost technology optimization process, the selective in-sourcing of components where we have available capacity, the continued consolidation of our supply base and the acceleration of low-cost country sourcing and engineering. In addition, the sharing of increased raw material costs has been, and will continue to be, the subject of negotiations with our customers. While we believe that our mitigation strategies would offset a substantial portion of the financial impact of these increased costs, in many cases, the implementation of these strategies requires the approval and the cooperation of our customers. No assurances can be given that the magnitude and duration of these increased costs will not have a material adverse impact on our operating results. See "- Forward-Looking Statements" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2004.

## **OTHER MATTERS**

### **Legal and Environmental Matters**

We are involved from time to time in certain legal proceedings and claims, including, without limitation, commercial or contractual disputes.

On January 29, 2002, Seton Company, one of our leather suppliers, filed a suit alleging that we had breached a purported agreement to purchase leather from Seton for seats for the life of the General Motors GMT 800 program. This suit presently is

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pending in the U.S. District Court for the Eastern District of Michigan. Seton seeks compensatory and exemplary damages on breach of contract and promissory estoppel claims and has submitted a revised report now alleging up to \$97 million in damages plus interest. We will challenge several of the assumptions and bases for this revised report. We continue to believe that we have meritorious defenses to Seton's liability and damages claims and intend to vigorously defend this lawsuit. The trial is expected to begin in May 2005.

We are 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 the costs of cleaning up certain damages resulting from past spills, disposals or other releases of hazardous wastes and environmental compliance. Our policy is to comply with all applicable environmental laws and to maintain an environmental management program based on ISO 14001 to ensure compliance. However, we currently are, have been and in the future may become the subject of formal or informal enforcement actions or procedures.

We have been named as a potentially responsible party at several third-party landfill sites and are engaged in the cleanup of hazardous waste at certain sites owned, leased or operated by us, including several properties acquired in our 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. We obtained agreements and indemnities with respect to certain environmental liabilities from United Technologies Corporation ("UTC") in connection with our acquisition of UT Automotive. UTC manages and directly funds these environmental liabilities pursuant to its agreements and indemnities with us.

While we do not believe that the environmental liabilities associated with our current and former properties will have a material adverse effect on our business, consolidated financial position or results of operations, no assurances can be given in this regard.

In January 2004, the Securities and Exchange Commission (the "SEC") commenced an informal inquiry into our September 2002 amendment of our 2001 Form 10-K. The amendment was filed to report our employment of relatives of certain of our directors and officers and certain related party transactions. The SEC's inquiry does not relate to our financial statements. In February 2005, the staff of the SEC informed us that it proposed to recommend to the SEC that it issue an administrative "cease and desist" order as a result of our failure to disclose the related party transactions in question prior to the amendment of our 2001 Form 10-K. We expect to consent to the entry of the order as part of a settlement of this matter.

For further information related to legal and environmental matters, see Part II – Item 1, "Legal Proceedings."

### **Certain Tax Matters**

#### *UT Automotive*

Prior to our acquisition of UT Automotive from UTC in May 1999, a subsidiary of Lear purchased the stock of a UT Automotive subsidiary. In connection with the acquisition, we agreed to indemnify UTC for certain tax consequences if the Internal Revenue Service (the "IRS") overturned UTC's tax treatment of the transaction. The IRS has proposed an adjustment to UTC's tax treatment of the transaction seeking an increase in tax of approximately \$88 million, excluding interest. A protest objecting to the proposed adjustment has been filed with the IRS. An indemnity payment by us to UTC for the ultimate amount due to the IRS would constitute an adjustment to the purchase price and resulting goodwill of the UT Automotive acquisition, if and when made, and would not be expected to have a material effect on our reported earnings. We believe that valid support exists for UTC's tax positions and intend to vigorously contest the IRS's proposed adjustment. However, the ultimate outcome of this matter is not certain.

#### *American Jobs Creation Act of 2004*

In October 2004, the American Jobs Creation Act of 2004 ("the Act") was signed into law. The Act creates a temporary incentive for U.S. corporations to repatriate earnings from foreign subsidiaries by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations to the extent the dividends exceed a base amount and are invested in the United States pursuant to a domestic reinvestment plan. The temporary incentive is available to us in 2005. The amount of our dividends potentially eligible for the deduction is limited to \$500 million.

