LEAR CORP
Form 10-K/A
March 03, 2008

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

Form 10-K/A
(Amendment No. 1)

(Mark One)

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2007**.
o	**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)*

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act 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 þ No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b2 of the Exchange Act. (Check one):

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

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

As of June 30, 2007, the aggregate market value of the registrant s common stock, par value $0.01 per share, held by non-affiliates of the registrant was $2,297,417,360. The closing price of the common stock on June 30, 2007, as reported on the New York Stock Exchange, was $35.61 per share.

As of February 8, 2008, the number of shares outstanding of the registrant s common stock was 77,212,610 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the Registrant s Notice of Annual Meeting of Stockholders and Proxy Statement for its Annual Meeting of Stockholders to be held on May 8, 2008, as described in the Cross-Reference Sheet and Table of Contents included herewith, are incorporated by reference into Part III of this Report.

Table of Contents

Explanatory Note

This Amendment No. 1 on Form 10-K/A (the Form 10-K/A) amends our annual report for the fiscal year ended December 31, 2007, originally filed with the Securities and Exchange Commission (SEC) on February 15, 2008 (the Form 10-K). We are filing this Form 10-K/A to correct a transmission error made in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Year Ended December 31, 2007, Compared With Year Ended December 31, 2006. No other corrections are being made herein but, in the interest of clarity, this amended report amends and restates in its entirety the previously filed report.

This Form 10-K/A continues to speak as of the date of the Form 10-K and no attempt has been made in this Form 10-K/A to modify or update disclosures in the original Form 10-K except as noted above. This Form 10-K/A does not reflect events occurring after the filing of the Form 10-K or modify or update any related disclosures and any information not affected by the amendment contained in this Form 10-K/A is unchanged and reflects the disclosure made at the time of the filing of the Form 10-K with the SEC. In particular, any forward-looking statements included in this Form 10-K/A represent management s view as of the filing date of the Form 10-K. Accordingly, this Form 10-K/A should be read in conjunction with any documents incorporated by reference in the Form 10-K and our filings made with the SEC subsequent to the filing of the Form 10-K, including any amendments to those filings.

LEAR CORPORATION AND SUBSIDIARIES

CROSS REFERENCE SHEET AND TABLE OF CONTENTS

		Page Number or Reference
	PART I	
ITEM 1.	Business	3
ITEM 1A.	Risk factors	12
ITEM 1B.	Unresolved staff comments	16
ITEM 2.	Properties	16
ITEM 3.	Legal proceedings	17
ITEM 4.	Submission of matters to a vote of security holders	22
	SUPPLEMENTARY ITEM. Executive officers of the Company	
	PART II	
ITEM 5.	Market for the Company s common equity, related stockholder matters and issuer purchases of equity securities	24
ITEM 6.	Selected financial data	27
ITEM 7.	Management s discussion and analysis of financial condition and results of operations	29
ITEM 7A.	Quantitative and qualitative disclosures about market risk (included in Item 7)	
ITEM 8.	Consolidated financial statements and supplementary data	62
ITEM 9.	Changes in and disagreements with accountants on accounting and financial disclosure	125
ITEM 9A.	Controls and procedures	125
ITEM 9B.	Other information	125
	PART III(1)	
ITEM 10.	Directors, executive officers and corporate governance(2)	125
ITEM 11.	Executive compensation(3)	126
ITEM 12.	Security ownership of certain beneficial owners and management and related stockholder matters(4)	126
ITEM 13.	Certain relationships and related transactions, and director independence(5)	127
ITEM 14.	Principal accountant fees and services(6)	127
	PART IV	
ITEM 15.	Exhibits and financial statement schedule	127

Employment Agreement with Louis R. Salvatore
Employment Agreement with Terrence B. Larkin
Third Amendment to Executive Supplemental Savings Plan
2008 Management Stock Purchase Plan (U.S.) Terms and Conditions
2008 Management Stock Purchase Plan (Non-U.S.) Terms and Conditions
Long-Term Stock Incentive Plan 2007 Restricted Stock Unit Terms and Conditions
Long-Term Stock Incentive Plan 2007 Stock Appreciation Rights Terms and Conditions
Second Amendment to the Pension Equalization Program
Form of Performance Share Award Agreement
Fifth Amendment to the Lear Corporation Executive Supplemental Savings Plan, dated as February 14, 2008
Computation of Net Income Per Share

Computation of Ratios of Earnings to Fixed Charges
List of Subsidiaries of the Company
Consent of Ernst & Young LLP
Certification of Principal Executive Officer
Certification of Principal Financial Officer
906 Certification of Chief Executive Officer
906 Certification of Chief Financial Officer

(1) Certain information is incorporated by reference, as indicated below, to the registrant s Notice of Annual Meeting of Stockholders and Proxy Statement for its Annual Meeting of Stockholders to be held on May 8, 2008 (the Proxy Statement).

