

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 **September 29, 2007**.

**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)

**48033**

(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 a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of November 2, 2007, the number of shares outstanding of the registrant's common stock was 77,094,050 shares.

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LEAR CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 29, 2007

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**LEAR CORPORATION**

**PART I — FINANCIAL INFORMATION**

**ITEM 1 — CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**INTRODUCTION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

We have prepared the condensed consolidated financial statements of Lear Corporation and subsidiaries, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. We believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, for the year ended December 31, 2006.

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

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

	September 29, 2007	December 31, 2006
	(Unaudited)	
<b>ASSETS</b>		
<i>CURRENT ASSETS:</i>		
Cash and cash equivalents	\$ 602.0	\$ 502.7
Accounts receivable	2,439.3	2,006.9
Inventories	635.1	581.5
Current assets of business held for sale	—	427.8
Other	329.1	371.4
	<hr/>	<hr/>
Total current assets	4,005.5	3,890.3
	<hr/>	<hr/>
<i>LONG-TERM ASSETS:</i>		
Property, plant and equipment, net	1,367.6	1,471.7
Goodwill, net	2,039.0	1,996.7
Other	532.6	491.8
	<hr/>	<hr/>
Total long-term assets	3,939.2	3,960.2
	<hr/>	<hr/>
	\$ 7,944.7	\$ 7,850.5
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<i>CURRENT LIABILITIES:</i>		
Short-term borrowings	\$ 12.2	\$ 39.3
Accounts payable and drafts	2,469.8	2,317.4
Accrued liabilities	1,251.5	1,099.3
Current liabilities of business held for sale	—	405.7
Current portion of long-term debt	103.6	25.6
	<hr/>	<hr/>
Total current liabilities	3,837.1	3,887.3
	<hr/>	<hr/>
<i>LONG-TERM LIABILITIES:</i>		
Long-term debt	2,351.6	2,434.5
Long-term liabilities of business held for sale	—	48.5
Other	823.3	878.2
	<hr/>	<hr/>
Total long-term liabilities	3,174.9	3,361.2
	<hr/>	<hr/>
<i>STOCKHOLDERS' EQUITY:</i>		
Common stock, \$0.01 par value, 150,000,000 shares authorized, 82,547,151 shares and 81,984,306 shares issued as of September 29, 2007 and December 31, 2006, respectively	0.8	0.7
Additional paid-in capital	1,381.5	1,338.1
Common stock held in treasury, 5,453,662 shares as of September 29, 2007 and 5,732,316 shares as of December 31, 2006, at cost	(199.9)	(210.2)
Retained deficit	(143.5)	(362.5)
Accumulated other comprehensive loss	(106.2)	(164.1)
	<hr/>	<hr/>
Total stockholders' equity	932.7	602.0
	<hr/>	<hr/>
	\$ 7,944.7	\$ 7,850.5
	<hr/>	<hr/>

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

LEAR CORPORATION AND SUBSIDIARIES

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

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Net sales	\$ 3,574.6	\$ 4,069.7	\$ 12,136.0	\$ 13,558.4
Cost of sales	3,307.3	3,882.9	11,220.2	12,868.3
Selling, general and administrative expenses	159.3	158.0	428.6	493.9
Goodwill impairment charge	—	—	—	2.9
Divestiture of Interior business	(17.1)	28.7	7.8	28.7
Interest expense	47.5	56.6	150.3	157.5
Other expense, net	17.5	9.4	42.8	26.7
Income (loss) before provision for income taxes and cumulative effect of a change in accounting principle	60.1	(65.9)	286.3	(19.6)
Provision for income taxes	19.1	8.1	71.8	45.8
Income (loss) before cumulative effect of a change in accounting principle	41.0	(74.0)	214.5	(65.4)
Cumulative effect of a change in accounting principle	—	—	—	2.9
Net income (loss)	\$ 41.0	\$ (74.0)	\$ 214.5	\$ (62.5)
Basic net income (loss) per share:				
Income (loss) before cumulative effect of a change in accounting principle	\$ 0.53	\$ (1.10)	\$ 2.80	\$ (0.97)
Cumulative effect of a change in accounting principle	—	—	—	0.04
Basic net income (loss) per share	\$ 0.53	\$ (1.10)	\$ 2.80	\$ (0.93)
Diluted net income (loss) per share:				
Income (loss) before cumulative effect of a change in accounting principle	\$ 0.52	\$ (1.10)	\$ 2.74	\$ (0.97)
Cumulative effect of a change in accounting principle	—	—	—	0.04
Diluted net income (loss) per share	\$ 0.52	\$ (1.10)	\$ 2.74	\$ (0.93)

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

LEAR CORPORATION AND SUBSIDIARIES

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

	Nine Months Ended	
	September 29, 2007	September 30, 2006
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$ 214.5	\$ (62.5)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Cumulative effect of a change in accounting principle	—	(2.9)
Divestiture of Interior business	7.8	28.7
Depreciation and amortization	220.9	299.4
Net change in recoverable customer engineering and tooling	23.6	123.4
Net change in working capital items	(89.7)	(272.4)
Net change in sold accounts receivable	(67.3)	(23.7)
Other, net	(0.3)	16.1
Net cash provided by operating activities	309.5	106.1
<b>Cash Flows from Investing Activities:</b>		
Additions to property, plant and equipment	(114.1)	(268.5)
Divestiture of Interior business	(48.3)	—
Other, net	(28.8)	21.1
Net cash used in investing activities	(191.2)	(247.4)
<b>Cash Flows from Financing Activities:</b>		
Primary credit facility borrowings (repayments), net	(3.0)	615.1
Repayment of senior notes	—	(520.9)
Other long-term debt repayments, net	(9.7)	(18.2)
Short-term debt repayments, net	(11.1)	(8.5)
Dividends paid	—	(16.8)
Proceeds from exercise of stock options	7.4	—
Decrease in drafts	(8.4)	(3.5)
Net cash provided by (used in) financing activities	(24.8)	47.2
Effect of foreign currency translation	5.8	39.5
<b>Net Change in Cash and Cash Equivalents</b>	<b>99.3</b>	<b>(54.6)</b>
<b>Cash and Cash Equivalents as of Beginning of Period</b>	<b>502.7</b>	<b>207.6</b>
<b>Cash and Cash Equivalents as of End of Period</b>	<b>\$ 602.0</b>	<b>\$ 153.0</b>
<b>Changes in Working Capital Items:</b>		
Accounts receivable	\$ (338.2)	\$ (147.5)
Inventories	(44.8)	(51.7)
Accounts payable	113.3	(183.1)
Accrued liabilities and other	180.0	109.9
Net change in working capital items	\$ (89.7)	\$ (272.4)
<b>Supplementary Disclosure:</b>		
Cash paid for interest	\$ 140.7	\$ 136.7
Cash paid for income taxes	\$ 74.7	\$ 78.2

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

## LEAR CORPORATION AND SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### (1) Basis of Presentation

The condensed 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 complete automotive seating systems, electrical distribution systems and select electronic products. Through the first quarter of 2007, the Company also supplied automotive interior systems and components, including instrument panels and cockpit systems, headliners and overhead systems, door panels and flooring and acoustic systems (Note 3, “Divestiture of Interior Business”). The Company’s main customers are automotive original equipment manufacturers. The Company operates facilities worldwide.

Certain amounts in the prior period’s condensed consolidated financial statements have been reclassified to conform to the presentation used in the quarter ended September 29, 2007.

#### (2) Merger Agreement

On February 9, 2007, the Company entered into an Agreement and Plan of Merger, as amended (the “Merger Agreement”), with AREP Car Holdings Corp., a Delaware corporation (“AREP Car Holdings”), and AREP Car Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of AREP Car Holdings (“Merger Sub”). Under the terms of the Merger Agreement, Merger Sub would have merged with and into the Company, and as a result, the Company would have continued as the surviving corporation and a wholly owned subsidiary of AREP Car Holdings. AREP Car Holdings and Merger Sub are affiliates of Carl C. Icahn.

Pursuant to the Merger Agreement, as of the effective time of the merger, each issued and outstanding share of common stock of the Company, other than shares (i) owned by AREP Car Holdings, Merger Sub or any subsidiary of AREP Car Holdings and (ii) owned by any shareholders who were entitled to and who had properly exercised appraisal rights under Delaware law, would have been canceled and automatically converted into the right to receive \$37.25 in cash, without interest.

On July 16, 2007, the Company held its 2007 Annual Meeting of Stockholders, at which the proposal to approve the Merger Agreement did not receive the affirmative vote of the holders of a majority of the outstanding shares of the Company’s common stock. As a result, the Merger Agreement terminated in accordance with its terms. Upon termination of the Merger Agreement, the Company was obligated to (1) pay AREP Car Holdings \$12.5 million, (2) issue to AREP Car Holdings 335,570 shares of its common stock valued at approximately \$12.5 million, based on the closing price of the Company’s common stock on July 16, 2007, and (3) increase from 24% to 27% the share ownership limitation under the limited waiver of Section 203 of the Delaware General Corporation Law granted by the Company to affiliates of and funds managed by Carl C. Icahn in October 2006 (collectively, the “Termination Consideration”). The Termination Consideration to AREP Car Holdings shall be credited against the break-up fee that would otherwise be payable by the Company to AREP Car Holdings in the event that the Company enters into a definitive agreement with respect to an alternative acquisition proposal within twelve months after the termination of the Merger Agreement. Costs of approximately \$25 million associated with the Termination Consideration were recognized in selling, general and administrative expense in the third quarter of 2007. In addition, the Company incurred \$11.7 million in transaction costs related to the Merger Agreement in the first half of 2007.

For further information regarding the Merger Agreement, please refer to the Merger Agreement and certain related documents, which are incorporated by reference as exhibits to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

#### (3) Divestiture of Interior Business

On March 31, 2007, the Company completed the transfer of substantially all of the assets of its North American interior business (as well as its interests in two China joint ventures) to International Automotive Components Group North America, Inc. (“IAC”) (the “IAC North America Transaction”). The IAC North America Transaction was completed pursuant to the terms of an Asset Purchase Agreement (the “Purchase Agreement”) dated as of November 30, 2006, by and among the Company, IAC, WL Ross & Co. LLC (“WL Ross”), Franklin Mutual Advisers, LLC (“Franklin”) and International Automotive Components Group North America, LLC (“IACNA”), as amended by Amendment No. 1 to the Purchase Agreement dated as of March 31, 2007. The legal transfer of certain assets included in the IAC North America Transaction is subject to the satisfaction of certain post-closing conditions. In connection with the IAC North America Transaction, IAC assumed the ordinary course liabilities of the Company’s North American interior

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

business, and the Company retained certain pre-closing liabilities, including pension and postretirement healthcare liabilities incurred through the closing date of the transaction.

Also on March 31, 2007, a wholly owned subsidiary of the Company and certain affiliates of WL Ross and Franklin, entered into the Limited Liability Company Agreement (the "LLC Agreement") of IACNA. Pursuant to the terms of the LLC Agreement, a wholly owned subsidiary of the Company contributed approximately \$27.4 million in cash to IACNA in exchange for a 25% equity interest in IACNA and warrants for an additional 7% of the current outstanding common equity of IACNA. Certain affiliates of WL Ross and Franklin made aggregate capital contributions of approximately \$81.2 million to IACNA in exchange for the remaining equity and extended a \$50 million term loan to IAC. The Company had agreed to fund up to an additional \$40 million, and WL Ross and Franklin had agreed to fund up to an additional \$45 million, in the event that IAC did not meet certain financial targets in 2007. During the third quarter of 2007, the Company completed negotiations related to the amount of additional funding, and on October 10, 2007, the Company made a cash payment to IAC of \$12.5 million in full satisfaction of this contingent funding obligation.

In connection with the IAC North America Transaction, the Company recorded a loss on divestiture of Interior business of \$608.4 million, of which \$1.5 million was recognized in the first nine months of 2007 and \$606.9 million was recognized in the fourth quarter of 2006. The Company also recognized additional costs related to the IAC North America Transaction of \$10.0 million, of which \$7.5 million are recorded in cost of sales and \$2.5 million are recorded in selling, general and administrative expenses in the condensed consolidated statement of operations for the nine months ended September 29, 2007. A summary of the major classes of the assets and liabilities of the Company's North American interior business that are classified as held for sale in the Company's condensed consolidated balance sheet as of December 31, 2006, is shown below (in millions):

	December 31, 2006
Cash and cash equivalents	\$ 19.2
Accounts receivable	284.5
Inventories	69.2
Other current assets	54.9
	<hr/>
Current assets of business held for sale	\$ 427.8
	<hr/>
Accounts payable and drafts	\$ 323.7
Accrued liabilities	79.8
Current portion of long-term debt	2.2
	<hr/>
Current liabilities of business held for sale	405.7
	<hr/>
Long-term debt	19.6
Other long-term liabilities	28.9
	<hr/>
Long-term liabilities of business held for sale	48.5
	<hr/>
Total liabilities of business held for sale	\$ 454.2

The Company did not account for the divestiture of its North American interior business as a discontinued operation due to its continuing involvement with IACNA. The Company's investment in IACNA is accounted for under the equity method.

On October 16, 2006, the Company completed the contribution of substantially all of its European interior business to International Automotive Components Group, LLC ("IAC Europe"), a separate joint venture with affiliates of WL Ross and Franklin, in exchange for an approximately one-third equity interest in IAC Europe. In connection with this transaction, the Company recorded a loss on divestiture of Interior business of \$35.4 million, of which \$6.3 million was recognized in the first nine months of 2007 and \$29.1 million was recognized in 2006.

As a result of the settlement of the Company's contingent funding obligation and other adjustments related to its investments in IACNA and IAC Europe, the Company recorded a reduction of \$17.1 million to the previously recorded loss on divestiture of Interior business in the third quarter of 2007.



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

On October 11, 2007, IACNA completed the acquisition of the soft trim division of Collins & Aikman Corporation (“C&A”) (the “C&A Acquisition”). The soft trim division includes 16 facilities in North America with annual net sales of approximately \$550 million related to the manufacture of carpeting, molded flooring products, dash insulators and other related interior components. The purchase price for the C&A Acquisition was approximately \$126 million, subject to increase based on the future performance of the soft trim business, plus the assumption by IACNA of certain ordinary course liabilities.

In connection with the C&A Acquisition, IACNA offered the senior secured creditors of C&A (the “C&A Creditors”) the right to purchase shares of Class B common stock of IACNA, up to an aggregate of 25% of the outstanding equity of IACNA. On October 11, 2007, the participating C&A Creditors purchased all of the offered Class B shares for an aggregate purchase price of \$82.3 million. In addition, in order to finance the C&A Acquisition, IACNA issued to WL Ross, Franklin and the Company approximately \$126 million of additional shares of Class A common stock of IACNA in a preemptive rights offering. The Company purchased its entire 25% allocation of Class A shares in the preemptive rights offering for \$31.6 million. After giving effect to the sale of the Class A and Class B shares, the Company owns 18.75% of the total outstanding shares of common stock of IACNA, plus a warrant to purchase an additional 2.6% of the outstanding IACNA shares. The Company also maintains the same governance and other rights in IACNA that it possessed prior to the C&A Acquisition.

To effect the issuance of shares in the C&A Acquisition and the settlement of the Company’s contingent funding obligation, on October 11, 2007, IACNA, WL Ross, Franklin, the Company and the participating C&A Creditors entered into an Amended and Restated Limited Liability Company Agreement of IACNA (the “Amended LLC Agreement”). The Amended LLC Agreement, among other things, (1) provides the participating C&A Creditors certain governance and transfer rights with respect to their Class B shares and (2) eliminates any further funding obligations to IACNA.

**(4) Stock-Based Compensation**

On January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123(R), “Share-Based Payment,” using the modified prospective transition method and recognized income of \$2.9 million as a cumulative effect of a change in accounting principle related to a change in accounting for forfeitures. There was no income tax effect resulting from this adoption. SFAS No. 123(R) requires the estimation of expected forfeitures at the grant date and the recognition of compensation cost only for those awards expected to vest. Previously, the Company accounted for forfeitures as they occurred. In the first nine months of 2007 and 2006, there were no outstanding unvested awards for which no compensation cost was recognized as the Company adopted the fair value recognition provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” for all employee awards granted after January 1, 2003.

**(5) Restructuring**

In order to address unfavorable industry conditions, the Company began to implement consolidation, facility realignment and census actions in the second quarter of 2005. These actions are part of a comprehensive restructuring strategy intended to (i) better align the Company’s manufacturing capacity with the changing needs of its customers, (ii) eliminate excess capacity and lower the operating costs of the Company and (iii) streamline the Company’s organizational structure and reposition its business for improved long-term profitability.

The Company currently expects to incur pretax costs of approximately \$325 million in connection with the restructuring actions through 2007, although all aspects of the restructuring actions have not been finalized. Such costs include employee termination benefits, asset impairment charges and contract termination costs, as well as other incremental costs resulting from the restructuring actions. These incremental costs principally include equipment and personnel relocation costs. The Company also expects to incur incremental manufacturing inefficiency costs at the operating locations impacted by the restructuring actions during the related restructuring implementation period. Restructuring costs are recognized in the Company’s consolidated financial statements in accordance with accounting principles generally accepted in the United States. Generally, charges are recorded as elements of the restructuring strategy are finalized. Actual costs recorded in the Company’s consolidated financial statements may vary from current estimates.

In connection with the Company’s restructuring actions, the Company recorded charges of \$79.4 million in the first nine months of 2007, including \$69.5 million recorded as cost of sales and \$9.9 million recorded as selling, general and administrative expenses. The 2007 charges consist of employee termination benefits of \$67.0 million, asset impairment charges of \$12.2 million, net contract termination costs of \$(7.0) million and other costs of \$7.2 million. Employee termination benefits were recorded based on existing

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

union and employee contracts, statutory requirements and completed negotiations. Asset impairment charges relate to the disposal of machinery and equipment with carrying values of \$12.2 million in excess of related estimated fair values. Contract termination costs include lease cancellation costs, the repayment of various government-sponsored grants and a net pension and other postretirement benefit plan curtailment gain of \$12.2 million.

A summary of 2007 restructuring charges, excluding the net pension and other postretirement benefit plan curtailment gain of \$12.2 million, is shown below (in millions):

	Accrual as of December 31, 2006	2007 Charges	2007 Utilization		Accrual as of September 29, 2007
			Cash	Non-cash	
Employee termination benefits	\$ 36.4	\$ 67.0	\$ (73.7)	\$ —	\$ 29.7
Asset impairments	—	12.2	—	(12.2)	—
Contract termination costs	3.4	5.2	(3.4)	—	5.2
Other related costs	—	7.2	(7.2)	—	—
<b>Total</b>	<b>\$ 39.8</b>	<b>\$ 91.6</b>	<b>\$ (84.3)</b>	<b>\$ (12.2)</b>	<b>\$ 34.9</b>

(6) Inventories

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

	September 29, 2007	December 31, 2006
Raw materials	\$ 464.7	\$ 439.9
Work-in-process	39.7	35.6
Finished goods	130.7	106.0
<b>Inventories</b>	<b>\$ 635.1</b>	<b>\$ 581.5</b>

(7) 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):

	September 29, 2007	December 31, 2006
Land	\$ 133.9	\$ 133.5
Buildings and improvements	605.3	559.1
Machinery and equipment	1,999.7	2,081.3
Construction in progress	6.0	12.0
<b>Total property, plant and equipment</b>	<b>2,744.9</b>	<b>2,785.9</b>
Less – accumulated depreciation	(1,377.3)	(1,314.2)
<b>Net property, plant and equipment</b>	<b>\$ 1,367.6</b>	<b>\$ 1,471.7</b>

Depreciation expense was \$69.3 million and \$96.7 million in the three months ended September 29, 2007 and September 30, 2006, respectively, and \$217.0 million and \$295.6 million in the nine months ended September 29, 2007 and September 30, 2006, respectively.

Costs associated with the repair and maintenance of the Company's property, plant and equipment are expensed as incurred. Costs associated with improvements which extend the life, increase the capacity or improve the efficiency or safety of the Company's property, plant and equipment are capitalized and depreciated over the remaining life of the related asset.

The Company monitors its long-lived assets for impairment indicators on an ongoing basis in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." If impairment indicators exist, the Company performs the

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

required analysis and records impairment charges in accordance with SFAS No. 144. In conducting its analysis, the Company compares undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. If assets are impaired, the amount of the impairment loss is measured by comparing the net book value and the fair value of long-lived assets. Fair value is estimated based upon either discounted cash flow analyses or estimated salvage values. Cash flows are estimated using internal budgets and management's assessment of the overall commercial outlook, as well as recent sales data, automotive production volume estimates and other relevant factors, including assumptions regarding raw material pricing and discount rates. Changes in these factors and assumptions could materially impact the assessment of the recoverability of long-lived assets.

In the first nine months of 2006, the Company evaluated the carrying value of the fixed assets of certain operating locations within its interior segment and recorded impairment charges of \$9.2 million. The impairment charges are included in cost of sales in the condensed consolidated statements of operations for the nine months ended September 30, 2006.

In the first nine months of 2007 and 2006, the Company recorded impairment charges of \$12.2 million and \$5.1 million, respectively, related to certain facility consolidations (Note 5, "Restructuring").

**(8) Goodwill**

A summary of the changes in the carrying amount of goodwill, by reportable operating segment, for the nine months ended September 29, 2007, is shown below (in millions):

	Seating	Electrical and Electronic	Total
Balance as of January 1, 2007	\$ 1,060.7	\$ 936.0	\$ 1,996.7
Foreign currency translation and other	27.8	14.5	42.3
Balance as of September 29, 2007	\$ 1,088.5	\$ 950.5	\$ 2,039.0

During the first nine months of 2006, the Company recorded a purchase price adjustment as a result of an indemnification related to the Company's acquisition of UT Automotive, Inc. ("UT Automotive") from United Technologies Corporation ("UTC") in May 1999. The purchase price adjustment resulted in an increase in goodwill of \$18.9 million, which was allocated to the Company's electrical and electronic and interior segments. As a result of the significant decline in the fair value of the interior segment, a goodwill impairment charge of \$2.9 million related to the purchase price adjustment allocated to the interior segment was recorded and is included in the condensed consolidated statements of operations for the nine months ended September 30, 2006.

**(9) 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 19, "Financial Instruments," is shown below (in millions):

	September 29, 2007		December 31, 2006	
	Long-Term Debt	Weighted Average Interest Rate	Long-Term Debt	Weighted Average Interest Rate
Primary Credit Facility	\$ 994.0	7.86%	\$ 997.0	7.49%
8.50% Senior Notes, due 2013	300.0	8.50%	300.0	8.50%
8.75% Senior Notes, due 2016	600.0	8.75%	600.0	8.75%
5.75% Senior Notes, due 2014	399.4	5.635%	399.3	5.635%
8.125% Euro-denominated Senior Notes, due 2008	78.6	8.125%	73.3	8.125%
8.11% Senior Notes, due 2009	41.4	8.11%	41.4	8.11%
Zero-coupon Convertible Senior Notes, due 2022	0.8	4.75%	3.6	4.75%
Other	41.0	7.33%	45.5	7.06%
	2,455.2		2,460.1	
Current portion	(103.6)		(25.6)	
Long-term debt	\$ 2,351.6		\$ 2,434.5	

Primary Credit Facility

The Company's primary credit facility consists of an amended and restated credit and guarantee agreement, which provides for maximum revolving borrowing commitments of \$1.7 billion and a term loan facility of \$1.0 billion. Principal payments of \$3 million are required on the term loan facility every six months. As of September 29, 2007 and December 31, 2006, the Company had \$994.0

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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million and \$997.0 million, respectively, in borrowings available and outstanding under the term loan facility. There were no amounts outstanding under the revolving credit facility.

The Company's obligations under the primary credit facility are secured by a pledge of all or a portion of the capital stock of certain of its subsidiaries, including substantially all of its first-tier subsidiaries, and are partially secured by a security interest in the Company's assets and the assets of certain of its domestic subsidiaries. In addition, the Company's obligations under the primary credit facility 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.

The primary credit facility contains certain affirmative and negative covenants, including (i) limitations on fundamental changes involving the Company or its subsidiaries, asset sales and restricted payments, (ii) a limitation on indebtedness with a maturity shorter than the term loan facility, (iii) a limitation on aggregate subsidiary indebtedness to an amount which is no more than 4% of consolidated total assets, (iv) a limitation on aggregate secured indebtedness to an amount which is no more than \$100 million and (v) requirements that the Company maintain a leverage ratio of not more than 3.75 to 1, as of September 29, 2007, with decreases over time and an interest coverage ratio of not less than 2.50 to 1 with increases over time.