The deduction is subject to a number of limitations and uncertainty remains as to the interpretation of numerous provisions in the Act. The U.S. Treasury Department is in the process of providing clarifying guidance on key elements of the repatriation provision, and Congress may reintroduce legislation that provides for certain technical corrections to the Act. We have not completed our evaluation of the repatriation provision due to the uncertainty associated with the interpretation of the provision, as well as numerous tax, legal, treasury and business considerations. We expect to complete our evaluation of the potential dividends we may pursue, if any, and the related tax ramifications after additional guidance is issued.



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### Significant Accounting Policies and Critical Accounting Estimates

Certain of our accounting policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are subject to an inherent degree of uncertainty. These estimates and assumptions are based on our historical experience, terms of existing contracts, our evaluation of trends in the industry, information provided by our customers and suppliers and information available from other outside sources, as appropriate. Actual results in these areas could differ from our estimates. For a discussion of our significant accounting policies and critical accounting estimates, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Significant Accounting Policies and Critical Accounting Estimates,” and Note 2, “Summary of Significant Accounting Policies,” to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2004. There have been no significant changes in our significant accounting policies or critical accounting estimates during the first three months of 2005.

#### *Goodwill and Long-Lived Assets*

We monitor our goodwill and long-lived assets for impairment indicators on an ongoing basis. We perform our annual goodwill impairment analysis, as required by Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets,” on the first business day of our fourth quarter. While we have recently experienced a decrease in our operating results, we do not currently believe that there are impairment indicators of our goodwill or long-lived assets. However, a further decline in our operating results or the realignment of our business could result in an impairment charge.

### Recently Issued Accounting Pronouncements

#### *Inventory Costs*

The Financial Accounting Standards Board (“FASB”) issued SFAS No. 151, “Inventory Costs – an amendment of ARB No. 43, Chapter 4.” This statement clarifies the requirement that abnormal inventory-related costs be recognized as current-period charges and requires that the allocation of fixed production overheads to inventory conversion costs be based on the normal capacity of the production facilities. The provisions of this statement are to be applied prospectively to inventory costs incurred during fiscal years beginning after June 15, 2005. We do not expect the effects of adoption to be significant.

#### *Nonmonetary Assets*

The FASB issued SFAS No. 153, “Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29.” APB Opinion No. 29, in general, requires the use of fair value as the measurement basis for exchanges of nonmonetary assets. This statement eliminates the exception to the fair value measurement principle for nonmonetary exchanges of similar productive assets and replaces it with a general exception for nonmonetary asset exchanges that lack commercial substance. The provisions of this statement are to be applied prospectively to nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not expect the effects of adoption to be significant.

#### *Stock-Based Compensation*

The FASB issued a revised SFAS No. 123, “Share-Based Payment.” This statement requires that all share-based payments to employees be recognized in the financial statements based on their grant-date fair value. Under previous guidance, companies had the option of recognizing the fair value of stock-based compensation in the consolidated financial statements or disclosing the proforma impact of stock-based compensation on the consolidated statement of income in the notes to the consolidated financial statements. As described in Note 2, “Summary of Significant Accounting Policies,” we adopted the fair value recognition provisions of SFAS No. 123 for all employee awards issued after January 1, 2003. The revised statement is effective at the beginning of the first annual period beginning after December 15, 2005, and provides two methods of adoption, the modified-prospective method and the modified-retrospective method. We anticipate adopting the revised statement using the modified-prospective method. We are currently evaluating the provisions of the revised statement but do not expect the impact of adoption to be significant.

### Outlook

For the second quarter of 2005, net sales are expected to be approximately \$4.5 billion, reflecting primarily the addition of new business globally and the favorable impact of net foreign exchange rate fluctuations, partially offset by less favorable vehicle platform mix. Net income per share is expected to be in the range of \$0.20 to \$0.40.

For the full year of 2005, net sales are expected to be \$17.5 to \$17.7 billion, reflecting primarily the addition of new business globally. Our 2005 industry production planning assumptions are 15.5 to 15.8 million units in North America and 18.3 to 18.6 million units in Europe. Given this industry outlook and a forecasted tax rate of about 25% (excluding the first-quarter tax benefit), net income per share is expected to be in the range of \$2.75 to \$3.25, including the first-quarter tax benefit. Full-year capital spending is

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now forecasted to be approximately \$550 million. See “– Forward-Looking Statements” below for a description of factors that could impact actual operating results.

The second-quarter and full-year 2005 net income per share guidance is based on an assumed 68 million and 73 million shares outstanding, respectively. The full-year assumed shares include 4.8 million shares related to the outstanding zero-coupon convertible debt. The second-quarter assumed shares exclude such shares as they would be antidilutive based on the guidance range.