(2) A portion of the information required is incorporated by reference to the Proxy Statement sections entitled Election of Directors, and Directors and Beneficial Ownership.

(3) Incorporated by reference to the Proxy Statement sections entitled Directors and Beneficial Ownership Director Compensation, Compensation Discussion and Analysis, Executive Compensation, Compensation Committee Interlocks and Insider Participation and Compensation Committee Report.

(4) A portion of the information required is incorporated by reference to the Proxy Statement section entitled Directors and Beneficial Ownership Security Ownership of Certain Beneficial Owners and Management.

(5) Incorporated by reference to the Proxy Statement sections entitled Certain Relationships and Related-Party Transactions and Directors and Beneficial Ownership Independence of Directors.

(6) Incorporated by reference to the Proxy Statement section entitled Fees of Independent Accountants.

PART I

ITEM 1 *BUSINESS*

In this Report, when we use the terms the Company, Lear, we, us and our, unless otherwise indicated or the con otherwise requires, we are referring to Lear Corporation and its consolidated subsidiaries. A substantial portion of the Company s operations are conducted through subsidiaries controlled by Lear Corporation. The Company is also a party to various joint venture arrangements. Certain disclosures included in this Report constitute forward-looking statements that are subject to risks and uncertainties. See Item 1A, Risk Factors, and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements.

BUSINESS OF THE COMPANY

General

Our company was founded in 1917 as American Metal Products Corporation. Through a management-led buyout in 1988, Lear established itself as a private seat assembly operation for the North American automobile market with annual sales of approximately $900 million. We completed our initial public offering in 1994, at a time when customers increasingly were seeking suppliers that could provide complete automotive interior systems on a global basis. Between 1993 and 2000, there was significant consolidation in the automotive supplier industry, and during that time, we made 17 strategic acquisitions. These acquisitions assisted in transforming Lear from primarily a North American automotive seat assembly operation into a global tier 1 supplier of complete automotive seat systems, electrical distribution systems and electronic products via a global footprint with locations in 34 countries around the world.

We are a leading global automotive supplier with net sales of $16.0 billion in 2007 (net sales of $15.3 billion excluding our recently-divested interior business). With this level of sales, we would rank within the top 200 of the Fortune 500 list of publicly-traded U.S. companies. Our business is focused on providing complete seat systems, electrical distribution systems and electronic products, and we supply every major automotive manufacturer in the world. In seating systems, based on independent market studies and management estimates, we believe that we hold a #2 position globally on the basis of revenue. We estimate the global seating systems market to be between $45 and $50 billion. In electrical distribution systems, based on independent market studies and management estimates, we believe that we hold a #3 position in North America and a #4 position in Europe on the basis of revenue. We estimate the global electrical distribution systems market to be between $20 and $25 billion.

We have pursued a global strategy, aggressively expanding our operations in Europe, Central America, Africa and Asia. Since 2002, we have realized a 12% compound annual growth rate in net sales outside of North America, with 55% of our 2007 sales coming from outside of North America. Our Asian-related sales (on an aggregate basis, including both consolidated and unconsolidated sales) have grown from $800 million in 2002 to $2.9 billion in 2007. We expect additional Asian-related sales growth in 2008, led by expanding relationships with Hyundai, Nissan and certain regional manufacturers.

In 2007, our sales were comprised of the following vehicle categories: 58% cars, including 24% mid-size, 19% compact, 13% luxury/sport and 2% full-size, and 42% light truck, including 23% sport utility/crossover and 19% pickup and other light truck. We have expertise in all platform segments of the automotive market and expect to continue to win new business in line with market trends.

Since early 2005, the North American automotive market has become increasingly challenging. Higher fuel prices have led to a shift in consumer preferences away from SUVs, and our North American customers have faced increasing competition from foreign competitors. In addition, higher commodity costs (principally, steel, copper, resins and other oil-based commodities) have caused margin pressure in the sector. In response, our North American customers have reduced production levels on several of our key platforms and have taken aggressive actions to reduce costs. As a result, we experienced a significant decrease in our operating earnings in 2005 in each of our product segments. Although production volumes continued to decline in 2006 and 2007 on many of our key platforms, production schedules were less volatile and we have been able to significantly reduce our cost structure. As a result, our business demonstrated improved operating performance in 2006 and 2007.

We believe there is significant opportunity for continued growth in our seating and electrical and electronic businesses and are pursuing a strategy focused around our global product lines. This strategy includes investing in new products and technologies, as well as selective vertical integration. In 2005, we initiated a comprehensive restructuring strategy to align capacity with our customers as they rationalize their operations and to more aggressively expand our low cost country manufacturing and purchasing initiatives to improve our overall cost structure. We have since expanded the restructuring program, incurring $386 million of pretax restructuring costs through 2007. We believe our commitment to customer service and quality, together with a cost competitive manufacturing footprint, will result in a global leadership position in each of our product segments and improve our profit margins.