The leverage and interest coverage ratios, as well as the related components of their computation, are defined in the primary credit facility. The leverage ratio is calculated as the ratio of consolidated indebtedness to consolidated operating profit. For the purpose of the covenant calculation, (i) consolidated indebtedness is generally defined as reported debt, net of cash and excludes transactions related to the Company's asset-backed securitization and factoring facilities and (ii) consolidated operating profit is generally defined as net income excluding income taxes, interest expense, depreciation and amortization expense, other income and expense, minority interests in income of subsidiaries in excess of net equity earnings in affiliates, certain restructuring and other non-recurring charges, extraordinary gains and losses and other specified non-cash items. Consolidated operating profit is a non-GAAP financial measure that is presented not as a measure of operating results, but rather as a measure used to determine covenant compliance under the Company's primary credit facility. The interest coverage ratio is calculated as the ratio of consolidated operating profit to consolidated interest expense. For the purpose of the covenant calculation, consolidated interest expense is generally defined as interest expense plus any discounts or expenses related to the Company's asset-backed securitization facility less amortization of deferred finance fees and interest income. As of September 29, 2007, the Company was in compliance with all covenants set forth in the primary credit facility. The Company's leverage and interest coverage ratios were 1.8 to 1 and 5.7 to 1, respectively.

Reconciliations of (i) consolidated indebtedness to reported debt, (ii) consolidated operating profit to income before provision for income taxes and cumulative effect of a change in accounting principle and (iii) consolidated interest expense to reported interest expense are shown below (in millions):

	September 29, 2007
Consolidated indebtedness	\$ 1,865.4
Cash and cash equivalents	602.0
Reported debt	\$ 2,467.4

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	Three Months Ended September 29, 2007	Nine Months Ended September 29, 2007
Consolidated operating profit	\$ 235.3	\$ 822.5
Depreciation and amortization	(70.7)	(220.9)
Consolidated interest expense	(43.4)	(135.3)
Costs related to divestiture of Interior business	17.1	(17.8)
Other expense, net (excluding certain amounts related to asset-backed securitization facility)	(17.4)	(43.8)
Restructuring charges (subject to \$285 million limitation)	(22.7)	(73.3)
Other excluded items	(25.1)	(0.5)
Other non-cash items	(13.0)	(44.6)
	<u>                    </u>	<u>                    </u>
Income before provision for income taxes and cumulative effect of a change in accounting principle	\$ 60.1	\$ 286.3
	<u>                    </u>	<u>                    </u>
Consolidated interest expense	\$ 43.4	\$ 135.3
Certain amounts related to asset-backed securitization facility	(0.1)	1.0
Amortization of deferred financing fees	2.3	7.0
Bank facility and other fees	1.9	7.0
	<u>                    </u>	<u>                    </u>
Reported interest expense	\$ 47.5	\$ 150.3
	<u>                    </u>	<u>                    </u>

The primary credit facility also contains customary events of default, including an event of default triggered by a change of control of the Company.

*Senior Notes*

All of the Company's 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. The Company's obligations under the senior notes are not secured by the pledge of the assets or capital stock of any of its subsidiaries.

The Company's senior notes also contain covenants restricting the ability of the Company and its subsidiaries to incur liens and to enter into sale and leaseback transactions. As of September 29, 2007, the Company was in compliance with all covenants and other requirements set forth in its senior notes.

The senior notes due 2013 and 2016 (having an aggregate principal amount outstanding of \$900 million as of September 29, 2007) provide holders of the notes the right to require the Company to repurchase all or any part of their notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest, upon a "change of control" (as defined in the indenture governing the notes). The indentures governing the Company's other senior notes do not contain a change of control repurchase obligation.

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(10) 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):

	Pension		Other Postretirement	
	Three Months Ended		Three Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Service cost	\$ 6.2	\$ 12.3	\$ 2.7	\$ 3.1
Interest cost	14.5	10.5	3.9	3.7
Expected return on plan assets	(15.9)	(9.4)	—	—
Amortization of actuarial loss	0.9	1.7	0.9	1.4
Amortization of transition obligation	—	—	0.2	0.2
Amortization of prior service cost (credit)	1.2	1.3	(0.9)	(0.9)
Special termination benefits	—	—	0.1	0.2
Curtailment loss	0.5	0.9	—	—
Net periodic benefit cost	\$ 7.4	\$ 17.3	\$ 6.9	\$ 7.7

	Pension		Other Postretirement	
	Nine Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Service cost	\$ 20.0	\$ 37.2	\$ 8.2	\$ 9.7
Interest cost	32.2	31.9	11.3	11.2
Expected return on plan assets	(33.6)	(28.7)	—	—
Amortization of actuarial loss	2.4	5.3	3.2	4.3
Amortization of transition (asset) obligation	(0.1)	—	0.7	0.7
Amortization of prior service cost (credit)	3.5	3.9	(2.7)	(2.7)
Special termination benefits	4.8	0.1	1.0	0.3
Curtailment (gain) loss	(32.2)	0.9	(13.2)	—
Net periodic benefit cost	\$ (3.0)	\$ 50.6	\$ 8.5	\$ 23.5

In the first quarter of 2007, the Company recorded a pension plan curtailment gain of \$36.4 million and an other postretirement benefit plan curtailment gain of \$14.7 million. The pension plan curtailment gain resulted from the suspension of the accrual of defined benefits related to the Company's U.S. salaried defined benefit pension plan as the Company elected to freeze its U.S. salaried defined benefit plan effective December 31, 2006. The other postretirement benefit plan curtailment gain resulted from employee terminations associated with a facility closure in 2006. As both curtailment gains were incurred subsequent to the Company's defined benefit plan measurement date of September 30, 2006, they were recorded in the first quarter of 2007. In the nine months ended September 30, 2007, the Company recognized additional net pension and other postretirement benefit costs of \$9.0 million and \$2.5 million, respectively, related to other restructuring actions, the divestiture of the Company's North American interior business and other actions. These additional costs are recorded as curtailment (gain) loss and special termination benefits.

Contributions

Employer contributions to the Company's domestic and foreign pension plans for the three and nine months ended September 29, 2007, were \$29.6 million and \$52.6 million, in aggregate, respectively. The Company expects to contribute approximately \$16 million, in aggregate, to its domestic and foreign pension plans in the fourth quarter of 2007.

In conjunction with the freeze of its U.S. salaried defined benefit pension plan described above, the Company established a defined contribution retirement plan for its salaried employees effective January 1, 2007.

Contributions to this plan are determined as a percentage of each covered employee's salary and are expected to be approximately \$16 million in 2007. The Company contributed \$8.2 million to this plan in the third quarter of 2007.

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**(11) Cost of Sales and Selling, General and Administrative Expenses**

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

**(12) Other Expense, Net**

Other expense includes state and local non-income taxes, foreign exchange gains and losses, fees associated with the Company's asset-backed securitization and factoring facilities, minority interests in consolidated subsidiaries, equity in net income of affiliates, gains and losses on the sales of assets and other miscellaneous income and expense. A summary of other expense, net is shown below (in millions):

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Other expense	\$ 18.0	\$ 12.5	\$ 58.3	\$ 59.1
Other income	(0.5)	(3.1)	(15.5)	(32.4)
Other expense, net	\$ 17.5	\$ 9.4	\$ 42.8	\$ 26.7

For the nine months ended September 29, 2007, other income includes equity in net income of affiliates of \$12.0 million. For the nine months ended September 30, 2006, other income includes gains of \$26.9 million related to the sales of the Company's interests in two affiliates, and other expense includes foreign exchange losses of \$20.2 million.

**(13) Provision for Income Taxes**

The provision for income taxes was \$19.1 million and \$8.1 million in the three months ended September 29, 2007 and September 30, 2006, respectively, and \$71.8 million and \$45.8 million in the nine months ended September 29, 2007 and September 30, 2006, respectively. The effective tax rate was 31.8% and (12.3)% for the three months ended September 29, 2007 and September 30, 2006, respectively, and 25.1% and (233.7)% for the nine months ended September 29, 2007 and September 30, 2006, respectively. The provision for income taxes in the first nine months of 2007 was impacted by costs of \$17.8 million related to the divestiture of the Company's interior business, a significant portion of which provided no tax benefit as they were incurred in the United States. The provision was also impacted by a portion of the Company's restructuring charges and costs related to the Merger Agreement, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. This was offset by the impact of the U.S. salaried pension plan curtailment gain of \$36.4 million, for which no tax expense was provided as it was incurred in the United States, the impact of a one-time tax benefit of \$12.5 million related to a reversal of a valuation allowance in a European subsidiary and the impact of a tax benefit of \$17.4 million related to a tax rate change in Germany. Excluding these items, the effective tax rate in the first nine months of 2007 approximated the U.S. federal statutory income tax rate of 35% adjusted for income taxes on foreign earnings, losses and remittances, foreign valuation allowances, the U.S. valuation allowance, tax credits, income tax incentives and other permanent items. Further, the Company's current and future provision for income taxes is significantly impacted by the recognition of valuation allowances in certain countries, particularly the United States. The Company intends to maintain these allowances until it is more likely than not that the deferred tax assets will be realized. The Company's future income tax expense will include no tax benefit with respect to U.S. losses and no tax expense with respect to U.S. income until the allowance is eliminated. Accordingly, income taxes are impacted by the U.S. valuation allowance and the mix of earnings among jurisdictions. The provision for income taxes in the first nine months of 2006 includes one-time tax benefits of \$20.1 million resulting from the expiration of the statute of limitations in a foreign taxing jurisdiction, a tax audit resolution, court rulings in certain jurisdictions, the merger of two foreign entities and changes in tax laws in certain jurisdictions. The provision for income taxes in the first nine months of 2006 was also impacted by the loss on the divestiture of the Company's European interior business, for which a tax benefit of \$3.6 million was recognized, gains on the sales of the Company's interest in two affiliates, for which no tax expense was recognized, and a portion of the Company's restructuring and impairment charges, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries.



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On January 1, 2007, the Company adopted the provisions of Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109.” FIN 48 clarifies the accounting for uncertainty in income taxes by establishing minimum standards for the recognition and measurement of tax positions taken or expected to be taken in a tax return. Under the requirements of FIN 48, the Company must review all of its tax positions and make a determination as to whether its position is more-likely-than-not to be sustained upon examination by regulatory authorities. If a tax position meets the more-likely-than-not standard, then the related tax benefit is measured based on a cumulative probability analysis of the amount that is more-likely-than-not to be realized upon ultimate settlement or disposition of the underlying issue.

The Company recognized the cumulative impact of the adoption of FIN 48 as a \$4.5 million decrease to its liability for unrecognized tax benefits with a corresponding decrease to its retained deficit balance as of January 1, 2007. As of January 1, 2007, the Company’s gross unrecognized tax benefits were \$148.6 million (including interest and penalties), of which \$114.9 million, if recognized, would affect the Company’s effective tax rate. The gross unrecognized tax benefits differ from the amount that would affect the Company’s effective tax rate due primarily to the impact of the valuation allowance.

The Company continues to recognize both interest and penalties with respect to unrecognized tax benefits as income tax expense. As of January 1, 2007, the Company had recorded reserves of \$28.6 million for the payment of interest and penalties. During the three and nine months ended September 29, 2007, the Company recorded tax expense related to an increase in the liability for interest and penalties of \$2.5 million and \$10.2 million, respectively.

The Company operates in multiple jurisdictions throughout the world, and its tax returns are periodically audited or subject to review by both domestic and foreign tax authorities. It is reasonably possible that as a result of audit settlements, the conclusion of current examinations or the expiration of the statute of limitations in several jurisdictions, the Company’s unrecognized tax benefits may significantly change during the next twelve months. However, as a result of tax audits that are currently in process, it is not possible to estimate the amount of such change, if any, on the total amount of unrecognized tax benefits. It is not anticipated that any such change would have a material impact on the Company’s business, consolidated financial position, results of operations or cash flows.

The Company considers its significant tax jurisdictions to include Canada, Germany, Hungary, Mexico, Poland, Spain and the United States. The Company or its subsidiaries remain subject to income tax examination in certain U.S. state and local jurisdictions for years after 1998, in Germany, Mexico and Poland for years after 2000 and in the U.S. federal jurisdiction, Canada, Spain and Hungary for years after 2002.

**(14) Net Income (Loss) Per Share**

Basic net income (loss) per share is computed using the weighted average common shares outstanding during the period. Diluted net income (loss) per share includes the dilutive effect of common stock equivalents using the average share price during the period, as well as shares issuable upon conversion of the Company’s outstanding zero-coupon convertible senior notes. A summary of shares outstanding is shown below:

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Weighted average common shares outstanding	77,025,618	67,352,836	76,706,904	67,302,119
Dilutive effect of common stock equivalents	1,409,647	—	1,499,172	—
Diluted shares outstanding	78,435,265	67,352,836	78,206,076	67,302,119

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The effect of certain common stock equivalents, including options, restricted stock units, performance units and stock appreciation rights, were excluded from the computation of diluted shares outstanding for the three and nine months ended September 29, 2007 and September 30, 2006, as inclusion would have resulted in antidilution. A summary of these options and their exercise prices, as well as these restricted stock units, performance units and stock appreciation rights, is shown below:

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
<b>Options</b>				
Antidilutive options	1,826,280	2,839,305	1,826,280	2,839,305
Exercise price	\$35.93 – \$55.33	\$22.12 – \$55.33	\$35.93 – \$55.33	\$22.12 – \$55.33
<b>Restricted stock units</b>	–	1,982,571	–	1,982,571
<b>Performance units</b>	–	216,448	–	216,448
<b>Stock appreciation rights</b>	639,765	1,124,044	639,765	1,124,044

(15) Comprehensive Income (Loss)

Comprehensive income is defined as all changes in a Company's net assets except changes resulting from transactions with stockholders. It differs from net income (loss) 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):

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Net income (loss)	\$ 41.0	\$ (74.0)	\$ 214.5	\$ (62.5)
Other comprehensive income (loss):				
Derivative instruments and hedging activities	(9.7)	0.4	(7.5)	(11.3)
Defined benefit plan adjustments	2.6	—	8.0	—
Foreign currency translation adjustment	46.0	14.3	57.4	73.2
Other comprehensive income	38.9	14.7	57.9	61.9
Comprehensive income (loss)	\$ 79.9	\$ (59.3)	\$ 272.4	\$ (0.6)

(16) 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 nine months of 2007 and 2006, the Company capitalized \$72.4 million and \$100.6 million, respectively, of pre-production ER&D costs for which reimbursement is contractually guaranteed by the customer. In addition, during the first nine months of 2007 and 2006, the Company capitalized \$131.0 million and \$375.7 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 other current and long-term assets in the condensed consolidated balance sheets. During the nine months ended September 29, 2007 and September 30, 2006, the Company collected \$224.5 million and \$567.8 million, respectively, of cash related to ER&D and tooling costs.

During the first nine months of 2007, the Company did not capitalize any Company-owned tooling. During the first nine months of 2006, the Company capitalized \$15.5 million of Company-owned tooling. This amount is included in property, plant and equipment, net in the condensed consolidated balance sheets.

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

	September 29, 2007	December 31, 2006
Current	\$ 82.6	\$ 87.7
Long-term	103.0	116.2
Recoverable customer engineering and tooling	\$ 185.6	\$ 203.9

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.

**(17) Legal and Other Contingencies**

As of September 29, 2007 and December 31, 2006, the Company had recorded reserves for pending legal disputes, including commercial disputes and other matters, of \$36.4 million and \$18.0 million, respectively. Such reserves reflect amounts recognized in accordance with accounting principles generally accepted in the United States and typically 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, including, without limitation, commercial or contractual disputes with its suppliers, competitors and customers. These disputes vary in nature and are usually resolved by negotiations between the parties.

On January 26, 2004, the Company filed a patent infringement lawsuit against Johnson Controls Inc. and Johnson Controls Interiors LLC (together, "JCI") in the U.S. District Court for the Eastern District of Michigan alleging that JCI's garage door opener products infringed certain of the Company's radio frequency transmitter patents. JCI counterclaimed seeking a declaratory judgment that the subject patents are invalid and unenforceable, and that JCI is not infringing these patents. JCI also has filed motions for summary judgment asserting that its garage door opener products do not infringe the Company's patents and that one of the Company's patents is invalid and unenforceable. On November 2, 2007, the court issued an opinion and order granting, in part, and denying, in part, JCI's motion for summary judgment on one of the Company's patents. The court found that JCI's product does not literally infringe the patent, however, there are issues of fact that precluded a finding as to whether JCI's product infringes under the doctrine of equivalents. The court also ruled that one of the claims the Company has asserted is invalid. Finally, the court denied JCI's motion to hold the patent unenforceable. The opinion and order does not address the other two patents involved in the lawsuit. JCI's motion for summary judgment on those patents has not yet been subject to a court hearing. A trial date has not been scheduled.

After the Company filed its patent infringement action against JCI, affiliates of JCI sued one of the Company's vendors and certain of the vendor's employees in Ottawa County, Michigan Circuit Court on July 8, 2004, alleging misappropriation of trade secrets and disclosure of confidential information. The suit alleges that the defendants misappropriated and shared with the Company trade secrets involving JCI's universal garage door opener product. JCI seeks to enjoin the defendants from selling or attempting to sell a competing product, as well as compensatory damages and attorney fees. The Company is not a defendant in this lawsuit; however, the agreements between the Company and the defendants contain customary indemnification provisions. The Company does not believe that its garage door opener product benefited from any allegedly misappropriated trade secrets or technology. However, JCI has sought discovery of certain information which the Company believes is confidential and proprietary, and the Company has intervened in the case as a non-party for the limited purpose of protecting its rights with respect to JCI's discovery efforts. A hearing on the defendant's motion to dismiss is scheduled for December 2007. The trial has been rescheduled to January 2008.

On June 13, 2005, The Chamberlain Group ("Chamberlain") filed a lawsuit against the Company and Ford Motor Company ("Ford") in the Northern District of Illinois alleging patent infringement. Two counts were asserted against the Company and Ford based upon two Chamberlain rolling-code garage door opener system patents. Two additional counts were asserted against Ford only (not the Company) based upon different Chamberlain patents. The Chamberlain lawsuit was filed in connection with the marketing of the Company's universal garage door opener system, which competes with a product offered by JCI. JCI obtained technology from Chamberlain to operate its product. In October 2005, JCI joined the lawsuit as a plaintiff along with Chamberlain. In October 2006, Ford was dismissed from the suit. JCI and Chamberlain have filed a motion for a preliminary injunction, and on March 30, 2007, the court issued a decision granting plaintiffs' motion for a preliminary injunction but did not enter an injunction at that time. In response, the Company filed a motion seeking to stay the effectiveness of any injunction that may be entered and General Motors Corporation ("GM") moved to intervene. On April 25, 2007, the court granted GM's motion to intervene, entered a preliminary injunction order that exempts the Company's existing GM programs and denied the Company's motion to stay the effectiveness of the preliminary



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injunction order pending appeal. On April 27, 2007, the Company filed its notice of appeal from the granting of the preliminary injunction and the denial of its motion to stay its effectiveness. On May 7, 2007, the Company filed a motion for stay with the Federal Circuit Court of Appeals, which the court denied on June 6, 2007. The appeal is currently pending before the Federal Circuit Court of Appeals. All briefing has been completed, and oral argument is scheduled for December 2007. No trial date has been set by the district court.

*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 or other corrective actions involving its 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 product warranty or 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 recovery 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 nine months ended September 29, 2007, is shown below (in millions):

Balance as of January 1, 2007	\$	40.9
Expense		6.0
Income related to favorable settlements		(2.7)
Settlements		(10.5)
Foreign currency translation and other		0.6
		<hr/>
Balance as of September 29, 2007	\$	34.3
		<hr/>

*Environmental Matters*

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

The Company has been named as a potentially responsible party at several third-party landfill sites and is engaged in the cleanup of hazardous waste at certain sites owned, leased or operated by the Company, including several properties acquired in its 1999 acquisition of UT Automotive. 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 UTC in connection with its acquisition of UT Automotive. UTC manages and directly funds these environmental liabilities pursuant to its agreements and indemnities with the Company.

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

As of September 29, 2007 and December 31, 2006, the Company had recorded reserves for environmental matters of \$2.8 million and \$3.2 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, results of operations or cash flows, 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 contamination caused by an automobile parts manufacturing plant located in Columbus, Mississippi. The plant was acquired by the Company as part of its acquisition of UT Automotive 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.

All of the plaintiffs subsequently dismissed their claims for health effects and personal injury damages and the cases proceeded with approximately 280 plaintiffs alleging property damage claims only. 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 the first quarter of 2006, co-defendant UTC entered into a settlement agreement with the plaintiffs. During the third quarter of 2006, the Company and co-defendant Johnson Electric entered into a settlement memorandum with the plaintiffs' counsel outlining the terms of a global settlement, including establishing the requisite percentage of executed settlement agreements and releases that were required to be obtained from the individual plaintiffs for a final settlement to proceed. This settlement memorandum was amended in January 2007. In the first half of 2007, the Company reached a final settlement with respect to approximately 85% of the plaintiffs involving aggregate payments of \$875,000. These plaintiffs have been dismissed from the litigation. The Company is in the process of resolving the remaining claims through a combination of settlements, motions to withdraw by plaintiffs' counsel and motions to dismiss. Additional settlements are not expected to exceed \$90,000 in the aggregate.

UTC, the former owner of UT Automotive, and Johnson Electric have each sought indemnification for losses associated with the Mississippi claims from the Company under the respective acquisition agreements, and the Company has claimed indemnification from them under the same agreements. In the first quarter of 2006, UTC filed a lawsuit against the Company in the State of Connecticut Superior Court, District of Hartford, seeking declaratory relief and indemnification from the Company for the settlement amount, attorney fees, costs and expenses UTC paid in settling and defending the Columbus, Mississippi lawsuits. In the second quarter of 2006, the Company filed a motion to dismiss this matter and filed a separate action against UTC and Johnson Electric in the State of Michigan, Circuit Court for the County of Oakland, seeking declaratory relief and indemnification from UTC or Johnson Electric for the settlement amount, attorney fees, costs and expenses the Company has paid, or will pay, in settling and defending the Columbus, Mississippi lawsuits. During the fourth quarter of 2006, UTC agreed to dismiss the lawsuit filed in the State of Connecticut Superior Court, District of Hartford and agreed to proceed with the lawsuit filed in the State of Michigan, Circuit Court for the County of Oakland. During the first quarter of 2007, Johnson Electric and UTC each filed counter-claims against the Company seeking declaratory relief and indemnification from the Company for the settlement amount, attorney fees, costs and expenses each has paid or will pay in settling and defending the Columbus, Mississippi lawsuits. All three of the parties to this action have filed motions for summary judgment. On June 14, 2007, UTC's motion for summary disposition was granted holding that the Company is obligated to indemnify UTC with respect to the Mississippi lawsuits. Judgment for UTC was entered on July 18, 2007, in the amount of \$2.8 million plus interest. The full amount of the judgment has been recorded in the Company's condensed consolidated financial statements for the nine months ended September 29, 2007. The court denied both the Company and Johnson Electric's motions for summary disposition leaving the claims between the Company and Johnson Electric to proceed to trial. Discovery is ongoing. UTC has moved to sever its judgment from the Lear/Johnson Electric dispute for the purpose of allowing it to enforce its judgment immediately. That motion remains pending. The Company intends to vigorously pursue its claims against UTC and Johnson Electric and believes that it is entitled to indemnification from either UTC or Johnson Electric for its losses. However, the ultimate outcome of these matters is unknown.

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

In January 2004, the Securities and Exchange Commission (the "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 consolidated 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.