The outlook provided reflects the information, including anticipated production schedules, available as of the date of this Report. Uncertainty regarding the 2005 outlook remains, particularly with respect to vehicle platform mix and production volumes, as well as our ability to mitigate the impact of higher raw material costs. For a description of certain other factors that may cause our actual result to differ from those expressed in the foregoing forward-looking statements, see “– Forward-Looking Statements,” “– Executive Overview” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2004.

### FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. The words “will,” “may,” “designed to,” “outlook,” “believes,” “should,” “anticipates,” “plans,” “expects,” “intends,” “estimates” and similar expressions identify these forward-looking statements. All statements contained or incorporated in this Report which address operating performance, events or developments that we expect or anticipate may occur in the future, including statements related to business opportunities, awarded sales contracts and net income per share or statements expressing views about future operating results, are forward-looking statements. Important factors, risks and uncertainties that may cause actual results to differ from those expressed in our forward-looking statements include, but are not limited to:

- general economic conditions in the markets in which we operate;
- fluctuations in the production of vehicles for which we are a supplier;
- labor disputes involving us or our significant customers or suppliers or that otherwise affect us;
- our ability to achieve cost reductions that offset or exceed customer-mandated selling price reductions;
- the outcome of customer productivity negotiations;
- the impact and timing of program launch costs;
- the costs and timing of facility closures, business realignment or similar actions;
- increases in our warranty or product liability costs;
- risks associated with conducting business in foreign countries;
- competitive conditions impacting our key customers;
- raw material cost and availability;
- our ability to mitigate the significant impact of recent increases in raw material, energy and commodity costs;
- the outcome of legal or regulatory proceedings to which we are or may become a party;
- unanticipated changes in cash flow; and
- other risks, described from time to time in our other SEC filings.

We do not assume any obligation to update any of these forward-looking statements.

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**ITEM 4 – CONTROLS AND PROCEDURES**

(a) Disclosure Controls and Procedures

The Company has evaluated, under the supervision and with the participation of the Company's management, including the Company's Chairman 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. 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. However, based on that evaluation, the Company's Chairman 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 as of the end of the period covered by this Report.

(b) Changes in Internal Controls over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter ended April 2, 2005, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II – OTHER INFORMATION**

**ITEM 1 – LEGAL PROCEEDINGS**

**Commercial Disputes**

We are involved from time to time in legal proceedings and claims relating to commercial or contractual disputes, including disputes with our suppliers. We will continue to vigorously defend ourselves against these claims. Based on present information, including our assessment of the merits of the particular claims, we do not expect that these legal proceedings or claims, either individually or in the aggregate, will have a material adverse effect on our business, consolidated financial position or results of operations, although the outcomes of these matters are inherently uncertain.

On January 29, 2002, Seton Company, one of our leather suppliers, filed a suit alleging that we had breached a purported agreement to purchase leather from Seton for seats for the life of the General Motors GMT 800 program. This suit presently is pending in the U.S. District Court for the Eastern District of Michigan. Seton seeks compensatory and exemplary damages on breach of contract and promissory estoppel claims and has submitted a revised report now alleging up to \$97 million in damages plus interest. We will challenge several of the assumptions and bases for this revised report. We continue to believe that we have meritorious defenses to Seton's liability and damages claims and intend to vigorously defend this lawsuit. The trial is expected to begin in May 2005.

**Product Liability Matters**

In the event that use of our products results in, or is alleged to result in, bodily injury and/or property damage or other losses, we may be subject to product liability lawsuits and other claims. In addition, we are a party to warranty-sharing and other agreements with our customers relating to our products. These customers may pursue claims against us for contribution of all or a portion of the amounts sought in connection with product liability and warranty claims. We can provide no assurances that we will not experience material claims in the future or that we will not incur significant costs to defend such claims. In addition, if any of our products are, or are alleged to be, defective, we may be required or requested by our customers to participate in a recall or other corrective action involving such products. Certain of our customers have asserted claims against us for costs related to recalls involving our products. In certain instances, the allegedly defective products were supplied by tier II suppliers against whom we have sought or will seek contribution. We carry insurance for certain legal matters, including product liability claims, but such coverage may be limited. We do not maintain insurance for recall matters.

**Environmental Matters**

We are 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 the costs of cleaning up certain damages resulting from past spills, disposals or other releases of hazardous wastes and environmental compliance. Our policy is to comply with all applicable environmental laws and to maintain an environmental management program based on ISO 14001 to ensure compliance. However, we currently are, have been and in the future may become the subject of formal or informal enforcement actions or procedures.