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. We have divested substantially all of the assets of this segment. In October 2006, we completed the contribution of substantially all of our European interior business to International Automotive Components Group, LLC (IAC Europe), a joint venture with affiliates of WL Ross & Co. LLC (WL Ross) and Franklin Mutual Advisers, LLC (Franklin), in exchange for an approximately one-third equity interest in IAC Europe. In March 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), a wholly owned subsidiary of International Automotive Components Group North America, LLC (IACNA). Also in March 2007, a wholly owned subsidiary of Lear contributed approximately $27 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 million to IACNA in exchange for the remaining equity and extended a $50 million term loan to IAC. In October 2007, IACNA completed the acquisition of the soft trim division of Collins & Aikman Corporation (C&A). In connection with the C&A acquisition, IACNA issued to WL Ross, Franklin and the wholly owned subsidiary of Lear 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 these transactions, 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 believe that with a strong presence in major markets, IAC Europe and IACNA are well positioned to participate in a consolidation of this market segment and become a strong global interior supplier.

Strategy

Our principal objective is to strengthen and expand our position as a leading automotive supplier to the global automotive industry by focusing on the needs of our customers. We believe that the criteria for selection of automotive suppliers are not only cost, quality, delivery and service, but also, increasingly, worldwide presence and the ability to work collaboratively to reduce cost throughout the entire system, increase functionality and bring new consumer driven products to market.

Specific elements of our strategy include:

> *Leverage Core Product Lines.* In response to the recent industry trend away from total interior integration, we are taking a product-focused approach to managing our business. We have exited the interior business and are focusing on seat and electrical and electronic systems and select components where we can provide greater value to our customers. The opportunity to strengthen our global leadership position in these segments exists as we develop new products, continue to expand our relationships with global automakers and grow with our customers as they enter new markets globally. In addition, we see an opportunity to offer increased value to our

customers and improve our product line profitability through selective vertical integration. In our seating segment, we are focused on increasing our capabilities in key components such as seat structures and mechanisms, trim covers, seat foam and other selected products. By incorporating these key components into our fully-assembled seat systems, we are able to provide the highest quality product at

Table of Contents

the lowest total cost. In our electrical and electronic segment, we believe that by leveraging our expertise in electrical and electronic architectures and product technology, we can grow our market share in core products such as wire harnesses, terminals and connectors, junction boxes, body control modules and wireless systems. Building upon our smart junction box technologies and capabilities will allow us to provide these electrical distribution systems and electronic components at a lower cost and with superior functionality.

Invest in New Technology. Automotive manufacturers view the vehicle interior as a major selling point and are increasingly responding to the consumer demands for more interior features. Our Core Dimension Strategy focuses our research and development efforts on innovative product solutions for the seven attributes our research indicates that consumers most value: safety, comfort and convenience, environmental, craftsmanship, commonization, infotainment and flexibility. Within seating, we provide industry-leading safety features such as ProTec™ PLuS, our second generation of self-aligning head restraints that significantly reduce whiplash injuries, and we offer numerous flexible seating configurations that meet a wide range of customer requirements. Within our electrical and electronic segment, our proprietary electrical distribution and Radio Frequency (RF) technology provides several opportunities to provide value. We participate in the wireless control systems market with products such as our Car2U™ two-way keyless fobs that embed features such as remote-controlled engine start, door locks, climate controls, vehicle status and location. We also offer the Intellitire® Tire Pressure Monitoring System, an industry leading safety feature, and infotainment features such as integrated family entertainment systems. We are also seeking to develop new products in our electrical and electronic segment to address the rapidly growing hybrid vehicle market. By leveraging our core competency in electrical and electronic architectures, as well as key technology partnerships, we are investing in technologies to provide solutions for our customers in integrating the high voltage electrical architectures found in hybrid and other low emission powertrains. To further these efforts, we maintain five advanced technology centers and several customer-focused product engineering centers where we design, develop and test new products and analyze consumer responses to automotive interior styling and innovations.

Enhance Strong Customer Relationships. We believe that the long-standing and strong relationships we have built with our customers allow us to act as partners in identifying business opportunities and anticipate the needs of our customers in the early stages of vehicle design. Quality continues to be a differentiating factor in the eyes of the consumer and a competitive cost factor for our customers. We are dedicated to providing superior customer service and maintaining an excellent reputation for providing world-class quality at competitive prices. In recognition of our efforts, we continue to receive recognition from our customers and other industry sources. These include, for 2007, Supplier of the Year from General Motors, World Excellence Awards from Ford Motor Company and Superior Supplier Diversity from Toyota. We intend to maintain and improve the quality of our products and services through our ongoing Quality First initiatives.