In April 2006, a former employee of the Company filed a purported class action lawsuit in the U.S. District Court for the Eastern District of Michigan against the Company, members of its Board of Directors, members of its Employee Benefits Committee (the "EBC") and certain members of its human resources personnel alleging violations of the Employment Retirement Income Security Act ("ERISA") with respect to the Company's retirement savings plans for salaried and hourly employees. In the second quarter of 2006, the Company was served with three additional purported class action ERISA lawsuits, each of which contained similar allegations against the Company, members of its Board of Directors, members of its EBC and certain members of its senior management and its human resources personnel. At the end of the second quarter of 2006, the court entered an order consolidating these four lawsuits as *In re: Lear Corp. ERISA Litigation*. During the third quarter of 2006, plaintiffs filed their consolidated complaint, which alleges breaches of fiduciary duties substantially similar to those alleged in the four individually filed lawsuits. The consolidated complaint continues to name certain current and former members of the Board of Directors and the EBC and certain members of senior management and adds certain other current and former members of the EBC. The consolidated complaint generally alleges that the defendants breached their fiduciary duties to plan participants in connection with the administration of the Company's retirement savings plans for salaried and hourly employees. The fiduciary duty claims are largely based on allegations of breaches of the fiduciary duties of prudence and loyalty and of over-concentration of plan assets in the Company's common stock. The plaintiffs purport to bring these claims on behalf of the plans and all persons who were participants in or beneficiaries of the plans from October 21, 2004, to the present and seek to recover losses allegedly suffered by the plans. The complaints do not specify the amount of damages sought. During the fourth quarter of 2006, the defendants filed a motion to dismiss all defendants and all counts in the consolidated complaint. During the second quarter of 2007, the court denied defendants' motion to dismiss and defendants' answer to the consolidated complaint was filed in August 2007. On August 7, 2007, the court ordered that discovery be completed by April 30, 2008. To date, significant discovery has not taken place. No determination has been made that a class action can be maintained, and there have been no decisions on the merits of the cases. The Company intends to vigorously defend the consolidated lawsuit.

On March 1, 2007, a purported class action ERISA lawsuit was filed on behalf of participants in the Company's 401(k) plans. The lawsuit was filed in the United States District Court for the Eastern District of Michigan and alleges that the Company, members of its Board of Directors, and members of the Employee Benefits Committee (collectively, the "Lear Defendants") breached their fiduciary duties to the participants in the 401(k) plans by approving the Merger Agreement with AREP Car Holdings Corp. and AREP Car Acquisition Corp. (collectively the "AREP Entities"). On March 8, 2007, the plaintiff filed a motion for expedited discovery to support a potential motion for preliminary injunction to enjoin the Merger Agreement. The Lear Defendants filed an opposition to the motion for expedited discovery on March 22, 2007. Plaintiff filed a reply on April 11, 2007. On April 18, 2007, the Judge denied plaintiff's motion for expedited discovery. On March 15, 2007, the plaintiff requested that the case be reassigned to the Judge overseeing *In re: Lear Corp. ERISA Litigation* (described above). The Lear Defendants sent a letter opposing the reassignment on March 21, 2007. On March 22, 2007, the Lear Defendants filed a motion to dismiss all counts of the complaint against the Lear Defendants. Plaintiff filed his opposition to the motion on April 10, 2007, and the Lear Defendants filed their reply in support on April 20, 2007. On April 10, 2007, plaintiff filed a motion for a preliminary injunction to enjoin the merger, which motion was denied on June 25, 2007. On July 6, 2007, plaintiff filed an amended complaint. On August 3, 2007, the court dismissed the AREP Entities from the case without prejudice. On August 31, 2007, the court dismissed the Lear Defendants without prejudice.

Between February 9, 2007 and February 21, 2007, certain stockholders filed three purported class action lawsuits against the Company, certain members of the Company's Board of Directors and American Real Estate Partners, L.P. and certain of its affiliates (collectively, "AREP") in the Delaware Court of Chancery. On February 21, 2007, these lawsuits were consolidated into a single action. The amended complaint in the consolidated action generally alleges that the Merger Agreement unfairly limited the process of selling the Company and that certain members of the Company's Board of Directors breached their fiduciary duties in connection with the Merger Agreement and acted with conflicts of interest in approving the Merger Agreement. The amended complaint in the

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

consolidated action further alleges that Lear's preliminary and definitive proxy statements for the Merger Agreement were misleading and incomplete, and that Lear's payments to AREP as a result of the termination of the Merger Agreement constituted unjust enrichment and waste. On February 23, 2007, the plaintiffs filed a motion for expedited proceedings and a motion to preliminarily enjoin the transactions contemplated by the Merger Agreement. On March 27, 2007, the plaintiffs filed an amended complaint. On June 15, 2007, the Delaware court issued an order entering a limited injunction of Lear's planned shareholder vote on the Merger Agreement until the Company made supplemental proxy disclosure. That supplemental proxy disclosure was approved by the Delaware court and made on June 18, 2007. On June 26, 2007, the Delaware court granted the plaintiffs' motion for leave to file a second amended complaint. On September 11, 2007, the plaintiffs filed a third amended complaint. A trial is scheduled for the fourth quarter of 2007. The Company believes that the lawsuits are without merit and intends to defend against them vigorously.

Although the Company records reserves for legal, product warranty and environmental matters in accordance with SFAS No. 5, "Accounting for Contingencies," the outcomes of these matters are inherently uncertain. Actual results may differ significantly from current estimates.

The Company is involved in certain other legal actions and claims arising in the ordinary course of business, including, without limitation, commercial disputes, 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 the Company is currently involved, either individually or in the aggregate, will have a material adverse effect on its business, consolidated financial position, results of operations or cash flows.

**(18) Segment Reporting**

Historically, the Company has had three reportable operating segments: seating, electrical and electronic and interior. The seating segment includes seat systems and components thereof. The electrical and electronic segment includes electrical distribution systems and electronic products, primarily wire harnesses, junction boxes and connecting systems, interior control and entertainment systems and wireless systems. The interior segment, which has been divested, included instrument panels and cockpit systems, headliners and overhead systems, door panels, flooring and acoustic systems and other interior products (Note 3, "Divestiture of Interior Business"). The Other category includes unallocated costs related to corporate headquarters, geographic headquarters 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 (i) revenues from external customers, (ii) income (loss) before goodwill impairment charge, divestiture of Interior business, interest expense, other expense, provision for income taxes and cumulative effect of a change in accounting principle ("segment earnings") and (iii) cash flows, being defined as segment earnings less capital expenditures plus depreciation and amortization. A summary of revenues from external customers and other financial information by reportable operating segment is shown below (in millions):

Three Months Ended September 29, 2007

	Seating	Electrical and Electronic	Interior	Other	Consolidated
Revenues from external customers	\$ 2,881.4	\$ 693.2	\$ —	\$ —	\$ 3,574.6
Segment earnings	181.2	4.0	—	(77.2)	108.0
Depreciation and amortization	41.8	25.6	—	3.3	70.7
Capital expenditures	29.7	14.7	—	1.4	45.8
Total assets	4,475.2	2,280.8	—	1,188.7	7,944.7

Three Months Ended September 30, 2006

	Seating	Electrical and Electronic	Interior	Other	Consolidated
Revenues from external customers	\$ 2,633.0	\$ 682.6	\$ 754.1	\$ —	\$ 4,069.7
Segment earnings	125.6	16.4	(55.8)	(57.4)	28.8
Depreciation and amortization	39.8	27.1	26.1	5.1	98.1
Capital expenditures	42.3	17.7	23.6	0.2	83.8
Total assets	4,139.8	2,242.0	1,393.7	675.9	8,451.4

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

Nine Months Ended September 29, 2007

	Seating	Electrical and Electronic	Interior	Other	Consolidated
Revenues from external customers	\$ 9,140.1	\$ 2,307.0	\$ 688.9	\$ —	\$ 12,136.0
Segment earnings	617.1	45.0	8.2	(183.1)	487.2
Depreciation and amortization	125.2	82.0	2.3	11.4	220.9
Capital expenditures	76.1	35.0	1.2	1.8	114.1
Total assets	4,475.2	2,280.8	—	1,188.7	7,944.7

Nine Months Ended September 30, 2006

	Seating	Electrical and Electronic	Interior	Other	Consolidated
Revenues from external customers	\$ 8,721.6	\$ 2,257.6	\$ 2,579.2	\$ —	\$ 13,558.4
Segment earnings	423.0	107.6	(149.6)	(184.8)	196.2
Depreciation and amortization	123.1	82.6	77.4	16.3	299.4
Capital expenditures	119.1	53.1	86.1	10.2	268.5
Total assets	4,139.8	2,242.0	1,393.7	675.9	8,451.4

For the three months ended September 29, 2007, segment earnings include restructuring charges of \$19.0 million, \$6.5 million and \$8.0 million in the seating and electrical and electronic segments and in the other category, respectively. For the nine months ended September 29, 2007, segment earnings include restructuring charges of \$25.1 million, \$37.8 million, \$5.0 million and \$11.5 million in the seating, electrical and electronic and interior segments and in the other category, respectively. For the three months ended September 30, 2006, segment earnings include restructuring charges of \$7.8 million, \$6.6 million, \$2.0 million and \$0.6 million in the seating, electrical and electronic and interior segments and in the other category, respectively. For the nine months ended September 30, 2006, segment earnings include restructuring charges of \$26.6 million, \$21.1 million, \$8.2 million and \$1.1 million in the seating, electrical and electronic and interior segments and in the other category, respectively (Note 5, "Restructuring").

A reconciliation of consolidated segment earnings to consolidated income (loss) before provision for income taxes and cumulative effect of a change in accounting principle is shown below (in millions):

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Segment earnings	\$ 108.0	\$ 28.8	\$ 487.2	\$ 196.2
Divestiture of Interior business	(17.1)	28.7	7.8	28.7
Goodwill impairment charge	—	—	—	2.9
Interest expense	47.5	56.6	150.3	157.5
Other expense, net	17.5	9.4	42.8	26.7
Income (loss) before provision for income taxes and cumulative effect of a change in accounting principle	\$ 60.1	\$ (65.9)	\$ 286.3	\$ (19.6)

(19) 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 condensed consolidated balance sheets. As of September 29, 2007 and December 31, 2006, the amount of factored receivables was \$203.9 million and \$256.3 million, respectively. The Company cannot provide any assurances that these factoring facilities will be available or utilized in the future.

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



LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

ASC Corporation transfers undivided interests in up to \$150 million of the receivables to bank-sponsored commercial-paper conduits. As of September 29, 2007 and December 31, 2006, accounts receivable totaling \$420.3 million and \$568.6 million, respectively, had been transferred to Lear ASC Corporation, but no undivided interests in the receivables were transferred to the conduits. As such, these retained interests are included in accounts receivable in the condensed consolidated balance sheets as of September 29, 2007 and December 31, 2006. A discount on the sale of receivables and other related fees of \$0.1 million and \$2.4 million was recognized in the three months ended September 29, 2007 and September 30, 2006, respectively, and \$0.5 million and \$6.8 million was recognized in the nine months ended September 29, 2007 and September 30, 2006, respectively. These amounts are included in other expense, net in the condensed consolidated statements of operations.

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 for the failure of the accounts receivable obligors to pay timely on the accounts receivable.

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

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Proceeds from collections reinvested in securitizations	\$ 932.2	\$ 1,199.9	\$ 2,685.0	\$ 3,444.5
Servicing fees received	1.1	1.5	3.6	4.6

*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, as well as the Euro and other European currencies. Forward foreign exchange, futures and option contracts are accounted for as cash flow hedges when either the hedged item is a forecasted transaction or the variability of cash flows to be received or paid relates to a recognized asset or liability. As of September 29, 2007, contracts designated as cash flow hedges with \$591.1 million of notional amount were outstanding with maturities of less than fifteen months. As of September 29, 2007, the fair market value of these contracts was approximately \$10.5 million. As of September 29, 2007, other foreign currency derivative contracts that did not qualify for hedge accounting with \$415.3 million of notional amount were outstanding. These foreign currency derivative contracts consist principally of cash transactions between three and thirty days, hedges of intercompany loans and hedges of certain other balance sheet exposures. As of September 29, 2007, the fair market value of these contracts was approximately negative \$0.3 million.

Interest rate swap and other derivative contracts — The Company uses interest rate swap and other derivative contracts to manage its exposure to fluctuations in interest rates. Interest rate swap and other derivative contracts which modify the interest payments of certain variable 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 September 29, 2007, contracts representing \$600 million of notional amount were outstanding with maturity dates of September 2008 through September 2011. All of these contracts modify the variable rate characteristics of the Company's variable rate debt instruments, which are generally set at three-month LIBOR rates, such that interest rates do not exceed a weighted average interest rate of 5.323%. The fair market value of all interest rate swap and derivative contracts is subject to changes in value due to changes in interest rates. As of September 29, 2007, the fair market value of these contracts was approximately negative \$9.3 million.

Commodity swap contracts — The Company uses derivative instruments, including financially settled swap and option contracts, to reduce its exposure to fluctuations in certain commodity prices. A portion of the Company's derivative instruments are currently designated as cash flow hedges, as the hedged item is a forecasted transaction. 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 commodity prices. As of September 29, 2007, the fair market value of these contracts was approximately \$1.5 million with maturity dates through December 2008.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

As of September 29, 2007 and December 31, 2006, net gains of approximately \$7.4 million and \$14.7 million, respectively, related to derivative instruments and hedging activities were recorded in accumulated other comprehensive loss. Net gains (losses) of \$6.7 million and \$(2.6) million in the three months ended September 29, 2007 and September 30, 2006, respectively, and \$17.5 million and \$(4.9) million in the nine months ended September 29, 2007 and September 30, 2006, respectively, related to the Company's hedging activities were reclassified from accumulated other comprehensive loss into earnings. During the twelve month period ending September 27, 2008, the Company expects to reclassify into earnings net gains of approximately \$9.8 million recorded in accumulated other comprehensive loss. Such gains will be reclassified at the time the underlying hedged transactions are realized. During the three and nine months ended September 29, 2007 and September 30, 2006, amounts recognized in the condensed consolidated statements of operations 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.

Non-U.S. dollar financing transactions — The Company designated its previously outstanding Euro-denominated senior notes (Note 9, "Long-Term Debt") as a net investment hedge of long-term investments in its Euro-functional subsidiaries. As of September 29, 2007, the amount recorded in accumulated other comprehensive loss related to the effective portion of the net investment hedge of foreign operations was approximately negative \$152.4 million. Such amount will be included in accumulated other comprehensive loss until the Company liquidates its related net investment in its designated foreign operations.

**(20) Accounting Pronouncements***Financial Instruments*

The FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140." This statement resolves issues related to the application of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to beneficial interests in securitized assets. The provisions of this statement are to be applied prospectively to all financial instruments acquired or issued during fiscal years beginning after September 15, 2006. The effects of adoption were not significant.

The FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140." This statement requires that all servicing assets and liabilities be initially measured at fair value. The provisions of this statement are to be applied prospectively to all servicing transactions beginning after September 15, 2006. The effects of adoption were not significant.

*Fair Value Measurements*

The FASB issued SFAS No. 157, "Fair Value Measurements." This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The provisions of this statement are to generally be applied prospectively in fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of this statement on its financial statements.

*Pension and Other Postretirement Benefits*

The FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)." The Company adopted the funded status recognition provisions of SFAS No. 158 as of December 31, 2006.

This statement also requires the measurement of defined benefit plan asset and liabilities as of the annual balance sheet date. Currently, the Company measures its plan assets and liabilities using an early measurement date of September 30, as allowed by the original provisions of SFAS No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The measurement date provisions of SFAS No. 158 are effective for fiscal years ending after December 15, 2008. The Company is currently evaluating the measurement date provisions of this statement.

*Fair Value Option*

The FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115." This statement allows entities to measure eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The provisions of this statement are effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company is currently evaluating the impact of this statement on its financial statements.

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(21) Supplemental Guarantor Condensed Consolidating Financial Statements

September 29, 2007

	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
(Unaudited; in millions)					
<b>ASSETS</b>					
<i>CURRENT ASSETS:</i>					
Cash and cash equivalents	\$ 263.3	\$ 9.5	\$ 329.2	\$ —	\$ 602.0
Accounts receivable	32.0	365.6	2,041.7	—	2,439.3
Inventories	14.2	123.3	497.6	—	635.1
Other	68.6	30.4	230.1	—	329.1
<b>Total current assets</b>	<b>378.1</b>	<b>528.8</b>	<b>3,098.6</b>	<b>—</b>	<b>4,005.5</b>
<i>LONG-TERM ASSETS:</i>					
Property, plant and equipment, net	177.6	247.0	943.0	—	1,367.6
Goodwill, net	454.5	551.2	1,033.3	—	2,039.0
Investments in subsidiaries	4,307.4	3,609.0	—	(7,916.4)	—
Other	215.1	27.3	290.2	—	532.6
<b>Total long-term assets</b>	<b>5,154.6</b>	<b>4,434.5</b>	<b>2,266.5</b>	<b>(7,916.4)</b>	<b>3,939.2</b>
	<b>\$5,532.7</b>	<b>\$ 4,963.3</b>	<b>\$ 5,365.1</b>	<b>\$ (7,916.4)</b>	<b>\$ 7,944.7</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<i>CURRENT LIABILITIES:</i>					
Short-term borrowings	\$ —	\$ 2.1	\$ 10.1	\$ —	\$ 12.2
Accounts payable and drafts	121.6	380.6	1,967.6	—	2,469.8
Accrued liabilities	268.7	227.7	755.1	—	1,251.5
Current portion of long-term debt	84.6	—	19.0	—	103.6
<b>Total current liabilities</b>	<b>474.9</b>	<b>610.4</b>	<b>2,751.8</b>	<b>—</b>	<b>3,837.1</b>
<i>LONG-TERM LIABILITIES:</i>					
Long-term debt	2,334.0	—	17.6	—	2,351.6
Intercompany accounts, net	1,633.7	584.8	(2,218.5)	—	—
Other	157.4	166.1	499.8	—	823.3
<b>Total long-term liabilities</b>	<b>4,125.1</b>	<b>750.9</b>	<b>(1,701.1)</b>	<b>—</b>	<b>3,174.9</b>
<b>STOCKHOLDERS' EQUITY</b>	<b>932.7</b>	<b>3,602.0</b>	<b>4,314.4</b>	<b>(7,916.4)</b>	<b>932.7</b>
	<b>\$5,532.7</b>	<b>\$ 4,963.3</b>	<b>\$ 5,365.1</b>	<b>\$ (7,916.4)</b>	<b>\$ 7,944.7</b>

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

(21) Supplemental Guarantor Condensed Consolidating Financial Statements – (continued)

	December 31, 2006				
	Parent	Guarantors	Non- guarantors	Eliminations	Consolidated
	(In millions)				
<b>ASSETS</b>					
<i>CURRENT ASSETS:</i>					
Cash and cash equivalents	\$ 195.8	\$ 4.0	\$ 302.9	\$ —	\$ 502.7
Accounts receivable	12.7	243.5	1,750.7	—	2,006.9
Inventories	15.2	136.9	429.4	—	581.5
Current assets of business held for sale	77.1	217.1	133.6	—	427.8
Other	45.9	29.9	295.6	—	371.4
Total current assets	346.7	631.4	2,912.2	—	3,890.3
<i>LONG-TERM ASSETS:</i>					
Property, plant and equipment, net	230.9	284.1	956.7	—	1,471.7
Goodwill, net	454.5	551.1	991.1	—	1,996.7
Investments in subsidiaries	3,691.2	3,257.4	—	(6,948.6)	—
Other	233.7	24.1	234.0	—	491.8
Total long-term assets	4,610.3	4,116.7	2,181.8	(6,948.6)	3,960.2
	\$4,957.0	\$ 4,748.1	\$ 5,094.0	\$ (6,948.6)	\$ 7,850.5
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<i>CURRENT LIABILITIES:</i>					
Short-term borrowings	\$ —	\$ —	\$ 39.3	\$ —	\$ 39.3
Accounts payable and drafts	157.0	395.7	1,764.7	—	2,317.4
Accrued liabilities	322.3	145.8	631.2	—	1,099.3
Current liabilities of business held for sale	60.4	226.1	119.2	—	405.7
Current portion of long-term debt	6.0	—	19.6	—	25.6
Total current liabilities	545.7	767.6	2,574.0	—	3,887.3
<i>LONG-TERM LIABILITIES:</i>					
Long-term debt	2,413.2	—	21.3	—	2,434.5
Long-term liabilities of business held for sale	—	0.1	48.4	—	48.5
Intercompany accounts, net	1,193.7	503.1	(1,696.8)	—	—
Other	202.4	176.5	499.3	—	878.2
Total long-term liabilities	3,809.3	679.7	(1,127.8)	—	3,361.2
<i>STOCKHOLDERS' EQUITY</i>	602.0	3,300.8	3,647.8	(6,948.6)	602.0
	\$4,957.0	\$ 4,748.1	\$ 5,094.0	\$ (6,948.6)	\$ 7,850.5

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

(21) Supplemental Guarantor Condensed Consolidating Financial Statements – (continued)

For the Three Months Ended September 29, 2007

	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
(Unaudited; in millions)					
Net sales	\$ 191.1	\$ 1,108.6	\$ 3,267.2	\$ (992.3)	\$ 3,574.6
Cost of sales	201.7	1,059.2	3,038.7	(992.3)	3,307.3
Selling, general and administrative expenses	56.4	17.0	85.9	—	159.3
Divestiture of Interior business	(17.8)	(0.1)	0.8	—	(17.1)
Interest (income) expense	22.7	30.2	(5.4)	—	47.5
Intercompany (income) expense, net	(18.0)	(7.7)	25.7	—	—
Other (income) expense, net	(1.8)	11.3	8.0	—	17.5
Income (loss) before provision for income taxes and equity in net income of subsidiaries	(52.1)	(1.3)	113.5	—	60.1
Provision for income taxes	3.1	3.0	13.0	—	19.1
Equity in net income of subsidiaries	(96.2)	(62.8)	—	159.0	—
Net income	\$ 41.0	\$ 58.5	\$ 100.5	\$ (159.0)	\$ 41.0

For the Three Months Ended September 30, 2006

	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
(Unaudited; in millions)					
Net sales	\$ 349.2	\$ 1,423.9	\$ 3,057.7	\$ (761.1)	\$ 4,069.7
Cost of sales	369.8	1,411.2	2,863.0	(761.1)	3,882.9
Selling, general and administrative expenses	71.1	7.5	79.4	—	158.0
Divestiture of Interior business	—	—	28.7	—	28.7
Interest (income) expense	(23.4)	28.0	52.0	—	56.6
Intercompany (income) expense, net	(90.4)	85.2	5.2	—	—
Other expense, net	5.9	5.2	(1.7)	—	9.4
Income (loss) before provision (benefit) for income taxes and equity in net (income) loss of subsidiaries	16.2	(113.2)	31.1	—	(65.9)
Provision (benefit) for income taxes	(31.4)	(4.8)	44.3	—	8.1
Equity in net (income) loss of subsidiaries	121.6	(34.1)	—	(87.5)	—
Net loss	\$ (74.0)	\$ (74.3)	\$ (13.2)	\$ 87.5	\$ (74.0)

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

(21) Supplemental Guarantor Condensed Consolidating Financial Statements – (continued)

For the Nine Months Ended September 29, 2007

	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
(Unaudited; in millions)					
Net sales	\$ 755.9	\$ 3,951.7	\$10,536.9	\$ (3,108.5)	\$ 12,136.0
Cost of sales	759.5	3,825.3	9,743.9	(3,108.5)	11,220.2
Selling, general and administrative expenses	140.4	46.2	242.0	—	428.6
Divestiture of Interior business	(34.9)	28.1	14.6	—	7.8
Interest (income) expense	69.7	88.5	(7.9)	—	150.3
Intercompany (income) expense, net	(116.6)	7.3	109.3	—	—
Other (income) expense, net	(4.8)	31.6	16.0	—	42.8
Income (loss) before provision (benefit) for income taxes and equity in net income of subsidiaries	(57.4)	(75.3)	419.0	—	286.3
Provision (benefit) for income taxes	4.3	(6.8)	74.3	—	71.8
Equity in net income of subsidiaries	(276.2)	(134.1)	—	410.3	—
Net income	\$ 214.5	\$ 65.6	\$ 344.7	\$ (410.3)	\$ 214.5

For the Nine Months Ended September 30, 2006

	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
(Unaudited; in millions)					
Net sales	\$ 1,285.3	\$ 5,316.3	\$ 9,400.1	\$ (2,443.3)	\$ 13,558.4
Cost of sales	1,364.2	5,207.9	8,739.5	(2,443.3)	12,868.3
Selling, general and administrative expenses	174.9	63.6	255.4	—	493.9
Goodwill impairment charge	—	2.9	—	—	2.9
Divestiture of Interior business	—	—	28.7	—	28.7
Interest (income) expense	(99.9)	98.2	159.2	—	157.5
Intercompany (income) expense, net	(453.6)	266.1	187.5	—	—
Other (income) expense, net	(26.2)	34.3	18.6	—	26.7
Income (loss) before provision (benefit) for income taxes, equity in net (income) loss of subsidiaries and cumulative effect of a change in accounting principle	325.9	(356.7)	11.2	—	(19.6)
Provision (benefit) for income taxes	28.4	(66.0)	83.4	—	45.8
Equity in net (income) loss of subsidiaries	362.9	(104.3)	—	(258.6)	—
Loss before cumulative effect of a change in accounting principle	(65.4)	(186.4)	(72.2)	258.6	(65.4)
Cumulative effect of a change in accounting principle	2.9	—	—	—	2.9
Net loss	\$ (62.5)	\$ (186.4)	\$ (72.2)	\$ 258.6	\$ (62.5)