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We have been named as a potentially responsible party at several third-party landfill sites and are engaged in the cleanup of hazardous waste at certain sites owned, leased or operated by us, including several properties acquired in our 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. We obtained agreements and indemnities with respect to certain environmental liabilities from United Technologies Corporation (“UTC”) in connection with our acquisition of UT Automotive. UTC manages and directly funds these environmental liabilities pursuant to its agreements and indemnities with us.

While we do not believe that the environmental liabilities associated with our current and former properties will have a material adverse effect on our business, consolidated financial position or results of operations, no assurances can be given in this regard.

One of our subsidiaries and certain predecessor companies were named as defendants in an action filed by three plaintiffs in August 2001 in the Circuit Court of Lowndes County, Mississippi, asserting claims stemming from alleged environmental contamination caused by an automobile parts manufacturing plant located in Columbus, Mississippi. The plant was acquired by us as part of the UT Automotive acquisition in May 1999 and sold almost immediately thereafter, in June 1999, to Johnson Electric Holdings Limited (“Johnson Electric”). In December 2002, 61 additional cases were filed by approximately 1,000 plaintiffs in the same court against us and other defendants relating to similar claims. In September 2003, we were dismissed as a party to these cases. In the first half of 2004, we were named again as a defendant in these same 61 additional cases and were also named in five new actions filed by approximately 150 individual plaintiffs related to alleged environmental contamination from the same facility. The plaintiffs in these actions are persons who allegedly were either residents and/or owned property near the facility or worked at the facility. In November 2004, two additional lawsuits were filed by 28 plaintiffs (individuals and organizations), alleging property damage as a result of the alleged contamination. Each of these complaints seeks compensatory and punitive damages.

Most of the original plaintiffs have filed motions to dismiss their claims for health effects and personal injury damages; therefore, approximately three-fourths of the plaintiffs should be voluntarily dismissed from these lawsuits. Upon the completion of these dismissals, we anticipate that there will be approximately 300 plaintiffs remaining in the lawsuits to proceed with property damage claims only. There is the potential that the dismissed plaintiffs could seek separate counsel to re-file their personal injury claims. In March 2005, the venue for these lawsuits was transferred from Lowndes County, Mississippi, to Lafayette County, Mississippi. In April 2005, certain plaintiffs filed an amended complaint alleging negligence, nuisance, intentional tort and conspiracy claims and seeking compensatory and punitive damages. In late April 2005, the court scheduled the first trial date for the initial plaintiffs to commence in March 2006.

To date, there has been limited discovery in these cases and the probability of liability and the amount of damages in the event of liability are unknown. UTC, the former owner of UT Automotive, and Johnson Electric have each sought indemnification from us under the respective acquisition agreements, and we have claimed indemnification from them under the same agreements. To date, no company admits to, or has been found to have, an obligation to fully defend and indemnify any other. We intend to vigorously defend against these claims and believe that we will eventually be indemnified by either UTC or Johnson Electric for resulting losses, if any.

### Other Matters

In January 2004, the Securities and Exchange Commission (the “SEC”) commenced an informal inquiry into our September 2002 amendment of our 2001 Form 10-K. The amendment was filed to report our employment of relatives of certain of our directors and officers and certain related party transactions. The SEC’s inquiry does not relate to our financial statements. In February 2005, the staff of the SEC informed us that it proposed to recommend to the SEC that it issue an administrative “cease and desist” order as a result of our failure to disclose the related party transactions in question prior to the amendment of our 2001 Form 10-K. We expect to consent to the entry of the order as part of a settlement of this matter.

Prior to our acquisition of UT Automotive from UTC in May 1999, a subsidiary of Lear purchased the stock of a UT Automotive subsidiary. In connection with the acquisition, we agreed to indemnify UTC for certain tax consequences if the Internal Revenue Service (the “IRS”) overturned UTC’s tax treatment of the transaction. The IRS has proposed an adjustment to UTC’s tax treatment of the transaction seeking an increase in tax of approximately \$88 million, excluding interest. A protest objecting to the proposed adjustment has been filed with the IRS. An indemnity payment by us to UTC for the ultimate amount due to the IRS would constitute an adjustment to the purchase price and resulting goodwill of the UT Automotive acquisition, if and when made, and would not be expected to have a material effect on our reported earnings. We believe that valid support exists for UTC’s tax positions and intend to vigorously contest the IRS’s proposed adjustment. However, the ultimate outcome of this matter is not certain.