Maintain Operational Excellence. To withstand fluctuations in industry demand, we continue to be proactive by maintaining an intense focus on the efficiency of our manufacturing operations and identifying opportunities to reduce our cost structure. We manage our cost structure, in part, through ongoing continuous improvement and productivity initiatives throughout the organization, as well as initiatives to promote and enhance the sharing of technology, engineering, purchasing and capital investments across customer platforms. Our current initiatives include:

Restructuring Program: 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 (1) better align our manufacturing capacity with the changing needs of our customers, (2) eliminate excess capacity and lower our operating costs and (3) streamline our organizational structure and reposition our business for improved long-term profitability. Since undertaking the restructuring program, we have closed or initiated the closure of 19 manufacturing facilities and 10 administrative/engineering facilities, with a cumulative net headcount reduction of approximately 7,000 employees. Through December 31, 2007, we have incurred pretax costs of approximately $386 million in connection with the restructuring actions.

Table of Contents

Common Architecture: We are taking actions to leverage our scale and expertise to develop common product architecture. Common architecture allows us to leverage our design, engineering and development costs and deliver an enhanced end product with improved quality and craftsmanship.

Low-Cost Country Footprint: Our low-cost country strategy is designed to increase our global competitiveness from both a manufacturing and sourcing standpoint. We currently support our global operations through more than 100 manufacturing and engineering facilities located in 20 low-cost countries. We plan to continue to aggressively pursue this strategy by establishing expanded vertical integration capabilities in Mexico, Central America, Eastern Europe, Africa and Asia and leveraging our low-cost engineering capabilities with engineering centers in China, India and the Philippines. Approximately 40% of our components currently come from low-cost countries, and our target is to increase this percentage to 60% by 2010.

Expand in Asia and with Asian Automotive Manufacturers Worldwide. We believe that it is important to have a manufacturing footprint that aligns with our customers global presence. The Asian markets present significant growth opportunities, as all major global automotive manufacturers are expanding production in this region to meet increasing demand. We believe we are well-positioned to take advantage of China s emerging growth as we have an extensive network of high-quality manufacturing facilities across China providing seating and electrical and electronic products to a variety of global customers for local production. We also have operations in Korea, India, Thailand and the Philippines, where we also see opportunities for significant growth. This growth has been accomplished, in part, through a series of joint ventures with our customers and/or local suppliers. We currently have eighteen joint ventures throughout Asia. Additionally, we plan to continue to support the Asian automotive manufacturers as they invest and expand beyond Asia, into North America and Europe. We have recently increased our Asian related business through seating and electrical business with Nissan and Hyundai. We have also entered into strategic alliances to support future programs with both Nissan and Hyundai globally. We intend to continue pursuing joint ventures and other alliances in order to expand our geographic and customer diversity.

Products

We currently conduct our business in two product operating segments: seating and electrical and electronic. The seating segment includes seat systems and the components thereof. The electrical and electronic segment includes electrical distribution systems and electronic products, primarily wire harnesses, junction boxes, terminals and connectors, various electronic control modules, as well as audio sound systems and in-vehicle television and video entertainment systems. We have divested substantially all of the assets of our interior segment. The interior segment included instrument panels and cockpit systems, headliners and overhead systems, door panels, flooring and acoustic systems and other interior products. Net sales by product segment as a percentage of total net sales is shown below:

For the Year Ended December 31,	**2007**	**2006**	**2005**
Seating	76%	65%	65%
Electrical and electronic	20	17	17
Interior	4	18	18

For further information related to our reportable operating segments, see Note 14, Segment Reporting, to the consolidated financial statements included in this Report.

Seating. The seating segment consists of the manufacture, assembly and supply of vehicle seating requirements. Seat systems typically represent 30% to 40% of the total cost of an automotive interior. We produce seat systems for automobiles and light trucks that are fully assembled and ready for installation. In most cases, seat systems are designed and engineered for specific vehicle models or platforms. We have recently developed Lear Flexible Seat Architecture, whereby we can assist our customers in achieving a faster time-to-market by building a program-specific seat incorporating the latest performance requirements and safety technology in a shorter period of time. Seat systems are designed to achieve maximum passenger comfort by adding a wide range of manual and power features, such as lumbar supports, cushion and back

Table of Contents

bolsters and leg supports. We also produce components that comprise the seat assemblies, such as seat structures and mechanisms, cut and sewn seat trim covers, headrests and seat foam.

As a result of our strong product design and product technology, we are a leader in designing seats with enhanced safety and convenience features. For example, our ProTec^{tm} PLuS Self-Aligning Head Restraint is an advancement in seat passive safety features. By integrating the head restraint with the lumbar support, the occupant s head is provided support earlier and for a longer period of time in a rear-impact collision, potentially reducing the risk of injury. We also supply a patented integrated restraint seat system that uses an ultra high-strength steel tower and a split-frame design to improve occupant comfort and convenience, as well as a high-performance climate system for seat cooling and moisture removal. To address the increasing focus on craftsmanship, we have developed concave seat contours that eliminate wrinkles and provide improved styling. We are also satisfying the growing customer demand for reconfigurable seats with our thin profile rear seat and our stadium slide seat system. For example, General Motors full-size sport utility vehicles and full-size pickups, as well as the Ford Taurus X, Cadillac SRX, and Dodge Durango, use our reconfigurable seating technology, and General Motors full-size sport utility vehicles, as well as the Ford Explorer and Dodge Durango, use our thin profile seating technology for their third row seats.