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

(21) Supplemental Guarantor Condensed Consolidating Financial Statements – (continued)

For the Nine Months Ended September 29, 2007

	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
(Unaudited; in millions)					
Net cash provided (used in) by operating activities	\$ (109.1)	\$ (50.8)	\$ 469.4	\$ —	\$ 309.5
<b>Cash Flows from Investing Activities:</b>					
Additions to property, plant and equipment	(6.7)	(24.4)	(83.0)		(114.1)
Divestiture of Interior business	(14.8)	(12.9)	(20.6)	—	(48.3)
Other, net	2.0	(1.0)	(29.8)	—	(28.8)
Net cash used in investing activities	(19.5)	(38.3)	(133.4)	—	(191.2)
<b>Cash Flows from Financing Activities:</b>					
Primary credit facility repayments, net	(3.0)	—	—	—	(3.0)
Other long-term debt repayments, net	(1.9)	—	(7.8)	—	(9.7)
Short-term debt borrowings (repayments), net	—	2.1	(13.2)	—	(11.1)
Proceeds from exercise of stock options	7.4	—	—	—	7.4
Increase (decrease) in drafts	0.5	(0.8)	(8.1)	—	(8.4)
Change in intercompany accounts	193.1	95.3	(288.4)	—	—
Net cash provided by (used in) financing activities	196.1	96.6	(317.5)	—	(24.8)
Effect of foreign currency translation	—	(2.0)	7.8	—	5.8
<b>Net Change in Cash and Cash Equivalents</b>	<b>67.5</b>	<b>5.5</b>	<b>26.3</b>		<b>99.3</b>
<b>Cash and Cash Equivalents as of Beginning of Period</b>	<b>195.8</b>	<b>4.0</b>	<b>302.9</b>	<b>—</b>	<b>502.7</b>
<b>Cash and Cash Equivalents as of End of Period</b>	<b>\$ 263.3</b>	<b>\$ 9.5</b>	<b>\$ 329.2</b>	<b>\$ —</b>	<b>\$ 602.0</b>

For the Nine Months Ended September 30, 2006

	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
(Unaudited; in millions)					
Net cash provided by (used in) operating activities	\$ 315.8	\$ (292.3)	\$ 82.6	\$ —	\$ 106.1
<b>Cash Flows from Investing Activities:</b>					
Additions to property, plant and equipment	(42.6)	(74.4)	(151.5)		(268.5)
Other, net	38.8	(21.9)	4.2	—	21.1
Net cash used in investing activities	(3.8)	(96.3)	(147.3)	—	(247.4)
<b>Cash Flows from Financing Activities:</b>					
Primary credit facility borrowings, net	615.1	—	—	—	615.1
Repayment of senior notes	(520.9)	—	—	—	(520.9)
Other long-term debt borrowings (repayments), net	(32.0)	(10.5)	24.3	—	(18.2)
Short-term debt repayments, net	—	—	(8.5)	—	(8.5)
Dividends paid	(16.8)	—	—	—	(16.8)
Increase (decrease) in drafts	1.6	(0.4)	(4.7)	—	(3.5)
Change in intercompany accounts	(386.8)	397.8	(11.0)	—	—
Net cash provided by (used in) financing activities	(339.8)	386.9	0.1	—	47.2
Effect of foreign currency translation	—	2.7	36.8	—	39.5

<b>Net Change in Cash and Cash Equivalents</b>	(27.8)	1.0	(27.8)	—	(54.6)
<b>Cash and Cash Equivalents as of</b>					
<b>Beginning of Period</b>	38.6	4.8	164.2	—	207.6
	<u>          </u>				
<b>Cash and Cash Equivalents as of End</b>					
<b>of Period</b>	\$ 10.8	\$ 5.8	\$ 136.4	\$ —	\$ 153.0
	<u>          </u>				

LEAR CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

(21) 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 \$300 million aggregate principal amount of 8.50% senior notes due 2013, \$600 million aggregate principal amount of 8.75% senior notes due 2016, \$399.4 million aggregate principal amount of 5.75% senior notes due 2014, Euro 56 million aggregate principal amount of 8.125% senior notes due 2008, \$41.4 million aggregate principal amount of 8.11% senior notes due 2009 and \$0.8 million aggregate principal amount of zero-coupon convertible senior notes due 2022. The Guarantors under the indentures are currently Lear Automotive Dearborn, Inc., Lear Automotive (EEDS) Spain S.L., Lear Corporation EEDS and Interiors, Lear Corporation (Germany) Ltd., Lear Corporation Mexico, S. de R.L. de C.V., Lear Operations Corporation and Lear Seating Holdings Corp. #50. In lieu of providing separate financial statements for the Guarantors, the Company has included the supplemental guarantor condensed consolidating financial statements above. These financial statements reflect the guarantors listed above for all periods presented. Management does not believe that separate financial statements of the Guarantors are material to investors. Therefore, separate financial statements and other disclosures concerning the Guarantors are not presented.

As of December 31, 2006 and for the three and nine months ended September 30, 2006, the supplemental guarantor condensed consolidating financial statements have been restated to reflect certain changes to the equity investments of guarantor subsidiaries.

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

Selling, General and Administrative Expenses — The Parent allocated \$5.0 million and \$20.3 million in the three months ended September 29, 2007 and September 30, 2006, respectively, and \$14.1 million and \$48.4 million in the nine months ended September 29, 2007 and September 30, 2006, 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):

	September 29, 2007	December 31, 2006
Primary credit facility	\$ 994.0	\$ 997.0
Senior notes	1,420.2	1,417.6
Other long-term debt	4.4	4.6
	2,418.6	2,419.2
Less — current portion	(84.6)	(6.0)
	\$ 2,334.0	\$ 2,413.2

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 9, “Long-Term Debt.”

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

## EXECUTIVE OVERVIEW

We were incorporated in Delaware in 1987 and are one of the world’s largest automotive suppliers based on net sales. We supply every major automotive manufacturer in the world, including General Motors, Ford, BMW, Chrysler, Fiat, PSA, Volkswagen, Hyundai, Renault-Nissan, Mercedes, Mazda, Toyota, Porsche and Honda.

We supply automotive manufacturers with complete automotive seat and electrical distribution systems and select electronic products. Historically, we also supplied automotive interior components and systems, including instrument panels and cockpit systems, headliners and overhead systems, door panels and flooring and acoustic systems. As discussed below, substantially all of the assets of this segment have been divested.

*Merger Agreement*

On February 9, 2007, we entered into an Agreement and Plan of Merger, as amended (the “Merger Agreement”), with AREP Car Holdings Corp., a Delaware corporation (“AREP Car Holdings”), and AREP Car Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of AREP Car Holdings (“Merger Sub”). Under the terms of the Merger Agreement, Merger Sub would have merged with and into Lear, and as a result, Lear would have continued as the surviving corporation and a wholly owned subsidiary of AREP Car Holdings. AREP Car Holdings and Merger Sub are affiliates of Carl C. Icahn.

Pursuant to the Merger Agreement, as of the effective time of the merger, each issued and outstanding share of common stock of Lear, other than shares (i) owned by AREP Car Holdings, Merger Sub or any subsidiary of AREP Car Holdings and (ii) owned by any shareholders who were entitled to and who had properly exercised appraisal rights under Delaware law, would have been canceled and automatically converted into the right to receive \$37.25 in cash, without interest.

On July 16, 2007, we held our 2007 Annual Meeting of Stockholders, at which the proposal to approve the Merger Agreement did not receive the affirmative vote of the holders of a majority of the outstanding shares of our common stock. As a result, the Merger Agreement terminated in accordance with its terms. Upon termination of the Merger Agreement, we were obligated to (1) pay AREP Car Holdings \$12.5 million, (2) issue to AREP Car Holdings 335,570 shares of our common stock valued at approximately \$12.5 million, based on the closing price of our common stock on July 16, 2007, and (3) increase from 24% to 27% the share ownership limitation under the limited waiver of Section 203 of the Delaware General Corporation Law granted by us to affiliates of and funds managed by Carl C. Icahn in October 2006 (collectively, the “Termination Consideration”). The shares of our common stock issued as part of the Termination Consideration were issued pursuant to an exemption from registration under Section 4(2) and Regulation D promulgated under the Securities Act of 1933, as amended. The Termination Consideration to AREP Car Holdings shall be credited against the break-up fee that would otherwise be payable by us to AREP Car Holdings in the event that we enter into a definitive agreement with respect to an alternative acquisition proposal within twelve months after the termination of the Merger Agreement. Costs of approximately \$25 million associated with the Termination Consideration were recognized in selling, general and administrative expense in the third quarter of 2007. In addition, we incurred approximately \$12 million in transaction costs related to the Merger Agreement in the first half of 2007.

For further information regarding the Merger Agreement, please refer to the Merger Agreement and certain related documents, which are incorporated by reference as exhibits to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

*Interior Segment*

On March 31, 2007, we completed the transfer of substantially all of the assets of our North American interior business (as well as our interests in two China joint ventures) to International Automotive Components Group North America, Inc. (“IAC”) (the “IAC North America Transaction”). The IAC North America Transaction was completed pursuant to the terms of an Asset Purchase Agreement (the “Purchase Agreement”) dated as of November 30, 2006, by and among Lear, IAC, WL Ross & Co. LLC (“WL Ross”), Franklin Mutual Advisers, LLC (“Franklin”) and International Automotive Components Group North America, LLC (“IACNA”), as amended by Amendment No. 1 to the Purchase Agreement dated as of March 31, 2007. The legal transfer of certain assets included in the IAC North America Transaction is subject to the satisfaction of certain post-closing conditions. In connection with the IAC North America Transaction, IAC assumed the ordinary course liabilities of our North American interior business, and we retained certain pre-closing liabilities, including pension and postretirement healthcare liabilities incurred through the closing date of the transaction.

Also on March 31, 2007, a wholly owned subsidiary of Lear and certain affiliates of WL Ross and Franklin, entered into the Limited Liability Company Agreement (the “LLC Agreement”) of IACNA. Pursuant to the terms of the LLC Agreement, a wholly owned subsidiary of Lear contributed approximately \$27 million in cash to IACNA in exchange for a 25% equity interest in IACNA and

## LEAR CORPORATION

warrants for an additional 7% of the current outstanding common equity of IACNA. Certain affiliates of WL Ross and Franklin made aggregate capital contributions of approximately \$81 million to IACNA in exchange for the remaining equity and extended a \$50 million term loan to IAC. Lear and a wholly owned subsidiary of Lear had agreed to fund up to an additional \$40 million, and WL Ross and Franklin had agreed to fund up to an additional \$45 million, in the event that IAC did not meet certain financial targets in 2007. During the third quarter of 2007, we completed negotiations related to the amount of additional funding, and on October 10, 2007, we made a cash payment to IAC of \$12.5 million in full satisfaction of this contingent funding obligation. In connection with the IAC North America Transaction, we recorded a loss on divestiture of Interior business of approximately \$608 million, of which approximately \$1 million was recognized in the first nine months of 2007 and approximately \$607 million was recognized in the fourth quarter of 2006. We also recognized additional costs related to the IAC North America Transaction of approximately \$10 million, which are recorded in cost of sales and selling, general and administrative expenses in the condensed consolidated statement of operations for the nine months ended September 29, 2007.

On October 11, 2007, IACNA completed the acquisition of the soft trim division of Collins & Aikman Corporation (“C&A”) (the “C&A Acquisition”). The soft trim division includes 16 facilities in North America with annual net sales of approximately \$550 million related to the manufacture of carpeting, molded flooring products, dash insulators and other related interior components. The purchase price for the C&A Acquisition was approximately \$126 million, subject to increase based on the future performance of the soft trim business, plus the assumption by IACNA of certain ordinary course liabilities.

In connection with the C&A Acquisition, IACNA offered the senior secured creditors of C&A (the “C&A Creditors”) the right to purchase shares of Class B common stock of IACNA, up to an aggregate of 25% of the outstanding equity of IACNA. On October 11, 2007, the participating C&A Creditors purchased all of the offered Class B shares for an aggregate purchase price of \$82.3 million. In addition, in order to finance the C&A Acquisition, IACNA issued to WL Ross, Franklin and a wholly owned subsidiary of Lear approximately \$126 million of additional shares of Class A common stock of IACNA in a preemptive rights offering. We purchased our entire 25% allocation of Class A shares in the preemptive rights offering for approximately \$32 million. After giving effect to the sale of the Class A and Class B shares, we own 18.75% of the total outstanding shares of common stock of IACNA, plus a warrant to purchase an additional 2.6% of the outstanding IACNA shares. We also maintain the same governance and other rights in IACNA that we possessed prior to the C&A Acquisition.

To effect the issuance of shares in the C&A Acquisition and the settlement of our contingent funding obligation, on October 11, 2007, IACNA, WL Ross, Franklin, a wholly owned subsidiary of Lear and the participating C&A Creditors entered into an Amended and Restated Limited Liability Company Agreement of IACNA (the “Amended LLC Agreement”). The Amended LLC Agreement, among other things, (1) provides the participating C&A Creditors certain governance and transfer rights with respect to their Class B shares and (2) eliminates any further funding obligations to IACNA.

On October 16, 2006, we completed the contribution of substantially all of our European interior business to International Automotive Components Group, LLC (“IAC Europe”), a separate joint venture with affiliates of WL Ross and Franklin, in exchange for an approximately one-third equity interest in IAC Europe. In connection with this transaction, we recorded a loss on divestiture of Interior business of approximately \$35 million, of which approximately \$6 million was recognized in the first nine months of 2007 and approximately \$29 million was recognized in 2006.

As a result of the settlement of our contingent funding obligation and other adjustments related to our investments in IACNA and IAC Europe, we recorded a reduction of approximately \$17 million to the previously recorded loss on divestiture of Interior business in the third quarter of 2007.

For further information related to the divestiture of our interior business, see Note 3, “Divestiture of Interior Business,” to the accompanying condensed consolidated financial statements and the Purchase Agreement, LLC Agreement and related documents, which are incorporated by reference as exhibits to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

### *Industry Overview*

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, fuel prices, 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, it is possible that customers could elect to manufacture components that are currently produced by external suppliers such as Lear. A significant loss of business with respect to any vehicle model for which we are a significant supplier, or a decrease in the production levels of any such models, could have a material adverse impact on our future operating results. Unfavorable vehicle platform mix and lower production volumes by the domestic automakers in North America have had an

adverse effect on our operating results since 2005. A continuation of the shift in consumer purchasing patterns from certain of our key light truck and SUV platforms toward passenger cars, crossover vehicles or other vehicle platforms where we generally have substantially less content will adversely affect our future operating results. In addition, our two largest customers, General Motors and Ford, accounted for approximately 47% of our net sales in 2006, excluding net sales to Saab, Volvo, Jaguar and Land Rover, which are affiliates of General Motors or Ford. The automotive operations of both General Motors and Ford experienced significant operating losses throughout 2006, and both automakers are continuing to restructure their North American operations, which could have a material impact on our future 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 Europe, the market structure is more fragmented with significant overcapacity. We expect these challenging industry conditions to continue in the foreseeable future. During the first nine months of 2007, North American production levels declined by approximately 2% as compared to the same period in 2006, and production levels on several of our key platforms have declined more significantly. Historically, the majority of our sales have been derived from the U.S.-based automotive manufacturers in North America and, to a lesser extent, automotive manufacturers in Western Europe. These customers have experienced declines in market share in their traditional markets. In addition, a disproportionate amount of our net sales and profitability in North America has been on light truck and large SUV platforms of the domestic automakers, which are experiencing significant competitive pressures. As discussed below, our ability to maintain and improve our financial performance in the future will depend, in part, on our ability to significantly increase our penetration of Asian automotive manufacturers worldwide and leverage our existing North American and European customer base geographically and across both product lines.

Our customers require us to reduce costs and, at the same time, assume significant responsibility for the design, development and engineering of our products. Our profitability is largely dependent on our ability to achieve product cost reductions through restructuring actions, manufacturing efficiencies, product design enhancement and supply chain management. We also 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. We continually evaluate operational and strategic alternatives to align our business with the changing needs of our customers, improve our business structure and lower the operating costs of our company.

Our material cost as a percentage of net sales was 68.1% in the first nine months of 2007 as compared to 68.8% in 2006 and 68.3% in 2005. Raw material, energy and commodity costs generally remained high in the first nine months of 2007. Unfavorable industry conditions have also resulted in financial distress within our supply base and an increase in commercial disputes and the risk of supply disruption. We have developed and implemented strategies to mitigate or partially offset the impact of higher raw material, energy and commodity costs, which include cost reduction actions, the utilization of our cost technology optimization process, the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments and the acceleration of low-cost country sourcing and engineering. However, due to the magnitude and duration of the increased raw material, energy and commodity costs, these strategies, together with commercial negotiations with our customers and suppliers, offset only a portion of the adverse impact. In addition, higher crude oil prices can indirectly impact our operating results by adversely affecting demand for certain of our key light truck and SUV platforms. We expect that high raw material, energy and commodity costs will continue to have a material adverse impact on our operating results in the foreseeable future. See “— Forward-Looking Statements” and Item 1A, “Risk Factors – High raw material costs may continue to have a significant adverse impact on our profitability,” in our Annual Report on Form 10-K for the year ended December 31, 2006.

#### *Outlook*

In evaluating our financial condition and operating performance, we focus primarily on profitable sales growth and cash flows, as well as return on investment 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 (including sourcing activity in Asia) and with Asian automotive manufacturers worldwide. The Asian market presents growth opportunities, as automotive manufacturers expand production in this market to meet increasing demand. We currently have nine 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. In addition, we have improved our low-cost country manufacturing capabilities through expansion in Asia, Eastern Europe, Africa and Central America.

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. Historically, we have generally been successful in aligning our vendor payment terms with our customer payment terms. However, our ability to continue to do so may be adversely impacted by the unfavorable financial results of our suppliers and adverse industry conditions, as well as our financial results. In addition, our cash flow is dependent on our ability to efficiently manage our capital spending. We utilize return on investment as a

## LEAR CORPORATION

measure of the efficiency with which assets are deployed to increase earnings. Improvements in our return on investment will depend on our ability to maintain an appropriate asset base for our business and to increase productivity and operating efficiency.

### *Restructuring*

In the second quarter of 2005, we began to implement consolidation, facility realignment and census actions in order to address unfavorable industry conditions. These actions continued through the first nine months of 2007 and are part of a comprehensive restructuring strategy intended to (i) better align our manufacturing capacity with the changing needs of our customers, (ii) eliminate excess capacity and lower our operating costs and (iii) streamline our organizational structure and reposition our business for improved long-term profitability. In connection with the restructuring actions, we currently expect to incur pretax costs of approximately \$325 million through 2007, although all aspects of the restructuring actions have not been finalized. In addition, in light of current industry conditions, particularly in North America, we expect to make significant restructuring and related investments beyond the current year. Restructuring and related manufacturing inefficiency charges were \$88 million in the first nine months of 2007, \$100 million in 2006 and \$104 million in 2005.

### *Other Matters*

In the first quarter of 2007, we recognized a curtailment gain of \$36 million related to our decision to freeze our U.S. salaried pension plan, as well as a loss of \$4 million related to the acquisition of the minority interest in an affiliate. In the first nine months of 2006, we recognized aggregate gains of \$27 million related to the sales of our interests in two affiliates, as well as fixed asset impairment charges of \$9 million and a goodwill impairment charge of \$3 million.

As discussed above, our results for the first nine months of 2007 and 2006 reflect the following items (in millions):

	Three months ended		Nine months ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Costs related to divestiture of Interior business	\$ (17)	\$ 29	\$ 18	\$ 29
Fixed asset impairment charges related to Interior business	—	—	—	9
Goodwill impairment charge related to Interior business	—	—	—	3
Costs related to restructuring actions	37	17	88	57
U.S. salaried pension plan curtailment gain	—	—	(36)	—
Costs related to merger transaction	25	—	37	—
(Gain) loss on joint venture transactions	—	—	4	(27)

For further information regarding these items, see “— Restructuring” and Note 2, “Merger Agreement,” Note 3, “Divestiture of Interior Business,” Note 5, “Restructuring,” Note 7, “Property, Plant and Equipment,” Note 10, “Pension and Other Postretirement Benefit Plans,” and Note 12, “Other Expense, Net,” to the accompanying condensed consolidated financial statements.

This section includes forward-looking statements that are subject to risks and uncertainties. For further information regarding other factors that have had, or may have in the future, a significant impact on our business, financial condition or results of operations, see “— Forward-Looking Statements” and Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2006.

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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				Nine Months Ended			
	September 29, 2007		September 30, 2006		September 29, 2007		September 30, 2006	
Net sales								
Seating	\$ 2,881.4	80.6%	\$ 2,633.0	64.7%	\$ 9,140.1	75.3%	\$ 8,721.6	64.3%
Electrical and electronic	693.2	19.4	682.6	16.8	2,307.0	19.0	2,257.6	16.7
Interior	—	—	754.1	18.5	688.9	5.7	2,579.2	19.0
Net sales	3,574.6	100.0	4,069.7	100.0	12,136.0	100.0	13,558.4	100.0
Gross profit	267.3	7.5	186.8	4.6	915.8	7.5	690.1	5.1
Selling, general and administrative expenses	159.3	4.5	158.0	3.9	428.6	3.5	493.9	3.6
Goodwill impairment charge	—	—	—	—	—	—	2.9	—
Divestiture of Interior business	(17.1)	(0.5)	28.7	0.7	7.8	0.1	28.7	0.2
Interest expense	47.5	1.3	56.6	1.4	150.3	1.2	157.5	1.1
Other expense, net	17.5	0.4	9.4	0.2	42.8	0.3	26.7	0.2
Provision for income taxes	19.1	0.5	8.1	0.2	71.8	0.6	45.8	0.3
Cumulative effect of a change in accounting principle	—	—	—	—	—	—	2.9	—
Net income (loss)	\$ 41.0	1.1%	\$ (74.0)	(1.8)%	\$ 214.5	1.8%	\$ (62.5)	(0.5)%

Three Months Ended September 29, 2007 vs. Three Months Ended September 30, 2006

Net sales in the third quarter of 2007 were \$3.6 billion as compared to \$4.1 billion in the third quarter of 2006, a decrease of \$495 million or 12.2%. The divestiture of our interior business and unfavorable vehicle platform mix in North America negatively impacted net sales by \$754 million and \$131 million, respectively. These decreases were partially offset by the benefit of new business, primarily outside of North America, and the impact of net foreign exchange rate fluctuations, which increased net sales by \$174 million and \$149 million, respectively.

Gross profit and gross margin were \$267 million and 7.5% in the quarter ended September 29, 2007, as compared to \$187 million and 4.6% in the quarter ended September 30, 2006. The divestiture of our interior business and new business, primarily outside of North America, favorably impacted gross profit by \$28 million and \$23 million, respectively. The benefit of our restructuring and other productivity actions were largely offset by the impact of net selling price reductions and unfavorable vehicle platform mix in North America.

Selling, general and administrative expenses, including research and development, were \$159 million in the three months ended September 29, 2007, as compared to \$158 million in the three months ended September 30, 2006. As a percentage of net sales, selling, general and administrative expenses were 4.5% and 3.9% in the third quarters of 2007 and 2006, respectively. The increase in selling, general and administrative expenses as a percentage of net sales was largely due to costs related to the termination of the Merger Agreement of \$25 million.

Interest expense was \$48 million in the third quarter of 2007 as compared to \$57 million in the third quarter of 2006. The decrease was largely due to interest related to a foreign tax matter in 2006 and lower borrowing levels in 2007.

Other expense, which includes state and local non-income taxes, foreign exchange gains and losses, fees associated with our asset-backed securitization and factoring facilities, minority interests in consolidated subsidiaries, equity in net income (loss) of affiliates, gains and losses on the sales of assets and other miscellaneous income and expense, was \$18 million in the third quarter of 2007 as compared to \$9 million in the third quarter of 2006, primarily due to increases in both minority interests in consolidated subsidiaries and equity in net losses of affiliates.