We are involved in certain other legal actions and claims arising in the ordinary course of business, including, without limitation, intellectual property matters, personal injury claims, tax claims and employment matters. Although the outcome of any legal matter

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cannot be predicted with certainty, we do not believe that any of these other legal proceedings or matters in which we are currently involved, either individually or in the aggregate, will have a material adverse effect on our business, consolidated financial position or results of operations. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Factors – We are involved from time to time in legal proceedings and commercial or contractual disputes, which could have an adverse impact on our profitability and consolidated financial position" in our Annual Report on Form 10-K for the year ended December 31, 2004.

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

As discussed in Part I – Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources – Capitalization – Common Stock Repurchase Program," on November 11, 2004, the Board of Directors approved a new common stock repurchase program which replaced our prior program, as disclosed in our Current Report on Form 8-K dated November 11, 2004. A summary of the shares of our common stock repurchased during the quarter ended April 2, 2005, is shown below:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet be Purchased Under the Program</u>
January 1, 2005 through January 29, 2005	—	N/A	—	5,000,000
January 30, 2005 through February 26, 2005	380,900	\$ 53.59*	380,900	4,619,100
February 27, 2005 through April 2, 2005	110,000	\$ 45.23*	110,000	4,509,100
Total	<u>490,900</u>	<u>\$ 51.72</u>	<u>490,900</u>	<u>4,509,100</u>

\* Excludes commissions of \$0.03 per share.

**ITEM 6 – EXHIBITS**

The exhibits listed on the "Index to Exhibits" on page 38 are filed with this Form 10-Q or incorporated by reference as set forth below.

**LEAR CORPORATION**

**SIGNATURES**

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

LEAR CORPORATION

Dated: May 2, 2005

By: /s/ Robert E. Rossiter

Robert E. Rossiter  
President and Chief Executive Officer

By: /s/ David C. Wajsgras

David C. Wajsgras  
Senior Vice President and Chief Financial Officer

By: /s/ James L. Murawski

James L. Murawski  
Vice President and Corporate Controller

LEAR CORPORATION

INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Exhibit</u>
10.1	Credit and Guarantee Agreement, dated as of March 23, 2005, among Lear Corporation, Lear Canada, each Foreign Subsidiary Borrower (as defined therein), the Lenders party thereto, Bank of America, N.A., as syndication agent, Citibank, N.A. and Deutsche Bank Securities Inc., as documentation agents, The Bank of Nova Scotia, as documentation agent and Canadian administrative agent, the other Agents named therein and JPMorgan Chase Bank, N.A., as general administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 23, 2005).
10.2	Lear Corporation Annual Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 10, 2005).
10.3	Form of Performance Share Award Agreement for the three-year period ending December 31, 2007 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated February 10, 2005).
10.4	Employment Agreement, dated March 15, 2005, between Lear Corporation and Robert E. Rossiter (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 15, 2005).
10.5	Employment Agreement, dated March 15, 2005, between Lear Corporation and James H. Vandenberghe (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated March 15, 2005).
10.6	Employment Agreement, dated March 15, 2005, between Lear Corporation and Douglas G. DelGrosso (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated March 15, 2005).
10.7	Employment Agreement, dated March 15, 2005, between Lear Corporation and Donald J. Stebbins (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated March 15, 2005).
10.8	Employment Agreement, dated March 15, 2005, between Lear Corporation and David C. Wajsgas (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K dated March 15, 2005).
10.9	Employment Agreement, dated March 15, 2005, between Lear Corporation and Daniel A. Ninivaggi (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K dated March 15, 2005).
10.10	Employment Agreement, dated March 15, 2005, between Lear Corporation and Roger A. Jackson (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K dated March 15, 2005).
* 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.

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\* Filed herewith.

## CERTIFICATION

I, Robert E. Rossiter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lear Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2005

By: /s/ Robert E. Rossiter

Robert E. Rossiter  
Chairman and Chief Executive Officer



## CERTIFICATION

I, David C. Wajsgras, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lear Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2005

By: /s/ David C. Wajsgras  
David C. Wajsgras  
Senior Vice President and Chief Financial Officer

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

In connection with the Quarterly Report of Lear Corporation (the "Company") on Form 10-Q for the period ended April 2, 2005, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, as the Chief Executive Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 2, 2005

Signed: /s/ Robert E. Rossiter

Robert E. Rossiter  
Chief Executive Officer

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

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

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

In connection with the Quarterly Report of Lear Corporation (the "Company") on Form 10-Q for the period ended April 2, 2005, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, as the Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 2, 2005

Signed: /s/ David C. Wajsgras

David C. Wajsgras  
Chief Financial Officer

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

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