Electrical and Electronic. The electrical and electronic segment consists of the manufacture, assembly and supply of electrical and electronic systems and components for the vehicle. With the increase in the number of electrical and electronically-controlled functions and features on the vehicle, there is increasing focus on improving the functionality of the vehicle s electrical and electronic architecture. We are able to provide our customers with engineering and design solutions and manufactured components, systems and modules that optimally integrate the electrical distribution system of wiring, terminals and connectors, junction boxes and electronic modules within the overall architecture of a vehicle. This integration can reduce the overall system cost and weight and improve reliability and packaging by reducing the number of terminals, connectors and wires normally required to manage the vehicle s electrical power and signal distribution. For example, our integrated seat adjuster module has two dozen fewer cut circuits and five fewer connectors, weighs a half of a pound less and costs twenty percent less than a traditional separated electronic control unit and seat wiring system. In addition, our smart junction box expands the traditional junction box functionality by utilizing printed circuit board technologies.

Our electrical and electronic products can be grouped into four categories:

Electrical Distribution Systems. Wire harness assemblies are a collection of terminals, connectors and wires that connect all of the various electronic/electrical devices in the vehicle to each other and/or to a power source. Terminals and connectors are components of wire harnesses and other electronic/electrical devices that connect wire harnesses and electronic/electrical devices. Fuse boxes are centrally located boxes in the vehicle that contain fuses and/or relays for circuit and device protection, as well as power distribution. Junction boxes serve as a connection point for multiple wire harnesses. They may also contain fuses and relays for circuit and device protection.

Smart Junction Boxes and Body Control Modules. Smart junction boxes are junction boxes with integrated electronic functionality often contained in other body control modules. Smart junction boxes eliminate interconnections, increase overall system reliability and can help reduce the number of electronic modules on a vehicle. Certain vehicles may have two or three smart junction boxes linked as a multiplexed buss line. Body control modules control various interior comfort and convenience features. These body control modules may consolidate multiple functions into a single module or focus on a specific function or part of the car interior, such as the integrated seat adjuster module or the integrated door module. The integrated seat adjuster module combines seat adjustment, power lumbar support, memory function and seat heating into one package. The integrated door module consolidates the controls for window lift, door lock, power mirror and seat heating and ventilation.

Wireless systems. Wireless products send and receive signals using radio frequency technology. Our wireless systems include passive entry systems, dual range/dual function remote keyless entry systems and tire pressure monitoring systems. Passive entry systems allow the vehicle operator to unlock the door without using a key or physically activating a remote keyless fob. Dual range/dual function remote keyless entry

Table of Contents

systems allow a single transmitter to perform multiple functions. For example, our Car2U™ remote keyless entry system can control and display the status of the vehicle, such as starting the engine, locking and unlocking the doors, opening the trunk and setting the cabin temperature. In addition, dual range/dual function remote keyless entry systems combine remote keyless operations with vehicle immobilizer capability. Our tire pressure monitoring system, known as the Lear Intellitire® Tire Pressure Monitoring System, alerts drivers when a tire has low pressure. We have received production awards for Intellitire® from Ford for many of their North American vehicles and from Hyundai for several models. Automotive manufacturers are required to have tire pressure monitoring systems on all new vehicles sold in the United States for model year 2008.

Specialty Electronics. Our lighting control module integrates electronic control logic and diagnostics with the headlamp switch. Entertainment products include sound systems, in-vehicle television tuner modules and floor-, seat- or center console-mounted Media Console with a flip-up screen that provides DVD and video game viewing for back-seat passengers.

Manufacturing

A description of the manufacturing processes for each of our two operating segments, is set forth below.

Seating. Our seating facilities generally use just-in-time manufacturing techniques, and products are delivered to the automotive manufacturers on a just-in-time basis. These facilities are typically located adjacent to or near our customers manufacturing and assembly sites. Our seating facilities utilize a variety of methods whereby foam and fabric are affixed to an underlying seat frame. Raw materials used in our seat systems, including steel, aluminum and foam chemicals, are generally available and obtained from multiple suppliers under various types of supply agreements. Leather, fabric and certain components are also purchased from multiple suppliers under various types of supply agreements. The majority of our steel purchases are comprised of engineered parts that are integrated into a seat system, such as seat frames, mechanisms and mechanical components. Therefore, our exposure to changes in steel prices is primarily indirect, through the supply base. We are increasingly using long-term, fixed-price supply agreements to purchase key components. We generally retain the right to terminate these agreements if our supplier does not remain competitive in terms of cost, quality, delivery, technology or customer support.