The provision for income taxes was \$19 million in the third quarter of 2007, representing an effective tax rate of 31.8%, as compared to \$8 million in the third quarter of 2006, representing an effective tax rate of (12.3)%. The provision for income taxes in the third quarter of 2007 was impacted by a portion of our restructuring charges and costs related to the Merger Agreement, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. This was largely offset by a reduction in losses of \$17 million related to the divestiture of our

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interior business, a significant portion of which resulted in no tax expense as it was incurred in the United States, as well as the impact of a tax benefit of \$17 million related to a tax rate change in Germany. Excluding these items, the effective tax rate in the third quarter of 2007 approximated the U.S. federal statutory income tax rate of 35% adjusted for income taxes on foreign earnings, losses and remittances, foreign valuation allowances, the U.S. valuation allowance, tax credits, income tax incentives and other permanent items. Further, our current and future provision for income taxes is significantly impacted by the recognition of valuation allowances in certain countries, particularly the United States. We intend to maintain these allowances until it is more likely than not that the deferred tax assets will be realized. Our future income tax expense will include no tax benefit with respect to U.S. losses and no tax expense with respect to U.S. income until the allowance is eliminated. Accordingly, income taxes are impacted by the U.S. valuation allowance and the mix of earnings among jurisdictions. The provision for income taxes in the third quarter of 2006 includes a one-time tax benefit of \$15 million resulting from the expiration of the statute of limitations in a foreign taxing jurisdiction. The provision for income taxes in the third quarter of 2006 was also impacted by the loss on the divestiture of our European interior business, for which a tax benefit of \$4 million was recognized, and a portion of our restructuring charges, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries.

Net income in the third quarter of 2007 was \$41 million, or \$0.52 per diluted share, as compared to a net loss of \$74 million, or \$1.10 per diluted share, in the third quarter of 2006, for the reasons described above.

### *Reportable Operating Segments*

Historically, we have had three reportable operating segments: seating, which includes seat systems and the components thereof; electrical and electronic, which includes electrical distribution systems and electronic products, primarily wire harnesses, junction boxes and connecting systems, interior control and entertainment systems and wireless systems; and interior, which has been divested and included instrument panels and cockpit systems, headliners and overhead systems, door panels, flooring and acoustic systems and other interior products. For further information related to our interior business, see Note 3, "Divestiture of Interior Business," to the accompanying condensed consolidated financial statements. The financial information presented below is for our three reportable operating segments and our other category for the periods presented. The other category includes unallocated costs related to corporate headquarters, geographic headquarters and the elimination of intercompany activities, none of which meets the requirements of being classified as an operating segment. Corporate and geographic headquarters costs include various support functions, such as information technology, purchasing, corporate finance, legal, executive administration and human resources. Financial measures regarding each segment's income (loss) before divestiture of Interior business, interest expense, other expense and provision for income taxes ("segment earnings") and segment earnings divided by net sales ("margin") are not measures of performance under accounting principles generally accepted in the United States ("GAAP"). Segment earnings and the related margin are used by management to evaluate the performance of our reportable operating segments. Segment earnings should not be considered in isolation or as a substitute for net income, 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, segment earnings, as we determine it, may not be comparable to related or similarly titled measures reported by other companies. For a reconciliation of consolidated segment earnings to consolidated income (loss) before provision for income taxes, see Note 18, "Segment Reporting," to the accompanying condensed consolidated financial statements.

### Seating

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

	Three months ended	
	September 29, 2007	September 30, 2006
Net sales	\$ 2,881.4	\$ 2,633.0
Segment earnings	181.2	125.6
Margin	6.3%	4.8%

Seating net sales were \$2.9 billion in the third quarter of 2007 as compared to \$2.6 billion in the third quarter of 2006, an increase of \$248 million or 9.4%. The benefit of new business, primarily outside of North America, and the impact of net foreign exchange rate fluctuations favorably impacted net sales by \$181 million and \$123 million, respectively. These increases were partially offset by unfavorable vehicle platform mix in North America. Segment earnings and the related margin on net sales were \$181 million and 6.3% in the third quarter of 2007 as compared to \$126 million and 4.8% in the third quarter of 2006. The improvement in segment earnings was largely due to favorable cost performance from our restructuring and other productivity actions and the addition of new business, primarily outside of North America. These increases were partially offset by unfavorable vehicle platform mix in North

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America and the impact of net selling price reductions. In addition, in the third quarter of 2007, we incurred costs related to our restructuring actions of \$20 million as compared to \$8 million in the third quarter of 2006.

### Electrical and Electronic

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

	Three months ended	
	September 29, 2007	September 30, 2006
Net sales	\$ 693.2	\$ 682.6
Segment earnings	4.0	16.4
Margin	0.6%	2.4%

Electrical and electronic net sales were \$693 million in the third quarter of 2007 as compared to \$683 million in the third quarter of 2006, an increase of \$11 million or 1.6%. The impact of net foreign exchange rate fluctuations favorably impacted net sales by \$26 million. This increase was partially offset by the impact of net selling price reductions and the roll-off of several programs in North America. Segment earnings and the related margin on net sales were \$4.0 million and 0.6% in the third quarter of 2007 as compared to \$16 million and 2.4% in the third quarter of 2006. The impact of net selling price reductions and the roll-off of several programs in North America were partially offset by favorable cost performance from our restructuring and other productivity actions. In addition, in the third quarter of 2007, we incurred costs related to our restructuring actions of \$10 million as compared to \$7 million in the third quarter of 2006.

### Interior

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

	Three months ended	
	September 29, 2007	September 30, 2006
Net sales	\$ —	\$ 754.1
Segment earnings	—	(55.8)
Margin	—%	(7.4)%

We substantially completed the divestiture of our interior business in the first quarter of 2007. See “— Executive Overview” for further information. We incurred costs related to our restructuring actions of \$2 million in the third quarter of 2006.

### Other

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

	Three months ended	
	September 29, 2007	September 30, 2006
Net sales	\$ —	\$ —
Segment earnings	(77.2)	(57.4)
Margin	N/A	N/A

Our other category includes unallocated corporate and geographic headquarters costs, as well as the elimination of intercompany activity. Corporate and geographic headquarters costs include various support functions, such as information technology, purchasing, corporate finance, legal, executive administration and human resources. Segment earnings related to our other category were \$(77) million in the third quarter of 2007 as compared to \$(57) million in the third quarter of 2006. Costs related to the termination of the Merger Agreement of \$25 million and restructuring costs of \$8 million were partially offset by the benefit of our restructuring and other cost improvement actions.

### **Nine Months Ended September 29, 2007 vs. Nine Months Ended September 30, 2006**

Net sales in the first nine months of 2007 were \$12.1 billion as compared to \$13.6 billion in the first nine months of 2006, a decrease of \$1.4 billion or 10.5%. The divestiture of our interior business, as well as unfavorable vehicle platform mix and lower production



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volumes in North America, negatively impacted net sales by \$1.8 billion and \$706 million, respectively. These decreases were partially offset by the benefit of new business, primarily outside of North America, and the impact of net foreign exchange rate fluctuations, which increased net sales by \$720 million and \$437 million, respectively.

Gross profit and gross margin were \$916 million and 7.5% in the nine months ended September 29, 2007, as compared to \$690 million and 5.1% in the nine months ended September 30, 2006. New business, primarily outside of North America, and the divestiture of our interior business favorably impacted gross profit by \$104 million and \$33 million, respectively. The benefit of our restructuring and other productivity actions were partially offset by unfavorable vehicle platform mix and lower production volumes in North America and the impact of net selling price reductions.

Selling, general and administrative expenses, including research and development, were \$429 million in the nine months ended September 29, 2007, as compared to \$494 million in the nine months ended September 30, 2006. As a percentage of net sales, selling, general and administrative expenses were 3.5% and 3.6% in the first nine months of 2007 and 2006, respectively. The decrease in selling, general and administrative expenses was largely due to a curtailment gain of \$36 million related to our decision to freeze our U.S. salaried pension plan, as well as a reduction in engineering and tooling costs. Reductions in selling, general and administrative expenses of \$41 million related to the divestiture of our interior business were largely offset by costs related to the Merger Agreement of \$37 million.

Interest expense was \$150 million in the first nine months of 2007 as compared to \$158 million in the first nine months of 2006. The decrease was largely due to lower borrowing levels in 2007 and interest related to a foreign tax matter in 2006 partially offset by the impact of higher interest rates on our refinanced primary credit facility and senior notes.

Other expense, which includes state and local non-income taxes, foreign exchange gains and losses, fees associated with our asset-backed securitization and factoring facilities, minority interests in consolidated subsidiaries, equity in net income (loss) of affiliates, gains and losses on the sales of assets and other miscellaneous income and expense, was \$43 million in the first nine months of 2007 as compared to \$27 million in the first nine months of 2006. In the first nine months of 2007, foreign exchange and the improved performance of certain of our unconsolidated affiliates favorably impacted other expense by \$22 million and \$11 million, respectively. These improvements were partially offset by increases in minority interests in consolidated subsidiaries and other miscellaneous income and expense. In the first nine months of 2006, we recognized aggregate gains of \$27 million related to the sales of our interests in two affiliates.

The provision for income taxes was \$72 million in the first nine months of 2007, representing an effective tax rate of 25.1%, as compared to \$46 million in the first nine months of 2006, representing an effective tax rate of (233.7)%. The provision for income taxes in the first nine months of 2007 was impacted by costs of \$18 million related to the divestiture of our interior business, a significant portion of which provided no tax benefit as they were incurred in the United States. The provision was also impacted by a portion of our restructuring charges and costs related to the Merger Agreement, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. This was offset by the impact of the U.S. salaried pension plan curtailment gain of \$36 million, for which no tax expense was provided as it was incurred in the United States, the impact of a one-time tax benefit of \$13 million related to a reversal of a valuation allowance in a European subsidiary and the impact of a tax benefit of \$17 million related to a tax rate change in Germany. Excluding these items, the effective tax rate in the first nine months of 2007 approximated the U.S. federal statutory income tax rate of 35% adjusted for income taxes on foreign earnings, losses and remittances, foreign valuation allowances, the U.S. valuation allowance, tax credits, income tax incentives and other permanent items. Further, our current and future provision for income taxes is significantly impacted by the recognition of valuation allowances in certain countries, particularly the United States. We intend to maintain these allowances until it is more likely than not that the deferred tax assets will be realized. Our future income tax expense will include no tax benefit with respect to U.S. losses and no tax expense with respect to U.S. income until the allowance is eliminated. Accordingly, income taxes are impacted by the U.S. valuation allowance and the mix of earnings among jurisdictions. The provision for income taxes in the first nine months of 2006 includes one-time tax benefits of \$20 million resulting from the expiration of the statute of limitations in a foreign taxing jurisdiction, a tax audit resolution, court rulings in certain jurisdictions, the merger of two foreign entities and changes in tax laws in certain jurisdictions. The provision for income taxes in the first nine months of 2006 was also impacted by the loss on the divestiture of our European interior business, for which a tax benefit of \$4 million was recognized, gains on the sales of our interests in two affiliates, for which no tax expense was recognized, and a portion of our restructuring and impairment charges, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries.

On January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123 (R), “Share-Based Payment.” As a result, we recognized a cumulative effect of a change in accounting principle of \$3 million in the first nine months of

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2006 related to a change in accounting for forfeitures. For further information, see Note 4, "Stock-Based Compensation," to the accompanying condensed consolidated financial statements.

Net income in the first nine months of 2007 was \$215 million, or \$2.74 per diluted share, as compared to a net loss of \$63 million, or \$0.93 per diluted share, in the first nine months of 2006, for the reasons described above.

### Reportable Operating Segments

Historically, we have had three reportable operating segments: seating, which includes seat systems and the components thereof; electrical and electronic, which includes electrical distribution systems and electronic products, primarily wire harnesses, junction boxes and connecting systems, interior control and entertainment systems and wireless systems; and interior, which has been divested and included instrument panels and cockpit systems, headliners and overhead systems, door panels, flooring and acoustic systems and other interior products. For further information related to our interior business, see Note 3, "Divestiture of Interior Business," to the accompanying condensed consolidated financial statements. The financial information presented below is for our three reportable operating segments and our other category for the periods presented. The other category includes unallocated costs related to corporate headquarters, geographic headquarters and the elimination of intercompany activities, none of which meets the requirements of being classified as an operating segment. Corporate and geographic headquarters costs include various support functions, such as information technology, purchasing, corporate finance, legal, executive administration and human resources. Financial measures regarding each segment's income (loss) before goodwill impairment charge, divestiture of Interior business, interest expense, other expense, provision for income taxes and cumulative effect of a change in accounting principle ("segment earnings") and segment earnings divided by net sales ("margin") are not measures of performance under accounting principles generally accepted in the United States ("GAAP"). Segment earnings and the related margin are used by management to evaluate the performance of our reportable operating segments. Segment earnings should not be considered in isolation or as a substitute for net income, 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, segment earnings, as we determine it, may not be comparable to related or similarly titled measures reported by other companies. For a reconciliation of consolidated segment earnings to consolidated income (loss) before provision for income taxes and cumulative effect of a change in accounting principle, see Note 18, "Segment Reporting," to the accompanying condensed consolidated financial statements.

### Seating

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

	Nine months ended	
	September 29, 2007	September 30, 2006
Net sales	\$ 9,140.1	\$ 8,721.6
Segment earnings	617.1	423.0
Margin	6.8%	4.9%

Seating net sales were \$9.1 billion in the first nine months of 2007 as compared to \$8.7 billion in the first nine months of 2006, an increase of \$419 million or 4.8%. The benefit of new business, primarily outside of North America, and the impact of net foreign exchange rate fluctuations favorably impacted net sales by \$671 million and \$342 million, respectively. These increases were partially offset by unfavorable vehicle platform mix and lower production volumes in North America. Segment earnings and the related margin on net sales were \$617 million and 6.8% in the first nine months of 2007 as compared to \$423 million and 4.9% in the first nine months of 2006. The improvement in segment earnings was largely due to favorable cost performance from our restructuring and other productivity actions and the addition of new business, primarily outside of North America. These increases were partially offset by unfavorable vehicle platform mix and lower production volumes in North America and the impact of net selling price reductions. In addition, in the first nine months of 2007, we incurred costs related to our restructuring actions of \$27 million as compared to \$28 million in the first nine months of 2006.

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### Electrical and Electronic

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

	Nine months ended	
	September 29, 2007	September 30, 2006
Net sales	\$ 2,307.0	\$ 2,257.6
Segment earnings	45.0	107.6
Margin	2.0%	4.8%

Electrical and electronic net sales were \$2.3 billion in the first nine months of 2007 and 2006. The impact of net foreign exchange rate fluctuations and the benefit of new business outside of North America favorably impacted net sales by \$88 million and \$43 million, respectively. These increases were partially offset by unfavorable vehicle platform mix and lower production volumes in North America and the impact of net selling price reductions. Segment earnings and the related margin on net sales were \$45 million and 2.0% in the first nine months of 2007 as compared to \$108 million and 4.8% in the first nine months of 2006. The reduction in segment earnings was largely due to the impact of net selling price reductions, as well as unfavorable vehicle platform mix, lower production volumes and the roll-off of several programs in North America. These decreases were partially offset by favorable cost performance from our restructuring and other productivity actions. In addition, in the nine months of 2007, we incurred costs related to our restructuring actions of \$45 million as compared to \$22 million in the first nine months of 2006.

### Interior

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

	Nine months ended	
	September 29, 2007	September 30, 2006
Net sales	\$ 688.9	\$ 2,579.2
Segment earnings	8.2	(149.6)
Margin	1.2%	(5.8)%

We substantially completed the divestiture of our interior business in the first quarter of 2007. See “— Executive Overview” for further information. Interior net sales were \$689 million in the first nine months of 2007 as compared to \$2.6 billion in the first nine months of 2006. Segment earnings and the related margin on net sales were \$8 million and 1.2% in the first nine months of 2007 as compared to \$(150) million and (5.8)% in the first nine months of 2006. In the first nine months of 2007, we incurred costs related to our restructuring actions of \$5 million as compared to \$11 million in the first nine months of 2006. In addition, we recorded asset impairment charges of \$9 million in the first nine months of 2006.

### Other

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

	Nine months ended	
	September 29, 2007	September 30, 2006
Net sales	\$ —	\$ —
Segment earnings	(183.1)	(184.8)
Margin	N/A	N/A

Our other category includes unallocated corporate and geographic headquarters costs, as well as the elimination of intercompany activity. Corporate and geographic headquarters costs include various support functions, such as information technology, purchasing, corporate finance, legal, executive administration and human resources. Segment earnings related to our other category were \$(183) million in the first nine months of 2007 as compared to \$(185) million in the first nine months of 2006. Costs related to the Merger Agreement of \$37 million and restructuring costs of \$12 million were largely offset by a curtailment gain of \$36 million related to our decision to freeze our U.S. salaried pension plan. Costs related to the divestiture of our interior business of \$8 million were more than offset by our restructuring and other cost improvement actions.



**RESTRUCTURING**

In order to address unfavorable industry conditions, we began to implement consolidation, facility realignment and census actions in the second quarter of 2005. These actions are part of a comprehensive restructuring strategy intended to (i) better align our manufacturing capacity with the changing needs of our customers, (ii) eliminate excess capacity and lower our operating costs and (iii) streamline our organizational structure and reposition our business for improved long-term profitability.

We currently expect to incur pretax costs of approximately \$325 million in connection with the restructuring actions through 2007, although all aspects of the restructuring actions have not been finalized. Through the first nine months of 2007, approximately \$292 million of restructuring costs had been incurred. Such costs include employee termination benefits, asset impairment charges and contract termination costs, as well as other incremental costs resulting from the restructuring actions. These incremental costs principally include equipment and personnel relocation costs. We also expect to incur incremental manufacturing inefficiency costs at the operating locations impacted by the restructuring actions during the related restructuring implementation period. Restructuring costs are recognized in our consolidated financial statements in accordance with accounting principles generally accepted in the United States. Generally, charges are recorded as elements of the restructuring strategy are finalized. Actual costs recorded in our consolidated financial statements may vary from current estimates.

In connection with our restructuring actions, we recorded restructuring and related manufacturing inefficiency net charges of \$88 million in the first nine months of 2007, including \$78 million recorded as cost of sales and \$10 million recorded as selling, general and administrative expenses. Restructuring activities resulted in cash expenditures of \$93 million in the first nine months of 2007. The 2007 charges consist of employee termination benefits of \$67 million, asset impairment charges of \$12 million, net contract termination costs of \$(7) million (including a net pension and other postretirement benefit plan curtailment gain of \$12 million) and other costs of \$7 million. We also estimate that we incurred approximately \$9 million in manufacturing inefficiency costs during this period as a result of the restructuring. Employee termination benefits were recorded based on existing union and employee contracts, statutory requirements and completed negotiations. Asset impairment charges relate to the disposal of machinery and equipment with carrying values of \$12 million in excess of related estimated fair values. Contract termination costs include lease cancellation costs, the repayment of various government-sponsored grants and the net pension and other postretirement benefit plan curtailment gain. Restructuring costs in 2007 are estimated to be approximately \$125 million.

**LIQUIDITY AND CAPITAL RESOURCES**

Our primary liquidity needs are to fund capital expenditures, service indebtedness and support working capital requirements. In addition, approximately 90% of the costs associated with our current restructuring strategy are expected to require cash expenditures. Our principal sources of liquidity are cash flows from operating activities and borrowings under available credit facilities. 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 9, "Income Taxes," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006.

**Cash Flow**

Cash provided by operating activities was \$310 million in the first nine months of 2007 as compared to \$106 million in the first nine months of 2006. The increase in operating cash flow was due, in part, to the improvement in net income between periods. Additionally, the net change in working capital items, including the net change in recoverable customer engineering and tooling, resulted in an increase of \$83 million in operating cash flow between periods. Increases in accounts receivable and accounts payable were a use of cash of \$338 million and a source of cash of \$113 million, respectively, in the first nine months of 2007, reflecting the timing of payments received from our customers and made to our suppliers.

Cash used in investing activities was \$191 million in the first nine months of 2007 as compared to \$247 million in the first nine months of 2006. This decrease reflects a decline of \$154 million in capital expenditures, partially offset by cash used of \$48 million related to the divestiture of our interior business. In 2006, cash received of \$35 million related to the sales of our interests in two affiliates was partially offset by an indemnity payment of \$21 million related to our acquisition of UT Automotive, Inc. in 1999. Capital expenditures in 2007 are estimated at approximately \$200 million.

Cash flows from financing activities were a use of cash of \$25 million in the first nine months of 2007 as compared to a source of cash of \$47 million in the first nine months of 2006. The use of cash in the current period reflected ordinary course debt repayments; the source of cash in the prior period was largely due to the refinancing of our primary credit facility and certain senior notes.

## Capitalization

In addition to cash provided by operating activities, we utilize a combination of available credit facilities to fund our capital expenditures and working capital requirements. For the nine months ended September 29, 2007 and September 30, 2006, our average outstanding debt balance, as of the end of each fiscal quarter, was \$2.5 billion and \$2.3 billion, respectively. The weighted average long-term interest rate, including rates under our committed credit facility and the effect of hedging activities, was 7.7% and 7.1% for the respective periods.

In addition, we utilize uncommitted lines of credit as needed for our short-term working capital fluctuations. For the nine months ended September 29, 2007 and September 30, 2006, our average outstanding unsecured short-term debt balance, as of the end of each fiscal quarter, was \$18 million and \$15 million, respectively. The weighted average short-term interest rate, including the effect of hedging activities, was 4.7% and 4.5% for the respective periods. The availability of uncommitted lines of credit may be affected by our financial performance, credit ratings and other factors. See “— Off-Balance Sheet Arrangements” and “— Accounts Receivable Factoring.”

### *Primary Credit Facility*

Our primary credit facility consists of an amended and restated credit and guarantee agreement, which provides for maximum revolving borrowing commitments of \$1.7 billion and a term loan facility of \$1.0 billion. The \$1.7 billion revolving credit facility matures on March 23, 2010, and the \$1.0 billion term loan facility matures on April 25, 2012. Principal payments of \$3 million are required on the term loan facility every six months. As of September 29, 2007, we had \$994 million in borrowings available and outstanding under our term loan facility. There were no amounts outstanding under the revolving credit facility and \$101million committed under outstanding letters of credit as of September 29, 2007.

Our obligations under the primary credit facility are secured by a pledge of all or a portion of the capital stock of certain of our subsidiaries, including substantially all of our first-tier subsidiaries, and are partially secured by a security interest in our assets and the assets of certain of our domestic subsidiaries. In addition, our obligations under the primary credit facility are guaranteed, on a joint and several basis, by certain of our subsidiaries, which are primarily domestic subsidiaries and all of which are directly or indirectly 100% owned by the Company.

The primary credit facility contains certain affirmative and negative covenants, including (i) limitations on fundamental changes involving us or our subsidiaries, asset sales and restricted payments, (ii) a limitation on indebtedness with a maturity shorter than the term loan facility, (iii) a limitation on aggregate subsidiary indebtedness to an amount which is no more than 4% of consolidated total assets, (iv) a limitation on aggregate secured indebtedness to an amount which is no more than \$100 million and (v) requirements that we maintain a leverage ratio of not more than 3.75 to 1, as of September 29, 2007, with decreases over time and an interest coverage ratio of not less than 2.50 to 1 with increases over time.

The leverage and interest coverage ratios, as well as the related components of their computation, are defined in the primary credit facility. The leverage ratio is calculated as the ratio of consolidated indebtedness to consolidated operating profit. For the purpose of the covenant calculation, (i) consolidated indebtedness is generally defined as reported debt, net of cash and excludes transactions related to our asset-backed securitization and factoring facilities and (ii) consolidated operating profit is generally defined as net income excluding income taxes, interest expense, depreciation and amortization expense, other income and expense, minority interests in income of subsidiaries in excess of net equity earnings in affiliates, certain restructuring and other non-recurring charges, extraordinary gains and losses and other specified non-cash items. Consolidated operating profit is a non-GAAP financial measure that is presented not as a measure of operating results, but rather as a measure used to determine covenant compliance under our primary credit facility. The interest coverage ratio is calculated as the ratio of consolidated operating profit to consolidated interest expense. For the purpose of the covenant calculation, consolidated interest expense is generally defined as interest expense plus any discounts or expenses related to our asset-backed securitization facility less amortization of deferred finance fees and interest income. As of September 29, 2007, we were in compliance with all covenants set forth in the primary credit facility. Our leverage and interest coverage ratios were 1.8 to 1 and 5.7 to 1, respectively.

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Reconciliations of (i) consolidated indebtedness to reported debt, (ii) consolidated operating profit to income before provision for income taxes and cumulative effect of a change in accounting principle and (iii) consolidated interest expense to reported interest expense are shown below (in millions):

	September 29, 2007	
Consolidated indebtedness	\$	1,865.4
Cash and cash equivalents		602.0
		2,467.4
Reported debt	\$	2,467.4
		2,467.4
	Three Months Ended September 29, 2007	Nine Months Ended September 29, 2007
Consolidated operating profit	\$ 235.3	\$ 822.5
Depreciation and amortization	(70.7)	(220.9)
Consolidated interest expense	(43.4)	(135.3)
Costs related to divestiture of Interior business	17.1	(17.8)
Other expense, net (excluding certain amounts related to asset-backed securitization facility)	(17.4)	(43.8)
Restructuring charges (subject to \$285 million limitation)	(22.7)	(73.3)
Other excluded items	(25.1)	(0.5)
Other non-cash items	(13.0)	(44.6)
	60.1	286.3
Income before provision for income taxes and cumulative effect of a change in accounting principle	\$	\$
	60.1	286.3
Consolidated interest expense	\$ 43.4	\$ 135.3
Certain amounts related to asset-backed securitization facility	(0.1)	1.0
Amortization of deferred financing fees	2.3	7.0
Bank facility and other fees	1.9	7.0
	47.5	150.3
Reported interest expense	\$	\$
	47.5	150.3

The primary credit facility also contains customary events of default, including an event of default triggered by a change of control of Lear. For further information related to our primary credit facility described above, including the operating and financial covenants to which we are subject and related definitions, see Note 8, "Long-Term Debt," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006.

### Senior Notes

In addition to borrowings outstanding under our primary credit facility, as of September 29, 2007, we had \$1.4 billion of senior notes outstanding, consisting primarily of \$300 million aggregate principal amount of senior notes due 2013, \$600 million aggregate principal amount of senior notes due 2016, \$399 million aggregate principal amount of senior notes due 2014, \$1 million accreted value of zero-coupon convertible senior notes due 2022, Euro 56 million (approximately \$79 million based on the exchange rate in effect as of September 29, 2007) aggregate principal amount of senior notes due 2008 and \$41 million aggregate principal amount of senior notes due 2009.

All of our senior notes are guaranteed by the same subsidiaries that guarantee our 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. Our obligations under the senior notes are not secured by the pledge of the assets or capital stock of any of our subsidiaries.

Our senior notes also contain covenants restricting our ability to incur liens and to enter into sale and leaseback transactions. As of September 29, 2007, we were in compliance with all covenants and other requirements set forth in our senior notes.

The senior notes due 2013 and 2016 (having an aggregate principal amount outstanding of \$900 million as of September 29, 2007) provide holders of the notes the right to require us to repurchase all or any part of their notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest, upon a "change of control" (as defined in the indenture governing the notes). The indentures governing our other senior notes do not contain a change of control repurchase obligation.



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Scheduled cash interest payments on our outstanding debt are \$63 million in the last three months of 2007.

For further information related to our senior notes described above, see Note 8, "Long-Term Debt," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006.

### *Off-Balance Sheet Arrangements*

#### Asset-Backed Securitization Facility

We have in place an asset-backed securitization facility (the "ABS facility"), which provides for maximum purchases of adjusted accounts receivable of \$150 million and matures on April 30, 2008. As of September 29, 2007 and December 31, 2006, there were no accounts receivable sold under this 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 or choose not to utilize the ABS facility in the future. Should this occur, we would utilize our primary credit facility to replace the funding currently provided by the ABS facility. In addition, the ABS facility providers can elect to discontinue the program in the event that our senior secured debt credit rating declines to below B- or B3 by Standard & Poor's Ratings Services or Moody's Investors Service, respectively.

#### Guarantees and Commitments

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 September 29, 2007, the aggregate amount of debt guaranteed was approximately \$17 million.

Under the agreement governing the divestiture of our North American interior business, we had agreed to fund up to an additional \$40 million to IAC, in the event that IAC did not meet certain financial targets in 2007. On October 10, 2007, we made a cash payment to IAC of \$12.5 million in full satisfaction of this contingent funding obligation. For further information regarding the divestiture, see the Purchase Agreement, LLC Agreement and related documents, which are incorporated by reference as exhibits to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

#### *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 the condensed consolidated balance sheets. As of September 29, 2007 and December 31, 2006, the amount of factored receivables was \$204 million and \$256 million, respectively. 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.

The credit ratings of our senior secured and unsecured debt as of the date of this Report are shown below. Following the announcement of the Merger Agreement, Standard & Poor's Ratings Services lowered our corporate credit rating to B from B+ and the credit rating on our unsecured debt to CCC+ from B-. Following the announcement that the Merger Agreement terminated, our corporate credit rating was returned to B+ from B. The credit rating on our senior secured debt was raised to BB- from B+, and the credit rating on our senior unsecured debt was raised to B- from CCC+.

For our senior secured debt, the ratings of Standard & Poor's Ratings Services and Moody's Investors Service are three and five levels below investment grade, respectively. For our senior unsecured debt, the ratings of Standard & Poor's Ratings Services and Moody's Investors Service are six levels below investment grade.

	Standard & Poor's Ratings Services	Moody's Investors Service
Credit rating of senior secured debt	BB-	B2
Corporate rating	B+	B2
Credit rating of senior unsecured debt	B-	B3
Ratings outlook	Negative	Stable

*Adequacy of Liquidity Sources*

We believe that cash flows from operations and availability under our available credit facilities will be sufficient to meet our liquidity needs, including capital expenditures and anticipated working capital requirements, for the foreseeable future. Our cash flows from operations, borrowing availability and overall liquidity are subject to risks and uncertainties. See “— Executive Overview” above, “— Forward-Looking Statements” below and Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2006.

**Market Rate Sensitivity**

In the normal course of business, we are exposed to market risk associated with fluctuations in foreign exchange rates, interest rates and commodity prices. 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 where appropriate and included in the measurement of the foreign currency transaction subject to the hedge. Gains and losses incurred related to foreign exchange contracts are generally offset by the direct effects of currency movements on the underlying transactions.

Our most significant foreign currency transactional exposures relate to the Mexican peso, as well as the Euro and other European currencies. We have performed a quantitative analysis of our overall currency rate exposure as of September 29, 2007. The potential earnings benefit related to net transactional exposures from a hypothetical 10% strengthening of the U.S. dollar relative to all other currencies for a twelve-month period is approximately \$4 million. The potential earnings benefit related to net transactional exposures from a similar strengthening of the Euro relative to all other currencies for a twelve-month period is approximately \$6 million.

As of September 29, 2007, foreign exchange contracts representing \$1 billion of notional amount were outstanding with maturities of less than fifteen months. As of September 29, 2007, the fair market value of these contracts was approximately \$10 million. A 10% change in the value of the U.S. dollar relative to all other currencies would result in a \$15 million change in the aggregate fair market value of these contracts. A 10% change in the value of the Euro relative to all other currencies would result in a \$25 million change in the aggregate fair market value of these contracts.

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

In addition to the transactional exposure described above, our operating results are impacted by the translation of our foreign operating income into U.S. dollars (“translation exposure”). In 2006, net sales outside of the United States accounted for 63% of our consolidated net sales. We do not enter into foreign exchange contracts to mitigate this exposure.

*Interest Rates*

We use interest rate swap and other derivative 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 and other derivative contracts, which match the effective and maturity dates of specific debt instruments. From time to time, 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 and other derivative contracts are included as adjustments to interest expense in our consolidated statements of operations on an accrual basis.

We have performed a quantitative analysis of our overall interest rate exposure as of September 29, 2007. This analysis assumes an instantaneous 100 basis point parallel shift in interest rates at all points of the yield curve. The potential adverse earnings impact from this hypothetical increase for a twelve-month period is approximately \$4 million.

As of September 29, 2007, interest rate swap and derivative contracts representing \$600 million of notional amount were outstanding with maturity dates of September 2008 through September 2011. All of these contracts are designated as cash flow hedges and



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modify the variable rate characteristics of our variable rate debt instruments. The fair market value of all interest rate swap and derivative contracts is subject to changes in value due to changes in interest rates. As of September 29, 2007, the fair market value of these contracts was approximately negative \$9 million. A 100 basis point parallel shift in interest rates would result in a \$12 million change in the aggregate 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, chemicals, copper and diesel fuel. In limited circumstances, we have used financial instruments to mitigate this risk. Raw material, energy and commodity costs generally remained high in the first nine months of 2007 and continue to negatively impact our operating results.

We have developed and implemented strategies to mitigate or partially offset the impact of higher raw material, energy and commodity costs, which include 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, longer-term purchase commitments and the acceleration of low-cost country sourcing and engineering. However, due to the magnitude and duration of the increased raw material, energy and commodity costs, these strategies, together with commercial negotiations with our customers and suppliers, offset only a portion of the adverse impact. In addition, higher crude oil prices can indirectly impact our operating results by adversely affecting demand for certain of our key light truck and SUV platforms. We expect that high raw material, energy and commodity costs will continue to have an adverse impact on our operating results in the foreseeable future. See “— Forward-Looking Statements” and Item 1A, “Risk Factors – High raw material costs may continue to have a significant adverse impact on our profitability,” in our Annual Report on Form 10-K for the year ended December 31, 2006.

We use derivative instruments, including financially settled swap and option contracts, to reduce our exposure to fluctuations in certain commodity prices. A portion of our derivative instruments are currently designated as cash flow hedges. As of September 29, 2007 the fair market value of these contracts was approximately \$2 million with maturity dates through December 2008. The potential adverse earnings impact from a 10% parallel worsening of the respective commodity curves for a twelve-month period is approximately \$3 million.

## **OTHER MATTERS**

### **Legal and Environmental Matters**

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

On January 26, 2004, we filed a patent infringement lawsuit against Johnson Controls Inc. and Johnson Controls Interiors LLC (together, “JCI”) in the U.S. District Court for the Eastern District of Michigan alleging that JCI’s garage door opener products infringed certain of our radio frequency transmitter patents. JCI counterclaimed seeking a declaratory judgment that the subject patents are invalid and unenforceable, and that JCI is not infringing these patents. JCI also has filed motions for summary judgment asserting that its garage door opener products do not infringe our patents and that one of our patents is invalid and unenforceable. We are pursuing our claims against JCI. On November 2, 2007, the court issued an opinion and order granting, in part, and denying, in part, JCI’s motion for summary judgment on one of our patents. The court found that JCI’s product does not literally infringe the patent, however, there are issues of fact that precluded a finding as to whether JCI’s product infringes under the doctrine of equivalents. The court also ruled that one of the claims we have asserted is invalid. Finally, the court denied JCI’s motion to hold the patent unenforceable. The opinion and order does not address the other two patents involved in the lawsuit. JCI’s motion for summary judgment on those patents has not yet been subject to a court hearing. A trial date has not been scheduled.

After we filed our patent infringement action against JCI, affiliates of JCI sued one of our vendors and certain of the vendor’s employees in Ottawa County, Michigan Circuit Court on July 8, 2004, alleging misappropriation of trade secrets and disclosure of confidential information. The suit alleges that the defendants misappropriated and shared with us trade secrets involving JCI’s universal garage door opener product. JCI seeks to enjoin the defendants from selling or attempting to sell a competing product, as well as compensatory damages and attorney fees. We are not a defendant in this lawsuit; however, the agreements between us and the defendants contain customary indemnification provisions. We do not believe that our garage door opener product benefited from any allegedly misappropriated trade secrets or technology. However, JCI has sought discovery of certain information which we believe is confidential and proprietary, and we have intervened in the case as a non-party for the limited purpose of protecting our rights with respect to JCI’s discovery efforts. A hearing on the defendant’s motion to dismiss is scheduled for December 2007. The trial has been rescheduled to January 2008.

On June 13, 2005, The Chamberlain Group (“Chamberlain”) filed a lawsuit against us and Ford Motor Company (“Ford”) in the Northern District of Illinois alleging patent infringement. Two counts were asserted against us and Ford based upon two Chamberlain rolling-code garage door opener system patents. Two additional counts were asserted against Ford only (not us) based upon different



Chamberlain patents. The Chamberlain lawsuit was filed in connection with the marketing of our universal garage door opener system, which competes with a product offered by JCI. JCI obtained technology from Chamberlain to operate its product. In October 2005, JCI joined the lawsuit as a plaintiff along with Chamberlain. In October 2006, Ford was dismissed from the suit. JCI and Chamberlain have filed a motion for a preliminary injunction, and on March 30, 2007, the court issued a decision granting plaintiffs' motion for a preliminary injunction but did not enter an injunction at that time. In response, we filed a motion seeking to stay the effectiveness of any injunction that may be entered and General Motors Corporation ("GM") moved to intervene. On April 25, 2007, the court granted GM's motion to intervene, entered a preliminary injunction order that exempts our existing GM programs and denied our motion to stay the effectiveness of the preliminary injunction order pending appeal. On April 27, 2007, we filed our notice of appeal from the granting of the preliminary injunction and the denial of our motion to stay its effectiveness. On May 7, 2007, we filed a motion for stay with the Federal Circuit Court of Appeals, which the court denied on June 6, 2007. The appeal is currently pending before the Federal Circuit Court of Appeals. All briefing has been completed, and oral argument is scheduled for December 2007. No trial date has been set by the district court.

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 clean-up costs 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, results of operations or cash flows, 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 our acquisition of UT Automotive 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.

All of the plaintiffs subsequently dismissed their claims for health effects and personal injury damages and the cases proceeded with approximately 280 plaintiffs alleging property damage claims only. 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 the first quarter of 2006, co-defendant UTC entered into a settlement agreement with the plaintiffs. During the third quarter of 2006, we and co-defendant Johnson Electric entered into a settlement memorandum with the plaintiffs' counsel outlining the terms of a global settlement, including establishing the requisite percentage of executed settlement agreements and releases that were required to be obtained from the individual plaintiffs for a final settlement to proceed. This settlement memorandum was amended in January 2007. In the first half of 2007, we reached a final settlement with respect to approximately 85% of the plaintiffs involving aggregate payments of \$875,000. These plaintiffs have been dismissed from the litigation. We are in the process of resolving the remaining claims through a combination of settlements, motions to withdraw by plaintiffs' counsel and motions to dismiss. Additional settlements are not expected to exceed \$90,000 in the aggregate.

UTC, the former owner of UT Automotive, and Johnson Electric have each sought indemnification for losses associated with the Mississippi claims from us under the respective acquisition agreements, and we have claimed indemnification from them under the same agreements. In the first quarter of 2006, UTC filed a lawsuit against us in the State of Connecticut Superior Court, District of Hartford, seeking declaratory relief and indemnification from us for the settlement amount, attorney fees, costs and expenses UTC paid in settling and defending the Columbus, Mississippi lawsuits. In the second quarter of 2006, we filed a motion to dismiss this matter and filed a separate action against UTC and Johnson Electric in the State of Michigan, Circuit Court for the County of Oakland, seeking declaratory relief and indemnification from UTC or Johnson Electric for the settlement amount, attorney fees, costs and expenses we have paid, or will pay, in settling and defending the Columbus, Mississippi lawsuits. During the fourth quarter of 2006, UTC agreed to dismiss the lawsuit filed in the State of Connecticut Superior Court, District of Hartford and agreed to proceed with the lawsuit filed in the State of Michigan, Circuit Court for the County of Oakland. During the first quarter of 2007, Johnson Electric and UTC each filed counter-claims against us seeking declaratory relief and indemnification from us for the settlement amount, attorney fees, costs and expenses each has paid or will pay in settling and defending the Columbus, Mississippi lawsuits. All three of the parties to this action have filed motions for summary judgment. On June 14, 2007, UTC's motion for summary disposition was granted holding that we are obligated to indemnify UTC with respect to the Mississippi lawsuits. Judgment for UTC was entered on July 18, 2007, in the amount of approximately \$3 million plus interest. The full amount of the judgment has been recorded in our condensed consolidated financial statements for the nine months ended September 29, 2007. The court denied both Lear and Johnson Electric's motions for summary disposition leaving the claims between Lear and Johnson Electric to proceed to trial. Discovery is ongoing. UTC has moved to sever its judgment from the Lear/Johnson Electric dispute for the purpose of allowing it to enforce its judgment immediately. That motion remains pending. We intend to vigorously pursue our claims against UTC and Johnson Electric and believe that we are entitled to indemnification from either UTC or Johnson Electric for our losses. However, the ultimate outcome of these matters is unknown.

In April 2006, a former employee of ours filed a purported class action lawsuit in the U.S. District Court for the Eastern District of Michigan against us, members of our Board of Directors, members of our Employee Benefits Committee (the "EBC") and certain members of our human resources personnel alleging violations of the Employment Retirement Income Security Act ("ERISA") with respect to our retirement savings plans for salaried and hourly employees. In the second quarter of 2006, we were served with three additional purported class action ERISA lawsuits, each of which contained similar allegations against us, members of our Board of Directors, members of our EBC and certain members of our senior management and our human resources personnel. At the end of the second quarter of 2006, the court entered an order consolidating these four lawsuits as *In re: Lear Corp. ERISA Litigation*. During the third quarter of 2006, plaintiffs filed their consolidated complaint, which alleges breaches of fiduciary duties substantially similar to those alleged in the four individually filed lawsuits. The consolidated complaint continues to name certain current and former members of the Board of Directors and the EBC and certain members of senior management and adds certain other current and former members of the EBC. The consolidated complaint generally alleges that the defendants breached their fiduciary duties to plan participants in connection with the administration of our retirement savings plans for salaried and hourly employees. The fiduciary duty claims are largely based on allegations of breaches of the fiduciary duties of prudence and loyalty and of over-concentration of plan assets in our common stock. The plaintiffs purport to bring these claims on behalf of the plans and all persons who were participants in or beneficiaries of the plans from October 21, 2004, to the present and seek to recover losses allegedly suffered by the plans. The complaints do not specify the amount of damages sought. During the fourth quarter of 2006, the defendants filed a motion to dismiss all defendants and all counts in the consolidated complaint. During the second quarter of 2007, the court denied defendants' motion to dismiss and defendants' answer to the consolidated complaint was filed in August 2007. On August 7, 2007, the court ordered that discovery be completed by April 30, 2008. To date, significant discovery has not taken place. No determination has been made that a class action can be maintained, and there have been no decisions on the merits of the cases. We intend to vigorously defend the consolidated lawsuit.

On March 1, 2007, a purported class action ERISA lawsuit was filed on behalf of participants in our 401(k) plans. The lawsuit was filed in the United States District Court for the Eastern District of Michigan and alleges that we, members of our Board of Directors, and members of the Employee Benefits Committee (collectively, the "Lear Defendants") breached their fiduciary duties to the participants in the 401(k) plans by approving the Agreement and Plan of Merger (the "Merger Agreement") with AREP Car Holdings Corp. and AREP Car Acquisition Corp. (collectively the "AREP Entities"). On March 8, 2007, the plaintiff filed a motion for expedited discovery to support a potential motion for preliminary injunction to enjoin the Merger Agreement. The Lear Defendants filed an opposition to the motion for expedited discovery on March 22, 2007. Plaintiff filed a reply on April 11, 2007. On April 18, 2007, the Judge denied plaintiff's motion for expedited discovery. On March 15, 2007, the plaintiff requested that the case be reassigned to the Judge overseeing *In re: Lear Corp. ERISA Litigation* (described above). The Lear Defendants sent a letter opposing the reassignment on March 21, 2007. On March 22, 2007, the Lear Defendants filed a motion to dismiss all counts of the complaint against the Lear Defendants. Plaintiff filed his opposition to the motion on April 10, 2007, and the Lear Defendants filed their reply in support on April 20, 2007. On April 10, 2007, plaintiff filed a motion for a preliminary injunction to enjoin the merger, which motion

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was denied on June 25, 2007. On July 6, 2007, plaintiff filed an amended complaint. On August 3, 2007, the court dismissed the AREP Entities from the case without prejudice. On August 31, 2007, the court dismissed the Lear Defendants without prejudice.

Between February 9, 2007 and February 21, 2007, certain stockholders filed three purported class action lawsuits against us, certain members of our Board of Directors and American Real Estate Partners, L.P. and certain of its affiliates (collectively, "AREP") in the Delaware Court of Chancery. On February 21, 2007, these lawsuits were consolidated into a single action. The amended complaint in the consolidated action generally alleges that the Merger Agreement unfairly limited the process of selling Lear and that certain members of our Board of Directors breached their fiduciary duties in connection with the Merger Agreement and acted with conflicts of interest in approving the Merger Agreement. The amended complaint in the consolidated action further alleges that Lear's preliminary and definitive proxy statements for the Merger Agreement were misleading and incomplete, and that Lear's payments to AREP as a result of the termination of the Merger Agreement constituted unjust enrichment and waste. On February 23, 2007, the plaintiffs filed a motion for expedited proceedings and a motion to preliminarily enjoin the transactions contemplated by the Merger Agreement. On March 27, 2007, the plaintiffs filed an amended complaint. On June 15, 2007, the Delaware court issued an order entering a limited injunction of Lear's planned shareholder vote on the Merger Agreement until the Company made supplemental proxy disclosure. That supplemental proxy disclosure was approved by the Delaware court and made on June 18, 2007. On June 26, 2007, the Delaware court granted the plaintiffs' motion for leave to file a second amended complaint. On September 11, 2007, the plaintiffs filed a third amended complaint. A trial is scheduled for the fourth quarter of 2007. We believe that the lawsuits are without merit and intend to defend against them vigorously.

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 consolidated 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.

Although we record reserves for legal, product warranty and environmental matters in accordance with SFAS No. 5, "Accounting for Contingencies," the outcomes of these matters are inherently uncertain. Actual results may differ significantly from current estimates. See Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2006.

### **Significant Accounting Policies and Critical Accounting Estimates**

Certain of our accounting policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on our historical experience, the terms of existing contracts, our evaluation of trends in the industry, information provided by our customers and suppliers and information available from other outside sources, as appropriate. However, they are subject to an inherent degree of uncertainty. As a result, actual results in these areas may differ significantly from our estimates. For a discussion of our significant accounting policies and critical accounting estimates, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Significant Accounting Policies and Critical Accounting Estimates," and Note 2, "Summary of Significant Accounting Policies," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006. There have been no significant changes in our significant accounting policies or critical accounting estimates during the first nine months of 2007.

### **Recently Issued Accounting Pronouncements**

#### *Financial Instruments*

The FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140." This statement resolves issues related to the application of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to beneficial interests in securitized assets. The provisions of this statement are to be applied prospectively to all financial instruments acquired or issued during fiscal years beginning after September 15, 2006. The effects of adoption were not significant.

The FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140." This statement requires that all servicing assets and liabilities be initially measured at fair value. The provisions of this statement are to be applied prospectively to all servicing transactions beginning after September 15, 2006. The effects of adoption were not significant.

*Fair Value Measurements*

The FASB issued SFAS No. 157, “Fair Value Measurements.” This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The provisions of this statement are to generally be applied prospectively in fiscal years beginning after November 15, 2007. We are currently evaluating the impact of this statement on our financial statements.

*Pension and Other Postretirement Benefits*

The FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R).” We adopted the funded status recognition provisions of SFAS No. 158 as of December 31, 2006.

This statement also requires the measurement of defined benefit plan asset and liabilities as of the annual balance sheet date. Currently, the Company measures its plan assets and liabilities using an early measurement date of September 30, as allowed by the original provisions of SFAS No. 87, “Employers’ Accounting for Pensions,” and SFAS No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions.” The measurement date provisions of SFAS No. 158 are effective for fiscal years ending after December 15, 2008. We are currently evaluating the measurement date provisions of this statement.

*Fair Value Option*

The FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115.” This statement allows entities to measure eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The provisions of this statement are effective as of the beginning of an entity’s first fiscal year beginning after November 15, 2007. We are currently evaluating the impact of this statement on our financial statements.