Electrical and Electronic. Electrical distribution systems are networks of wiring and associated control devices that route electrical power and signals throughout the vehicle. Wire harness assemblies consist of raw, coiled wire, which is automatically cut to length and terminated. Individual circuits are assembled together on a jig or table, inserted into connectors and wrapped or taped to form wire harness assemblies. All materials are purchased from suppliers, with the exception of a portion of the terminals and connectors that are produced internally. Certain materials are available from a limited number of suppliers. Supply agreements typically last for up to one year. The assembly process is labor intensive, and as a result, production is generally performed in low-cost labor sites in Mexico, Honduras, the Philippines, Eastern Europe and Northern Africa.

Some of the principal components attached to the wire harness assemblies that we manufacture include junction boxes and electronic control modules. Junction boxes are manufactured in both North America and Europe with a proprietary, capital-intensive assembly process, using printed circuit boards, a portion of which are purchased from third-party suppliers. Proprietary processes have been developed to improve the function of these junction boxes in harsh environments, including high temperatures and humidity. Electronic control modules are assembled using high-speed surface mount placement equipment in both North America and Europe.

While we internally manufacture many of the components that are described above, a substantial portion of these components are furnished by independent, tier II automotive suppliers and other vendors throughout the world. In certain instances, it would be difficult and expensive for us to change suppliers of products and services that are critical to our business. With the continued decline in the automotive production of our key customers and substantial and continuing pressures to reduce costs, certain of our suppliers have experienced, or may experience, financial difficulties. We seek to carefully manage our supplier relationships to minimize any significant disruptions of our operations. However, adverse developments affecting one or more of our major suppliers, including certain sole-source suppliers, could negatively impact our operating results. See Item 1A, Risk Factors Adverse developments affecting one or more of our major suppliers could harm our profitability.

Customers

We serve the worldwide automotive and light truck market, which produced over 67 million vehicles in 2007. We have automotive interior content on over 300 vehicle nameplates worldwide, and our major automotive manufacturing customers (including customers of our non-consolidated joint ventures) currently include:

BMW	Chrysler	Daimler	Dongfeng
Fiat	First Autoworks	Ford	GAZ
General Motors	Honda	Hyundai	Isuzu
Mahindra & Mahindra	Mazda	Mitsubishi	Nissan
Porsche	PSA	Renault	Subaru
Suzuki	Toyota	Volkswagen	

During the year ended December 31, 2007, General Motors and Ford, two of the largest automotive and light truck manufacturers in the world, together accounted for approximately 42% of our net sales, excluding net sales to Saab, Volvo, Jaguar and Land Rover, which are affiliates of General Motors or Ford. Inclusive of their respective affiliates, General Motors and Ford accounted for approximately 29% and 21%, respectively, of our net sales in 2007. In addition, BMW accounted for approximately 10% of our net sales in 2007. For further information related to our customers and domestic and foreign sales and operations, see Note 14, Segment Reporting, to the consolidated financial statements included in this Report.

We receive blanket purchase orders from our customers. These purchase orders generally provide for the supply of a customer s annual requirements for a particular vehicle model, rather than for the purchase of a specified quantity of products. Although purchase orders may be terminated at any time by our customers, such terminations have been minimal and have not had a material impact on our operating results. Our primary risks are that an automotive manufacturer will produce fewer units of a vehicle model than anticipated or that an automotive manufacturer will not award us a replacement program following the life of a vehicle model. In order to reduce our reliance on any one vehicle model, we produce automotive systems and components for a broad cross-section of both new and established models. However, larger passenger cars and light trucks typically have more interior content and therefore, tend to have a more significant impact on our operating performance. Our net sales for the year ended December 31, 2007 were comprised of the following vehicle categories: 58% cars, including 24% mid-size, 19% compact, 13% luxury/sport and 2% full-size, and 42% light truck, including 23% sport utility/crossover and 19% pickup and other light truck.

Our agreements with our major customers generally provide for an annual productivity cost reduction. Historically, cost reductions through product design changes, increased productivity and similar programs with our suppliers have generally offset these customer-imposed productivity cost reduction requirements. However, in 2005, unprecedented increases in certain raw material and commodity costs (principally steel, resins and other oil-based commodities), as well as increases in energy costs had a material adverse impact on our operating results. Raw material, energy and commodity costs have remained high and continued to have an adverse impact on our operating results throughout 2006 and 2007. While we have been able to offset a portion of the adverse impact through aggressive cost reduction actions, relatively high raw material, energy and commodity costs are expected to continue, and no assurances can be given that we will be able to achieve such customer cost reduction targets in the future.

Technology

Advanced technology development is conducted at our five advanced technology centers and at our product engineering centers worldwide. At these centers, we engineer our products to comply with applicable safety standards, meet quality and durability standards, respond to environmental conditions and conform to customer and consumer requirements. Our global innovation and technology center located in Southfield, Michigan, develops and integrates new concepts and is our central location for consumer research, benchmarking, craftsmanship and industrial design activity.

We also have state-of-the-art testing, instrumentation and data analysis capabilities. We own an industry-leading seat validation test center featuring crashworthiness, durability and full acoustic and sound quality testing capabilities. Together with computer-controlled data acquisition and analysis capabilities, this center provides precisely controlled laboratory conditions for sophisticated testing of parts, materials and systems. We also maintain electromagnetic compatibility labs at several of our electrical and electronic facilities, where we develop and test electronic products for compliance with governmental requirements and customer specifications.

We have developed a number of innovative products and features focused on increasing value to our customers, such as interior control and entertainment systems, which include sound systems and family entertainment systems, and wireless systems, which include remote keyless entry. In addition, we incorporate many convenience, comfort and safety features into our designs, including advanced whiplash concepts, integrated restraint seat systems (3-point and 4-point belt systems integrated into seats), side impact airbags and integrated child restraint seats. We also invest in our computer-aided engineering design and computer-aided manufacturing systems. Recent enhancements to these systems include advanced acoustic modeling and analysis capabilities and the enhancement of our research and design website. Our research and design website is a tool used for global customer telecommunications, technology communications, collaboration and direct exchange of digital assets.

We continue to develop new products and technologies, including solid state smart junction boxes and new radio-frequency products like our Car2U™ Home Automation System. Solid state junction boxes represent a significant improvement over existing smart junction box technology because they replace the relatively large fuses and relays with solid-state drivers. Importantly, the technology is an enabler for the integration of additional feature content into the smart junction box. This integration combined with the benefits from the solid state smart junction box technology results in a sizable cost reduction for the electrical system. We have also created certain brand identities, which identify products for our customers. The ProTec™ brand products are optimized for interior safety; the Aventino™ collection of premium automotive leather; and the EnviroTec™ brand products are environmentally friendly, such as Soy Foam™.

We hold many patents and patent applications pending worldwide. While we believe that our patent portfolio is a valuable asset, no individual patent or group of patents is critical to the success of our business. We also license selected technologies to automotive manufacturers and to other automotive suppliers. We continually strive to identify and implement new technologies for use in the design and development of our products.

We have numerous registered trademarks in the United States and in many foreign countries. The most important of these marks include LEAR CORPORATION (including a stylized version thereof) and LEAR. These marks are widely used in connection with our product lines and services. The trademarks and service marks ADVANCE RELENTLESSLY, CAR2U, INTELLITIRE, PROTEC, PROTEC PLUS and others are used in connection with certain of our product lines and services.

We have dedicated, and will continue to dedicate, resources to research and development. Research and development costs incurred in connection with the development of new products and manufacturing methods, to the extent not recoverable from our customers, are charged to selling, general and administrative expenses as incurred. These costs amounted to approximately $135 million, $170 million and $174 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Joint Ventures and Minority Interests

We form joint ventures in order to gain entry into new markets, facilitate the exchange of technical information, expand our product offerings and broaden our customer base. In particular, we believe that certain joint ventures have provided us, and will continue to provide us, with the opportunity to expand our business relationships with Asian automotive manufacturers. In 2007, our joint ventures continued to be awarded new business with Asian automotive manufacturers both in Asia (including seating business with Dongfeng Peugeot Citroen Automobile Co., Beijing Hyundai Motor Co., Beijing Benz DaimlerChrysler Automobile Co. and

Table of Contents

ChangAn Automobile Group in China; seating business with Proton Automobile Sdn. Bhd. in Malaysia; and electrical and electronic business with Geely International Group in China) and elsewhere.

In October 2006, we completed the contribution of substantially all of our European interior business to IAC Europe, a joint venture with affiliates of WL Ross and Franklin, in exchange for an approximately one-third equity interest in IAC Europe. Our European interior business included substantially all of our interior components business in Europe (other than Italy and one facility in France), consisting of nine manufacturing facilities in five countries supplying instrument panels and cockpit systems, overhead systems, door panels and interior trim to various original equipment manufacturers. IAC Europe also owns the European interior business formerly held by Collins & Aikman Corporation (C&A).

In March 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 IAC, a wholly owned subsidiary of IACNA, a joint venture with affiliates of WL Ross and Franklin. In October 2007, IACNA completed the acquisition of the soft trim division of C&A. After giving effect to these transactions, 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 currently have 32 strategic joint ventures located in nineteen countries. Of these joint ventures, ten are consolidated and twenty-two are accounted for using the equity method of accounting; eighteen operate in Asia, ten operate in North America (including six that are dedicated to serving Asian automotive manufacturers) and four operate in Europe and Africa. Net sales of our consolidated joint ventures accounted for approximately 7% of our consolidated net sales for the year ended December 31, 2007. As of December 31, 2007, our investments in non-consolidated joint ventures totaled $266 million and support more than 20 customers. For further information related to our joint ventures, see Note 7, Investments in Affiliates and Other Related Party Transactions, to the consolidated financial statements included in this Report.