**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, sales backlog and on-going commercial arrangements 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, including changes in interest rates or currency exchange rates;
- the financial condition of our customers or suppliers;
- fluctuations in the production of vehicles for which we are a supplier;
- the loss of business with respect to, or the lack of commercial success of, a vehicle model for which we are a significant supplier;
- disruptions in the relationships with our suppliers;
- labor disputes involving us or our significant customers or suppliers or that otherwise affect us;
- 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, timing and success of restructuring actions;
- increases in our warranty or product liability costs;
- risks associated with conducting business in foreign countries;
- competitive conditions impacting our key customers and suppliers;
- raw material costs and availability;
- our ability to mitigate the significant impact of 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, including our ability to align our vendor payment terms with those of our customers; and
- other risks, described in Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2006, and from time to time in our other SEC filings.

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

ITEM 4 — CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

The Company has evaluated, under the supervision and with the participation of the Company's management, including the Company's Chairman, Chief Executive Officer and President along with the Company's Senior Vice President and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. 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, Chief Executive Officer and President 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 September 29, 2007, 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, including, without limitation, commercial or contractual disputes with our suppliers, competitors and customers. These disputes vary in nature and are usually resolved by negotiations between the parties.

On January 26, 2004, we filed a patent infringement lawsuit against Johnson Controls Inc. and Johnson Controls Interiors LLC (together, "JCI") in the U.S. District Court for the Eastern District of Michigan alleging that JCI's garage door opener products infringed certain of our radio frequency transmitter patents. JCI counterclaimed seeking a declaratory judgment that the subject patents are invalid and unenforceable, and that JCI is not infringing these patents. JCI also has filed motions for summary judgment asserting that its garage door opener products do not infringe our patents and that one of our patents is invalid and unenforceable. We are pursuing our claims against JCI. On November 2, 2007, the court issued an opinion and order granting, in part, and denying, in part, JCI's motion for summary judgment on one of our patents. The court found that JCI's product does not literally infringe the patent, however, there are issues of fact that precluded a finding as to whether JCI's product infringes under the doctrine of equivalents. The court also ruled that one of the claims we have asserted is invalid. Finally, the court denied JCI's motion to hold the patent unenforceable. The opinion and order does not address the other two patents involved in the lawsuit. JCI's motion for summary judgment on those patents has not yet been subject to a court hearing. A trial date has not been scheduled.

After we filed our patent infringement action against JCI, affiliates of JCI sued one of our vendors and certain of the vendor's employees in Ottawa County, Michigan Circuit Court on July 8, 2004, alleging misappropriation of trade secrets and disclosure of confidential information. The suit alleges that the defendants misappropriated and shared with us trade secrets involving JCI's universal garage door opener product. JCI seeks to enjoin the defendants from selling or attempting to sell a competing product, as well as compensatory damages and attorney fees. We are not a defendant in this lawsuit; however, the agreements between us and the defendants contain customary indemnification provisions. We do not believe that our garage door opener product benefited from any allegedly misappropriated trade secrets or technology. However, JCI has sought discovery of certain information which we believe is confidential and proprietary, and we have intervened in the case as a non-party for the limited purpose of protecting our rights with respect to JCI's discovery efforts. A hearing on the defendant's motion to dismiss is scheduled for December 2007. The trial has been rescheduled to January 2008.

On June 13, 2005, The Chamberlain Group ("Chamberlain") filed a lawsuit against us and Ford Motor Company ("Ford") in the Northern District of Illinois alleging patent infringement. Two counts were asserted against us and Ford based upon two Chamberlain rolling-code garage door opener system patents. Two additional counts were asserted against Ford only (not us) based upon different Chamberlain patents. The Chamberlain lawsuit was filed in connection with the marketing of our universal garage door opener system, which competes with a product offered by JCI. JCI obtained technology from Chamberlain to operate its product. In October 2005, JCI joined the lawsuit as a plaintiff along with Chamberlain. In October 2006, Ford was dismissed from the suit. JCI and Chamberlain have filed a motion for a preliminary injunction, and on March 30, 2007, the court issued a decision granting plaintiffs' motion for a preliminary injunction but did not enter an injunction at that time. In response, we filed a motion seeking to stay the



effectiveness of any injunction that may be entered and General Motors Corporation (“GM”) moved to intervene. On April 25, 2007, the court granted GM’s motion to intervene, entered a preliminary injunction order that exempts our existing GM programs and denied our motion to stay the effectiveness of the preliminary injunction order pending appeal. On April 27, 2007, we filed our notice of appeal from the granting of the preliminary injunction and the denial of our motion to stay its effectiveness. On May 7, 2007, we filed a motion for stay with the Federal Circuit Court of Appeals, which the court denied on June 6, 2007. The appeal is currently pending before the Federal Circuit Court of Appeals. All briefing has been completed, and oral argument is scheduled for December 2007. No trial date has been set by the district court.

### **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 or other corrective actions 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 product warranty or 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 clean-up costs 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, results of operations or cash flows, 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 our acquisition of UT Automotive 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.

All of the plaintiffs subsequently dismissed their claims for health effects and personal injury damages and the cases proceeded with approximately 280 plaintiffs alleging property damage claims only. 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 the first quarter of 2006, co-defendant UTC entered into a settlement agreement with the plaintiffs. During the third quarter of 2006, we and co-defendant Johnson Electric entered into a settlement memorandum with the plaintiffs’ counsel outlining the terms of a global settlement, including establishing the requisite percentage of executed settlement agreements and releases that were required to



be obtained from the individual plaintiffs for a final settlement to proceed. This settlement memorandum was amended in January 2007. In the first half of 2007, we reached a final settlement with respect to approximately 85% of the plaintiffs involving aggregate payments of \$875,000. These plaintiffs have been dismissed from the litigation. We are in the process of resolving the remaining claims through a combination of settlements, motions to withdraw by plaintiffs' counsel and motions to dismiss. Additional settlements are not expected to exceed \$90,000 in the aggregate.

UTC, the former owner of UT Automotive, and Johnson Electric have each sought indemnification for losses associated with the Mississippi claims from us under the respective acquisition agreements, and we have claimed indemnification from them under the same agreements. In the first quarter of 2006, UTC filed a lawsuit against us in the State of Connecticut Superior Court, District of Hartford, seeking declaratory relief and indemnification from us for the settlement amount, attorney fees, costs and expenses UTC paid in settling and defending the Columbus, Mississippi lawsuits. In the second quarter of 2006, we filed a motion to dismiss this matter and filed a separate action against UTC and Johnson Electric in the State of Michigan, Circuit Court for the County of Oakland, seeking declaratory relief and indemnification from UTC or Johnson Electric for the settlement amount, attorney fees, costs and expenses we have paid, or will pay, in settling and defending the Columbus, Mississippi lawsuits. During the fourth quarter of 2006, UTC agreed to dismiss the lawsuit filed in the State of Connecticut Superior Court, District of Hartford and agreed to proceed with the lawsuit filed in the State of Michigan, Circuit Court for the County of Oakland. During the first quarter of 2007, Johnson Electric and UTC each filed counter-claims against us seeking declaratory relief and indemnification from us for the settlement amount, attorney fees, costs and expenses each has paid or will pay in settling and defending the Columbus, Mississippi lawsuits. All three of the parties to this action have filed motions for summary judgment. On June 14, 2007, UTC's motion for summary disposition was granted holding that we are obligated to indemnify UTC with respect to the Mississippi lawsuits. Judgment for UTC was entered on July 18, 2007, in the amount of approximately \$3 million plus interest. The full amount of the judgment has been recorded in our condensed consolidated financial statements for the nine months ended September 29, 2007. The court denied both Lear and Johnson Electric's motions for summary disposition leaving the claims between Lear and Johnson Electric to proceed to trial. Discovery is ongoing. UTC has moved to sever its judgment from the Lear/Johnson Electric dispute for the purpose of allowing it to enforce its judgment immediately. That motion remains pending. We intend to vigorously pursue our claims against UTC and Johnson Electric and believe that we are entitled to indemnification from either UTC or Johnson Electric for our losses. However, the ultimate outcome of these matters is unknown.

#### 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 consolidated 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.

In April 2006, a former employee of ours filed a purported class action lawsuit in the U.S. District Court for the Eastern District of Michigan against us, members of our Board of Directors, members of our Employee Benefits Committee (the "EBC") and certain members of our human resources personnel alleging violations of the Employment Retirement Income Security Act ("ERISA") with respect to our retirement savings plans for salaried and hourly employees. In the second quarter of 2006, we were served with three additional purported class action ERISA lawsuits, each of which contained similar allegations against us, members of our Board of Directors, members of our EBC and certain members of our senior management and our human resources personnel. At the end of the second quarter of 2006, the court entered an order consolidating these four lawsuits as *In re: Lear Corp. ERISA Litigation*. During the third quarter of 2006, plaintiffs filed their consolidated complaint, which alleges breaches of fiduciary duties substantially similar to those alleged in the four individually filed lawsuits. The consolidated complaint continues to name certain current and former members of the Board of Directors and the EBC and certain members of senior management and adds certain other current and former members of the EBC. The consolidated complaint generally alleges that the defendants breached their fiduciary duties to plan participants in connection with the administration of our retirement savings plans for salaried and hourly employees. The fiduciary duty claims are largely based on allegations of breaches of the fiduciary duties of prudence and loyalty and of over-concentration of plan assets in our common stock. The plaintiffs purport to bring these claims on behalf of the plans and all persons who were participants in or beneficiaries of the plans from October 21, 2004, to the present and seek to recover losses allegedly suffered by the plans. The complaints do not specify the amount of damages sought. During the fourth quarter of 2006, the defendants filed a motion to dismiss all defendants and all counts in the consolidated complaint. During the second quarter of 2007, the court denied defendants' motion to dismiss and defendants' answer to the consolidated complaint was filed in August 2007. On August 7, 2007, the court ordered that discovery be completed by April 30, 2008. To date, significant discovery has not taken place. No determination has been made that a class action can be maintained, and there have been no decisions on the merits of the cases. We intend to vigorously defend the consolidated lawsuit.

## LEAR CORPORATION

On March 1, 2007, a purported class action ERISA lawsuit was filed on behalf of participants in our 401(k) plans. The lawsuit was filed in the United States District Court for the Eastern District of Michigan and alleges that we, members of our Board of Directors, and members of the Employee Benefits Committee (collectively, the “Lear Defendants”) breached their fiduciary duties to the participants in the 401(k) plans by approving the Agreement and Plan of Merger (the “Merger Agreement”) with AREP Car Holdings Corp. and AREP Car Acquisition Corp. (collectively the “AREP Entities”). On March 8, 2007, the plaintiff filed a motion for expedited discovery to support a potential motion for preliminary injunction to enjoin the Merger Agreement. The Lear Defendants filed an opposition to the motion for expedited discovery on March 22, 2007. Plaintiff filed a reply on April 11, 2007. On April 18, 2007, the Judge denied plaintiff’s motion for expedited discovery. On March 15, 2007, the plaintiff requested that the case be reassigned to the Judge overseeing *In re: Lear Corp. ERISA Litigation* (described above). The Lear Defendants sent a letter opposing the reassignment on March 21, 2007. On March 22, 2007, the Lear Defendants filed a motion to dismiss all counts of the complaint against the Lear Defendants. Plaintiff filed his opposition to the motion on April 10, 2007, and the Lear Defendants filed their reply in support on April 20, 2007. On April 10, 2007, plaintiff filed a motion for a preliminary injunction to enjoin the merger, which motion was denied on June 25, 2007. On July 6, 2007, plaintiff filed an amended complaint. On August 3, 2007, the court dismissed the AREP Entities from the case without prejudice. On August 31, 2007, the court dismissed the Lear Defendants without prejudice.

Between February 9, 2007 and February 21, 2007, certain stockholders filed three purported class action lawsuits against us, certain members of our Board of Directors and American Real Estate Partners, L.P. and certain of its affiliates (collectively, “AREP”) in the Delaware Court of Chancery. On February 21, 2007, these lawsuits were consolidated into a single action. The amended complaint in the consolidated action generally alleges that the Merger Agreement unfairly limited the process of selling Lear and that certain members of our Board of Directors breached their fiduciary duties in connection with the Merger Agreement and acted with conflicts of interest in approving the Merger Agreement. The amended complaint in the consolidated action further alleges that Lear’s preliminary and definitive proxy statements for the Merger Agreement were misleading and incomplete, and that Lear’s payments to AREP as a result of the termination of the Merger Agreement constituted unjust enrichment and waste. On February 23, 2007, the plaintiffs filed a motion for expedited proceedings and a motion to preliminarily enjoin the transactions contemplated by the Merger Agreement. On March 27, 2007, the plaintiffs filed an amended complaint. On June 15, 2007, the Delaware court issued an order entering a limited injunction of Lear’s planned shareholder vote on the Merger Agreement until the Company made supplemental proxy disclosure. That supplemental proxy disclosure was approved by the Delaware court and made on June 18, 2007. On June 26, 2007, the Delaware court granted the plaintiffs’ motion for leave to file a second amended complaint. On September 11, 2007, the plaintiffs filed a third amended complaint. A trial is scheduled for the fourth quarter of 2007. We believe that the lawsuits are without merit and intend to defend against them vigorously.

Although we record reserves for legal, product warranty and environmental matters in accordance with Statement of Financial Accounting Standards No. 5, “Accounting for Contingencies,” the outcomes of these matters are inherently uncertain. Actual results may differ significantly from current estimates. See Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2006.

We are involved in certain other legal actions and claims arising in the ordinary course of business, including, without limitation, commercial disputes, intellectual property matters, personal injury claims, tax claims and employment matters. Although the outcome of any legal matter 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, results of operations or cash flows. See Item 1A, “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,” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Other Matters,” in our Annual Report on Form 10-K for the year ended December 31, 2006.

### ITEM 1A — RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

**LEAR CORPORATION**

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

See Part 1 — Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Executive Overview — Merger Agreement,” in this Report for further information.

**ITEM 4 — SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

(a) The 2007 Annual Meeting of Stockholders of Lear Corporation was adjourned on July 12, 2007, and reconvened on July 16, 2007. At the meeting, the following matters were submitted to a vote of the stockholders of Lear Corporation. There were no broker non-votes in matters (2), (3), (4) and (5) described below. An independent inspector of elections was engaged to tabulate stockholder votes.

- (1) The adoption of the Agreement and Plan of Merger, dated as of February 9, 2007, as amended, by and among Lear Corporation, AREP Car Holdings Corp and AREP Car Acquisition Corp., and the merger contemplated thereby.

<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Votes</u>
22,208,407	38,662,486	116,068	9,258,775

- (2) The proposal to adjourn or postpone the annual meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the annual meeting to adopt the merger agreement.

<u>For</u>	<u>Against</u>	<u>Abstain</u>
30,930,664	39,054,018	261,378

- (3) The election of three directors to hold office until the 2010 Annual Meeting of Stockholders. The vote with respect to each nominee was as follows:

<u>Nominee</u>	<u>For</u>	<u>Withheld</u>
Larry W. McCurdy	55,795,553	14,450,183
Roy E. Parrott	58,679,635	11,566,101
Richard F. Wallman	55,901,505	14,344,231

The terms of office of the following directors continued after the meeting: Messrs. Intrieri, Mallett, Rossiter and Vandenberghe (whose terms expire at the annual meeting in 2008) and Messrs. Fry, Spalding, Stern and Wallace (whose terms expire at the annual meeting in 2009).

- (4) The amendments to our Amended and Restated Certificate of Incorporation to provide for the annual election of directors.

<u>For</u>	<u>Against</u>	<u>Abstain</u>
68,417,605	1,752,187	73,237

- (5) The appointment of the firm Ernst & Young LLP as the Company’s independent registered public accounting firm for the year ending December 31, 2007.

<u>For</u>	<u>Against</u>	<u>Abstain</u>
69,707,770	480,495	58,103

- (6) The approval of a stockholder proposal to provide for a majority vote standard in the election of directors.

<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Votes</u>
40,473,907	20,404,127	108,927	9,256,070

- (7) The approval of a stockholder proposal for Lear Corporation to commit itself to a code of conduct based on the International Labor Organization human rights standards and the United Nations’ Norms on the Responsibilities of

## LEAR CORPORATION

Transnational Corporations with Regard to Human Rights and commit to a program of outside, independent monitoring of compliance with these standards.

<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Votes</u>
9,619,142	45,728,605	5,638,888	9,259,101

### ITEM 5 – OTHER INFORMATION

**Deadline for Submission of Stockholder Proposals for 2008 Annual Meeting of Stockholders:** Lear currently expects to hold its 2008 Annual Meeting of Stockholders on or about May 8, 2008, although such date has not yet been formally approved by our board of directors. Stockholders who intend to present proposals at that meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 must send notice of their proposal to us so that we receive it in a reasonable time before we begin printing and mailing the proxy statement and no later than November 26, 2007. Stockholders who intend to nominate directors or present proposals at that meeting other than pursuant to Rule 14a-8 must comply with the notice provisions in our by-laws. Stockholder proposals should be addressed to Lear Corporation, 21557 Telegraph Road, Southfield, Michigan 48033, Attention: Secretary.

### ITEM 6 — EXHIBITS

The exhibits listed on the “Index to Exhibits” on page 59 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: November 6, 2007

By: /s/ Robert E. Rossiter

\_\_\_\_\_  
Robert E. Rossiter  
Chairman, Chief Executive Officer and  
President

By: /s/ Matthew J. Simoncini

\_\_\_\_\_  
Matthew J. Simoncini  
Senior Vice President and  
Chief Financial Officer

# LEAR CORPORATION

## Index to Exhibits

Exhibit Number	Exhibit
2.1	Amendment No. 1, dated July 9, 2007, to the Agreement and Plan of Merger, dated February 9, 2007, by and among AREP Car Holdings Corp., AREP Car Acquisition Corp. and Lear Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated July 9, 2007).
3.1	Certificate of Amendment to Amended and Restated Certificate of Incorporation of Lear Corporation, dated July 17, 2007 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated July 16, 2007).
3.2	By-laws of Lear Corporation, amended as of July 17, 2007 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K dated July 16, 2007).
10.1	Amendment No. 1, dated July 9, 2007, to the Stock Purchase Agreement, dated October 17, 2006, among Lear Corporation, Icahn Partners LP, Icahn Master Fund LP and Koala Holding LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 9, 2007).
10.2	Registration Rights Agreement, dated as of July 9, 2007, by and among Lear Corporation and AREP Car Holdings Corp. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated July 9, 2007).
**10.3*	<a href="#">Employment Agreement, dated March 3, 2006, between Lear Corporation and Matthew J. Simoncini.</a>
10.4*	Separation Agreement, dated October 3, 2007, between Lear Corporation and Douglas J. DelGrosso (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 1, 2007).
10.5	Amended and Restated Limited Liability Company Agreement of International Automotive Components Group North America, LLC, dated as of October 11, 2007 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 11, 2007).
** 31.1	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.</a>
** 31.2	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.</a>
** 32.1	<a href="#">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.</a>
** 32.2	<a href="#">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.</a>

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\* Compensatory plan or arrangement.

\*\* Filed herewith.



March 3, 2006

Mr. Matthew Simoncini  
[home address]

Dear Matt:

Lear Corporation (the "Company") considers it essential to its best interest and the best interests of its stockholders to foster the continued employment of key management personnel.

The Board of Directors of the Company (the "Board") has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including yourself, to their assigned duties. The Board recognizes that, as is the case with many publicly-held companies, the possibility of a Change in Control (as that term is hereafter defined) exists. The Company wishes to assure itself of both present and future continuity of management in the event of any Change in Control. In order to induce you to remain in the employ of the Company, and in consideration of your agreement to the termination of any existing employment contract you may have with the Company or any predecessor, the Company agrees that you shall receive, upon the terms and conditions set forth herein, the compensation and benefits set forth in this letter agreement ("Agreement") during the Term hereof.

1. **Term of Agreement.** This Agreement shall commence as of February 24, 2006 ("Effective Date"). The initial term of this Agreement shall be two (2) years from the Effective Date. The term of this Agreement shall at all times be two (2) years, that is, the term of this Agreement shall be automatically extended each day for an additional day such that this Agreement shall continually have an unexpired term of two (2) years, until the date two (2) years after written notice is provided by either the Company or the Executive that this Agreement is not to be further extended (a "Notice of Non-Renewal"), the date set forth in a Notice of Termination provided pursuant to Section 4, the date of the Executive's death, or the date the Executive reaches his or her normal retirement date under the Lear Corporation Pension Plan or its successor, whichever shall first occur (the initial term as so extended is referred to herein as the "Term").

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

3. **Compensation.**

(a) As compensation for your services, under this Agreement, you shall be entitled during the Term to receive an initial base salary the annualized amount of which shall be \$400,000.00\*\*, to be paid in accordance with existing payroll practices for executives of the Company. Increases in your base salary, if any, shall be as approved by the Compensation Committee of the Board. In addition, you shall be eligible to receive an annual incentive compensation bonus ("Bonus") to be approved from time to time by the Compensation Committee of the Board.

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

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

4. **Termination of Employment.**

(a) **Notice.** You or the Company may terminate the employment relationship by giving a Notice of Non-Renewal, as described in Section 1. Alternatively, the employment relationship may be terminated by the Company with or without Cause, by the Company for Incapacity, or by you with or without Good Reason, all as defined below, by giving a Notice of Termination. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon, if any, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated. All notices under this Section 4(a) shall be given in accordance with the requirements of Section 9.

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\* Senior Vice President and Chief Financial Officer as of October 1, 2007.

\*\* Current base salary was \$500,000 as of October 1, 2007.

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

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

(i) an act of fraud, embezzlement or theft by you in connection with your duties or in the course of your employment with the Company;

(ii) your material breach of any provision of this Agreement, provided that in those instances in which your material breach is capable of being cured, you have failed to cure within a thirty (30) day period after notice from the Company;

(iii) an act or omission, which is (x) willful or grossly negligent, (y) contrary to established policies or practices of the Company, and (z) materially harmful to the business or reputation of the Company, or to the business of the Company's customers or suppliers as such relate to the Company; or

(iv) a plea of *nolo contendere* to, or conviction for, a felony.

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

(i) any reduction by the Company in your base salary or adverse change in the manner of computing your Bonus, as in effect from time to time, except for across-the-board salary reductions or changes to the manner of computing bonuses similarly affecting all executive officers of the Company subject to Section 16(b) of the Securities Exchange Act of 1934, as determined by the Board ("executive officers");

(ii) the failure by the Company to pay or provide to you any amounts of base salary or Bonus or any benefits which are due, owing and payable to you pursuant to the terms hereof, except pursuant to an across-the-board compensation deferral similarly affecting all executive officers, or to pay to you any portion of an installment of deferred compensation due under any deferred compensation program of the Company;

(iii) except in the case of across-the-board reductions, deferrals, eliminations, or plan modifications similarly affecting all executive officers, the failure by the Company to continue to provide you with benefits substantially similar in the aggregate to the Company's life insurance, medical, dental, health, accident or disability plans in which you are participating at the date of this Agreement;

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

However, the language in Sections 4(d)(i) through (iii) concerning reductions, changes, deferrals, eliminations, or plan modifications similarly affecting all executive officers of the Company shall not be applicable to circumstances or events occurring in anticipation of, or within one year after, a Change in Control, as defined in Section 4(e). In addition, upon a Change in Control, you shall have the right to resign for Good Reason if your principal place of employment is transferred to a location fifty (50) or more miles from its location immediately preceding the transfer.

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

(e) **Change in Control.** For purposes of this Agreement, a "Change in Control" of the Company shall be deemed to have occurred as of the first day any one or more of the following paragraphs is satisfied:

(i) any Person as that term is used in Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act") (other than the Company or a trustee or other fiduciary holding securities under an employee benefit plan of the Company, or a corporation owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company) becomes the Beneficial Owner, as that term is defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act, directly or indirectly, of securities of the Company, representing more than twenty percent of the combined voting power of the Company's then outstanding securities.

(ii) during any period of twenty-six (26) consecutive months beginning on or after the Effective Date, individuals who at the beginning of the period constituted the Board cease for any reason (other than death, disability or voluntary retirement) to constitute a majority of the Board. For this purpose, any new Director whose election by the Board, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds of the Directors then still in office, and who either were Directors at the beginning of the period or whose election or nomination for election was so approved, will be deemed to have been a Director at the beginning of any twenty-six month period under consideration.

(iii) the shareholders of the Company approve: (A) a plan of complete liquidation or dissolution of the Company; or (B) an agreement for the sale or disposition of all or substantially all the Company's assets; or (C) a merger, consolidation or reorganization of

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the Company with or involving any other corporation, other than a merger, consolidation or reorganization that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least eighty percent of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such merger, consolidation, or reorganization.

(f) **Date of Termination.** "Date of Termination" shall mean

(i) if your employment is terminated by reason of your death, the date of your death;

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

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

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

(g) **Employee Benefits.** A termination by the Company pursuant to Section 4(c) hereof or by you pursuant to Section 4(d) hereof shall not affect any rights which you may have pursuant to any other agreement, policy, plan, program or arrangement of the Company providing employee benefits, which rights shall be governed by the terms thereof and by Section 5; provided, however, that if you shall have received or shall be receiving benefits under Section 5(a), (c), or (d) hereof and, if applicable, Section 6 hereof, you shall not be entitled to receive benefits under any other policy, plan, program or arrangement of the Company providing severance compensation to which you would otherwise be entitled.

5. **Compensation Upon Termination.** Upon your termination of employment, you shall receive:

(a) If your employment shall be terminated by the Company for Incapacity, (i) for the period from the Date of Termination until the end of the calendar year in which such termination occurs, you shall receive all compensation payable to you under the Company's disability and medical plans and programs, as in effect on the Date of Termination, plus an additional payment from the Company (if necessary) such that the aggregate amount received by you from all sources equals your base salary, at the rate in effect on the Date of Termination, plus any Bonus and all other amounts to which you would have been entitled under any compensation or benefit plans of the Company had your employment continued until the end of the calendar year, (ii) for the period from the end of the calendar year in which such termination occurs until two (2) years from the Date of Termination (the "Payment End Date"), you shall receive all compensation payable to you

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under the Company's disability and medical plans and programs, as in effect on the Date of Termination, plus an additional payment from the Company (if necessary) such that the aggregate amount received by you from all sources equals your base salary at the rate in effect on the Date of Termination, and (iii) for purposes of outstanding awards and amounts owing or accrued as described in Section 5(d)(iii) of this Agreement, your employment shall be deemed to have been terminated due to your Disability (as that term is defined in the plans, programs, or arrangements described in Section 5(d)(iii) of this Agreement). After the Payment End Date, your benefits shall be determined under the Company's retirement, insurance and other compensation programs then in effect in accordance with the terms of such programs. The additional payments by the Company described in this Section 5(a) shall be conditioned upon the execution by you or a representative with legal authority to act on your behalf of a general release relating to your employment in form and substance reasonably acceptable to the Company.

(b) If your employment shall be terminated (i) by the Company for Cause or by a Notice of Non-Renewal, or (ii) by you other than for Good Reason, the Company shall pay you your base salary through the Date of Termination, at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are fully vested and irrevocably entitled under any compensation or benefit plans of the Company as of the Date of Termination, and the Company shall have no further obligations in any respect whatsoever for payment of compensation or benefits to you under this Agreement. Provided, however, that if your employment is terminated by you other than for Good Reason, you shall be compensated under this Section 5(b) only to the extent that you actively performed your assigned responsibilities through the Date of Termination. In addition, you acknowledge that a termination of employment described in this Section 5(b) shall not be considered an End of Service Date for any and all outstanding stock options to which you are a party, except to the extent it would otherwise qualify as a Retirement thereunder.

(c) If your employment shall be terminated by reason of your death, the Company shall pay your estate or designated beneficiary (as designated by you by written notice to the Company, which designation shall remain in effect for the remainder of the Term and any extensions thereof until revoked or a new beneficiary is designated, in either case by written notice to the Company) your base salary through the Date of Termination, plus a Bonus prorated for the portion of the Bonus measurement period occurring prior to the date of your death, plus all other amounts to which you are entitled under any compensation or benefit plans of the Company at the date of your death, including, but not limited to, all life insurance proceeds payable on your death to which your estate or beneficiaries are otherwise entitled in accordance with the terms thereof, and the Company shall have no further obligation to you, your beneficiaries or your estate under this Agreement.

(d) If your employment shall be terminated (a) by the Company, except for a termination by the Company for Cause or Incapacity or by a Notice of Non-Renewal (or due to your death), or (b) by you for Good Reason, then you shall be entitled to the benefits provided below:

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(i) The Company shall pay you your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given (or, if greater, at the rate in effect at any time within 90 days prior to the time Notice of Termination is given), plus all other amounts to which you are entitled under any compensation or benefit plans of the Company, including, without limitation, a Bonus prorated for the portion of the Bonus measurement period occurring prior to the Date of Termination, at the time such payments are due, except as otherwise provided below.

(ii) Conditioned upon your execution of a general release relating to your employment in form and substance reasonably acceptable to the Company, the Company shall pay or cause to be paid to you, in lieu of any further payments to you for the portion of the Term subsequent to the Termination Date an amount (the "Severance Payment"), which shall be equal to the sum of:

- (A) the aggregate base salary (at the highest rate in effect at any time during the Term) which you would have received pursuant to this Agreement for the Severance Period had your employment with the Company continued for such period, and
- (B) the aggregate Bonus (based upon the highest annual Bonus that you received with respect to any calendar year during the two years immediately preceding the calendar year in which the Termination Date occurred, or, in the event that the Termination Date occurs prior to the first anniversary of the Effective Date, then based upon the highest annual Bonus that you received with respect to any calendar year during the three years immediately preceding the calendar year in which the Termination Date occurred) which you would have received pursuant to this Agreement for the Severance Period, had your employment with the Company continued for such period.

The Severance Payment shall be paid over a period of one (1) year (the "Severance Period") in the following manner: an amount equal to fifty percent (50%) of the value of the Severance Payment, or, if the Severance Period is adjusted per Section 10(e), then an amount equal to twenty-five percent (25%) of the value of the Severance Payment, paid in a lump sum as soon as administratively practicable after your Termination Date; and an amount equal to the remaining fifty percent (50%) or seventy-five percent (75%), as applicable, paid in equal semi-monthly installments, without interest, beginning six (6) months after the Termination Date and continuing through the end of the Severance Period. Notwithstanding the foregoing, in the event that the Termination Date occurs prior to the first anniversary of the Effective Date, the Severance Period will be increased by one year.

(iii) All outstanding awards, and all amounts owing or accrued, on the Date of Termination under the Lear Corporation Long-Term Stock Incentive Plan ("LTSIP"), the Lear Corporation Management Stock Purchase Plan ("MSPP"), the Lear Corporation Executive Supplemental Savings Plan ("ESSP") and the Lear Corporation Pension Equalization Program ("PEP"), and any other compensation or equity-based plan, program

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or arrangement of the Company in which you participated (including, following a Change in Control, any additional accruals provided thereunder due to a Change in Control) will be paid to you under the terms and conditions of such plans, programs and arrangements (and the award agreements and other documents thereunder), as modified by this Section 5(d)(iii). Your awards and amounts owing or accrued that vest based on the passage of time and/or continued service (and not based primarily upon the satisfaction of performance measures, as described below) will vest as scheduled during the Severance Period as if you had remained employed; to the extent such awards and amounts owing or accrued, other than those stock options held by you on the Effective Date, have not vested by the end of your Severance Period, they will become vested and nonforfeitable on a pro rata basis determined by multiplying the unvested awards and amounts by a fraction, the numerator of which is the number of full months that elapsed from the grant date to the end of your Severance Period, as adjusted by Section 10(e), and the denominator of which is the number of full months in the total vesting period. Your vested stock options shall be exercisable (A) prior to a Change in Control, for thirteen months following your Date of Termination (but not later than the date on which the stock options would otherwise expire if you remained employed by the Company), and (B) following a Change in Control, throughout their entire term. In the case of those awards and amounts owing or accrued which would otherwise have become vested and nonforfeitable primarily upon the satisfaction of performance measures set forth in the relevant award agreement, plan, program or arrangement, you shall be paid in stock as soon as administratively feasible after the end of the relevant performance period (or such earlier period as the other participants in such award agreement, plan, program or arrangement are eligible to be paid out), a pro rata amount (if and to the extent all relevant performance objectives are actually achieved at target levels), based on a fraction, the numerator of which is the number of full months that elapsed from the grant date to your Date of Termination and the denominator of which is the number of full months in the relevant performance period.

You and the Company acknowledge that references in this Section 5(d)(iii) to the PEP, the MSPP, the ESSP, and the LTSIP, shall be deemed to be references to such plans as amended or restated from time to time and to any similar plan of the Company that supplements or supersedes any such plans. In addition, you and the Company acknowledge that references in this Section 5 to any Section of the Code shall be deemed to be references to such Section as amended from time to time or to any successor thereto.

(iv) The Company shall arrange to provide to you, your dependents, and beneficiaries, for the Severance Period, benefits provided under any "welfare benefit plan" of the Company (as the term "welfare benefit plan" is defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended) ("Welfare Benefits"). If and to the extent that any such Welfare Benefits shall not or cannot be paid or provided under any policy, plan, program or arrangement of the Company (A) solely due to the fact that you are no longer an officer or employee of the Company or did not continue as an officer or employee of the Company during the remainder of the Term or (B) as a result of the amendment or termination of any plan providing for Welfare Benefits, the Company shall then itself pay or provide for the payment of such Welfare Benefits to you, your dependents

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and beneficiaries. Without otherwise limiting the purposes or effect of the no mitigation obligation in Section 5(h) hereof, Welfare Benefits payable to you (including your dependents and beneficiaries) pursuant to this Section 5(d)(iv) shall be reduced to the extent comparable welfare benefits are actually received by you (including your dependents and beneficiaries) from another employer during such period, and any such benefits actually received by you shall be reported by you to the Company.

(v) Your right to acquire any shares of the Company's capital stock under any and all outstanding stock options, or other rights previously granted to you under any equity-based plans of the Company shall be governed by the express terms of such plans and the applicable agreements thereunder, except as provided in Section 5(a), 5(b), or 5(d)(iii) of this Agreement.

(e) Any Bonus that is payable to you with respect to a period that is less than a full calendar year (a "partial calendar year") shall be prorated by multiplying (i) the Bonus that would have been payable to you with respect to the entire calendar year had your employment with the Company continued until the end of such year by (ii) a fraction, the numerator of which equals the number of days in the partial calendar year and the denominator of which equals 365.

(f) Unless your Date of Termination occurs within one year after a Change in Control, the Company, if permitted by law, may set-off or counterclaim losses, fines or damages in respect of any claim, debt or obligation against any payment to or benefit for you provided for in this Agreement.

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

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

**6. Certain Additional Payments by the Company.**

(a) Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined (as hereafter provided) that any payment (or benefit provided) by the Company

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to or for your benefit, whether paid or payable pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to the excise tax imposed by Section 4999 (or any successor thereto) of the Code, and any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereafter collectively referred to as the "Excise Tax"), then you shall be entitled to receive an additional payment or payments (collectively, a "Gross-Up Payment"), including without limitation any Gross-Up Payment made with respect to the Excise Tax, if any, attributable to (i) any incentive stock option, as defined by Section 422 of the Code ("ISO"), or (ii) any stock appreciation or similar right, whether or not limited, granted in tandem with any ISO. The Gross-Up Payment shall be in an amount such that, after payment by you of the Excise Tax, plus any additional taxes, penalties and interest, and any further Excise Taxes imposed upon the Gross-Up Payment, you retain, after payment of all such taxes and Excise Taxes, an amount of the Gross-Up Payment equal to the Payment that you would have received if no Excise Taxes had been imposed upon the Payment and no additional taxes, penalties, and interest or further Excise Taxes had been imposed upon the Gross-Up Payment.

(b) Subject to the provisions of Section 6(e) hereof, all determinations required to be made under this Section 6, including whether an Excise Tax is payable by you and the amount of such Excise Tax and whether a Gross-Up Payment is required and the amount of such Gross-Up Payment, shall be made by a nationally recognized firm of certified public accountants (the "Accounting Firm") selected by you in your sole discretion, other than the Company's independent auditing firm, to the extent prohibited by applicable Public Company Accounting Oversight Board rules. You shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and you within thirty (30) calendar days after the Termination Date. If the Accounting Firm determines that any Excise Tax is payable by you, the Company shall pay the required Gross-Up Payment to you within five (5) business days after receipt of the aforesaid determination and calculations. If the Accounting Firm determines that no Excise Tax is payable by you, it shall, at the same time as it makes such determination, furnish you with an opinion that you do not owe any Excise Tax on your Federal income tax return. Any determination by the Accounting Firm as to the amount of the Gross-Up Payment to be paid by the Company within such thirty (30) calendar day period shall be binding upon the Company and you. As a result of the uncertainty in the application of Section 4999 (or any successor thereto) of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 6(e) hereof and you thereafter are required to make a payment of any Excise Tax, you shall direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and you as promptly as possible. Any such Underpayment shall be promptly paid by the Company to or for your benefit within three calendar days after receipt of such determination and calculations.

(c) The Company and you shall each cooperate with the Accounting Firm in connection with the preparation and issuance of the determination provided for in Section 6(b) hereof. Such cooperation shall include without limitation providing the Accounting Firm access to

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and copies of any books, records and documents in the possession of the Company or you, as the case may be, that are reasonably requested by the Accounting Firm.

(d) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations provided for in Section 6(b) hereof shall initially be paid by you. The Company shall reimburse you for your payment of such costs and expenses within five (5) business days after receipt from you of a statement therefor and evidence of your payment thereof.

(e) You shall notify the Company in writing, of any claim by the Internal Revenue Service (the "IRS") that, if successful, would require the payment by the Company of a Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten (10) business days after you receive notice of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. You shall not pay such claim prior to the earlier of (x) the expiration of the thirty (30) calendar day period following the date on which you give such notice to the Company or (y) the date that any payment of taxes with respect to such claim is due. If the Company notifies you in writing prior to the expiration of such period that it desires to contest such claim, you shall:

(i) give the Company any information reasonably requested by the Company relating, to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing, from time to time, including without limitation accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim;  
and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold you harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 6(e), the Company shall, provided that such control does not have a material adverse affect on your individual income tax with respect to matters unrelated to the contest of the Excise Tax, control all proceedings taken in connection with such contest and, at its sole option, may, provided that such pursuit or foregoing does not have a material adverse affect on your individual income tax with respect to matters unrelated to the contest of the Excise Tax, pursue or forego any and all administrative appeals, proceedings, hearings and conference with the IRS in respect of such claim (but, you may participate therein at your own cost and expense) and may, at its sole option, provided that such payment, suit, contest or prosecution does not have a material adverse affect on your individual

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income tax with respect to matters unrelated to the contest of the Excise Tax, either direct you to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and you agree to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs you to pay the tax claimed and sue for a refund, the Company shall advance the amount of such payment to you on an interest-free basis and shall indemnify and hold you harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for your taxable year with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of such contest shall be limited to issues with respect to which a Gross Up Payment would be payable hereunder, and you shall be entitled to settle or contest, as the case may be, any other issue raised by the IRS.

(f) If, after the receipt by you of an amount advanced by the Company pursuant to Section 6(e) hereof, you receive any refund with respect to such claim, you shall (subject to the Company's complying with the requirements of Section 6(e) hereof) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by you of an amount advanced by the Company pursuant to Section 6(e) hereof, a determination is made that you shall not be entitled to any refund with respect to such claim and the Company does not notify you in writing of its intent to contest such denial or refund prior to the expiration of thirty (30) calendar days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

7. **Travel.** You shall be required to travel to the extent necessary for the performance of your responsibilities under this Agreement.

8. **Successors; Binding Agreement.** The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all the business and/or assets of the Company, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place, and will assign its rights and obligations hereunder to such successor. Failure of the Company to make such an assignment and to obtain such assumption and agreement prior to the effectiveness of any such succession, unless you agree otherwise in writing with the Company or the successor, shall entitle you to compensation from the Company in the same amount and on the same terms as you would be entitled to hereunder if you terminate your employment for Good Reason and the date on which any such succession becomes effective shall be deemed your Date of Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise. This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees and/or legatees. This Agreement is personal in nature and neither of the parties hereto shall, without the consent of

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the other, assign, transfer or delegate this Agreement or any rights or obligations hereunder except as expressly provided in this Section 8. Without limiting the generality of the foregoing, your right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than by a transfer by your will or by the laws of descent and distribution and, in the event of any attempted assignment or transfer contrary to this Section 8, the Company shall have no liability to pay to the purported assignee or transferee any amount so attempted to be assigned or transferred. The Company and you recognize that each party will have no adequate remedy at law for any material breach by the other of any of the agreements contained herein and, in the event of any such breach, the Company and you hereby agree and consent that the other shall be entitled to a decree of specific performance, mandamus or other appropriate remedy to enforce performance of this Agreement.

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

10. **Noncompetition.**

(a) Until the Date of Termination, you agree not to engage in any Competitive Activity. For purposes of this Agreement, the term "Competitive Activity" shall mean your participation as an employee or consultant, without the written consent of the CEO or the Board or any authorized committee thereof, in the management of any business enterprise anywhere in the world if such enterprise engages in competition with any product or service of the Company (including without limitation any enterprise that is a supplier to an original equipment automotive vehicle manufacturer) or is planning to engage in such competition. "Competitive Activity" shall not include the mere ownership of, and exercise of rights appurtenant to, securities of a publicly-traded company representing 5% or less of the total voting power and 5% or less of the total value of such an enterprise. You agree that the Company is a global business and that it is appropriate for this Section 10 to apply to Competitive Activity conducted anywhere in the world.

(b) You agree not to engage directly or indirectly in any Competitive Activity (i) until one (1) year after the Date of Termination if you are terminated by the Company for Cause, as a result of a Notice of Non-Renewal from the Company, or you terminate your employment for other than Good Reason, or (ii) until two (2) years after the Date of Termination in all other circumstances.

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(c) You shall not directly or indirectly, either on your own account or with or for anyone else, solicit or attempt to solicit any of the Company's customers, solicit or attempt to solicit for any business endeavor or hire or attempt to hire any employee of the Company, or otherwise divert or attempt to divert from the Company any business whatsoever or interfere with any business relationship between the Company and any other person, (i) until one (1) year after the Date of Termination if you are terminated by the Company for Cause, as a result of a Notice of Non-Renewal from the Company, or you terminate your employment for other than Good Reason, or (ii) until two (2) years after the Date of Termination in all other circumstances.

(d) You acknowledge and agree that damages in the event of a breach or threatened breach of the covenants in this Section 10 will be difficult to determine and will not afford a full and adequate remedy, and therefore agree that the Company, in addition to seeking actual damages pursuant to Section 10 hereof, may seek specific enforcement of the covenant not to compete in any court of competent jurisdiction, including, without limitation, by the issuance of a temporary or permanent injunction, without the necessity of a bond. You and the Company agree that the provisions of this covenant not to compete are reasonable. However, should any court or arbitrator determine that any provision of this covenant not to compete is unreasonable, either in period of time, geographical area, or otherwise, the parties agree that this covenant not to compete should be interpreted and enforced to the maximum extent which such court or arbitrator deems reasonable.

(e) As additional compensation for the covenants contained in Sections 10(b) and 10(c), and only if you execute a general release in form and substance reasonably acceptable to the Company acknowledging, among other things, your obligations under this Agreement, the Company shall increase the Severance Period for purposes of Section 5(d) from one (1) year to two (2) years.

**11. Confidentiality and Cooperation.**

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

(b) Any design, engineering methods, techniques, discoveries, inventions (whether patentable or not), formulae, formulations, technical and product specifications, bill of materials, equipment descriptions, plans, layouts, drawings, computer programs, assembly, quality control, installation and operating procedures, operating manuals, strategic, technical or marketing information, designs, data, secret knowledge, know-how and all other information of a confidential nature prepared or produced during the period of your employment and which ideas, processes,

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and other materials or information relate to any of the businesses of the Company, shall be owned by the Company and its affiliates whether or not you should in fact execute an assignment thereof or other instrument or document which may be reasonably necessary to protect and secure such rights to the Company.

(c) Following the termination of your employment, you agree to make yourself reasonably available to the Company to respond to periodic requests for information relating to the Company or your employment which may be within your knowledge. You further agree to cooperate fully with the Company in connection with any and all existing or future depositions, litigation, or investigations brought by or against the Company, any entity related to the Company, or any of its (their) agents, officers, directors or employees, whether administrative, civil or criminal in nature, in which and to the extent the Company deems your cooperation necessary. In the event that you are subpoenaed in connection with any litigation or investigation, you will immediately notify the Company. You shall not receive any additional compensation, other than reimbursement for reasonable costs and expenses incurred by you, in complying with the terms of this Section 11(c).

**12. Arbitration.**

(a) Except as contemplated by Section 10(d) or Section 12(c) hereof, any dispute or controversy arising under or in connection with this Agreement that cannot be mutually resolved by the parties to this Agreement and their respective advisors and representatives shall be settled exclusively by arbitration in Southfield, Michigan, before one arbitrator of exemplary qualifications and stature, who shall be selected jointly by an individual to be designated by the Company and an individual to be selected by you, or if such two individuals cannot agree on the selection of the arbitrator, who shall be selected pursuant to the procedures of the American Arbitration Association.

(b) The parties agree to use their best efforts to cause (i) the two individuals set forth in the preceding Section 12(a), or, if applicable, the American Arbitration Association, to appoint the arbitrator within thirty (30) days of the date that a party hereto notifies the other party that a dispute or controversy exists that necessitates the appointment of an arbitrator, and (ii) any arbitration hearing to be held within thirty (30) days of the date of selection of the arbitrator, and, as a condition to his or her selection, such arbitrator must consent to be available for a hearing, at such time.

(c) Judgment may be entered on the arbitrator's award in any court having jurisdiction, provided that you shall be entitled to seek specific performance of your right to be paid and to participate in benefit programs during the pendency of any dispute or controversy arising under or in connection with this Agreement. The Company and you hereby agree that the arbitrator shall be empowered to enter an equitable decree mandating specific performance of the terms of this Agreement. If any dispute under this Section 12 shall be pending, you shall continue to receive at a minimum the base salary which you were receiving immediately prior to the act or omission which forms the basis for the dispute. At the close of the arbitration, such continued base salary payments may be offset against any damages awarded to you or may be recovered from you if its

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determined that you were not entitled to the continued payment of base salary under the other provisions of this Agreement.

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

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

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

16. **Payments Net of Taxes.** Except as otherwise provided in Section 6 herein, any payments provided for herein which are subject to Federal, State local or other governmental tax or other withholding requirements or obligations, shall have such amounts withheld prior to payment, and the Company shall be considered to have fully satisfied its obligation hereunder by making such payments to you net of and after deduction for all applicable withholding obligations.

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

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

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

20. **Entire Agreement.** This Agreement and any attachments hereto, contain the entire agreement by the parties with respect to the matters covered herein and supersede any prior agreement (including, but not limited to, prior employment agreement(s)), condition, practice, custom, usage and obligation with respect to such matters insofar as any such prior agreement, condition, practice, custom, usage or obligation might have given rise to any enforceable right. No agreements, understandings or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

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

22. **Code Section 409A.** Notwithstanding any provision in this Agreement to the contrary, if your employment is terminated as described in Section 5(d) and Section 409A(a)(2)(B)(i) of the Code applies to all or any portion of your Severance Payment and you are a "specified employee" thereunder, then the Company shall pay the portion of your Severance Payment that is subject to such Section of the Code no earlier than six (6) months after your Termination Date or such other date as would be permissible under the Code. If your employment is terminated as described in Section 5(d) and Section 409A(a)(2)(B)(i) of the Code does not apply to any portion of your Severance Payment or you are not a "specified employee" thereunder, then the Company shall pay your Severance Payment as described in Section 5(d).

[Signature Page Follows]

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If this letter sets forth our agreement on the subject matter hereof, kindly sign and return to the Company the enclosed copy of this letter which will then constitute our agreement on this subject, effective on February 24, 2006 ("Effective Date").

Sincerely,

LEAR CORPORATION

By: /s/ Roger A. Jackson

Roger A. Jackson

Agreed to this 4th day of March, 2006

/s/ Matthew Simoncini

Matthew Simoncini

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**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: November 6, 2007

By: /s/ Robert E. Rossiter

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Robert E. Rossiter  
Chairman, Chief Executive Officer and President

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**CERTIFICATION**

I, Matthew J. Simoncini, certify that:

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

Date: November 6, 2007

By: /s/ Matthew J. Simoncini

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Matthew J. Simoncini  
Senior Vice President and Chief Financial Officer

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

In connection with the Quarterly Report of Lear Corporation (the "Company") on Form 10-Q for the period ended September 29, 2007, 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: November 6, 2007

Signed: /s/ Robert E. Rossiter

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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.

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

In connection with the Quarterly Report of Lear Corporation (the "Company") on Form 10-Q for the period ended September 29, 2007, 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: November 6, 2007

Signed: /s/ Matthew J. Simoncini

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Matthew J. Simoncini  
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.

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