Competition

Within each of our operating segments, we compete with a variety of independent suppliers and automotive manufacturer in-house operations, primarily on the basis of cost, quality, technology, delivery and service. A summary of our primary independent competitors is set forth below.

Seating. We are one of two primary independent suppliers in the outsourced North American seat systems market. Our primary independent competitor in this market is Johnson Controls. Magna International Inc., Faurecia and Toyota Boshoku also have a presence in this market. Our major independent competitors are Johnson Controls and Faurecia in Europe and Johnson Controls, TS Tech Co., Ltd. and Toyota Boshoku in Asia.

Electrical and Electronic. We are one of the leading independent suppliers of automotive electrical distribution systems in North America and Europe. Our major competitors include Delphi, Yazaki, Sumitomo and Leoni. The automotive electronic products industry remains highly fragmented. Participants in this segment include Alps, Bosch, Cherry, Delphi, Denso, Kostal, Methode, Niles, Omron, Continental, TRW, Tokai Rika, Valeo, Visteon and others.

As the automotive supply industry becomes increasingly global, certain of our European and Asian competitors have begun to establish a stronger presence in North America, which is likely to increase competition in this region.

Seasonality

Our principal operations are directly related to the automotive industry. Consequently, we may experience seasonal fluctuations to the extent automotive vehicle production slows, such as in the summer months when plants close for model year changeovers and vacations or during periods of high vehicle inventory. Historically, our sales and operating profit have been the strongest in the second and fourth calendar quarters. See Note 16, Quarterly Financial Data, to the consolidated financial statements included in this Report.

Table of Contents

Employees

As of December 31, 2007, Lear employed approximately 91,000 people worldwide, including approximately 12,000 people in the United States and Canada, approximately 34,000 in Mexico and Central America, approximately 31,000 in Europe and approximately 14,000 in other regions of the world. A substantial number of our employees are members of unions. We have collective bargaining agreements with several unions, including: the United Auto Workers; the Canadian Auto Workers; UNITE; the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America; and the International Association of Machinists and Aerospace Workers. Virtually all of our unionized facilities in the United States and Canada have a separate agreement with the union that represents the workers at such facilities, with each such agreement having an expiration date that is independent of other collective bargaining agreements. The majority of our European and Mexican employees are members of industrial trade union organizations and confederations within their respective countries. Many of these organizations and confederations operate under national contracts, which are not specific to any one employer. We have occasionally experienced labor disputes at our plants. We have been able to resolve all such labor disputes and believe our relations with our employees are generally good.

See Item 1A, Risk Factors A significant labor dispute involving us or one or more of our customers or suppliers or that could otherwise affect our operations could reduce our sales and harm our profitability, and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements.

Available Information on our Website

Our website address is http://www.lear.com. We make available on our website, free of charge, the periodic reports that we file with or furnish to the SEC, as well as all amendments to these reports, as soon as reasonably practicable after such reports are filed with or furnished to the SEC. We also make available on our website, or in printed form upon request, free of charge, our Corporate Governance Guidelines, Code of Business Conduct and Ethics (which includes specific provisions for our executive officers), charters for the committees of our Board of Directors and other information related to the Company.

The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. The public may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site (http://www.sec.gov) that contains reports, proxy and information statements and other information related to issuers that file electronically with the SEC.

ITEM 1A *RISK FACTORS*

Our business, financial condition, operating results and cash flows may be impacted by a number of factors. In addition to the factors affecting specific business operations identified in connection with the description of these operations and the financial results of these operations elsewhere in this Report, the most significant factors affecting our operations include the following:

A decline in the production levels of our major customers could reduce our sales and harm our profitability.

Demand for our products is directly related to the automotive vehicle production of our major customers. 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. 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 declining sales. In Europe, the market structure is more fragmented with significant overcapacity, and several of our key platforms have experienced production declines.

General Motors and Ford, our two largest customers, together accounted for approximately 42% of our net sales in 2007, excluding net sales to Saab, Volvo, Jaguar and Land Rover, which are affiliates of General Motors and Ford. Inclusive of their respective affiliates, General Motors and Ford accounted for approximately 29% and 21%,

Table of Contents

respectively, of our net sales in 2007. Automotive production by General Motors and Ford has declined between 2000 and 2007. The automotive operations of General Motors, Ford and Chrysler have recently experienced significant operating losses, and these automakers are continuing to restructure their North American operations, which could have a material adverse impact on our future operating results. While we have been aggressively seeking to expand our business in the Asian market and with Asian automotive manufacturers worldwide to offset these declines, no assurances can be given as to how successful we will be in doing so. As a result, any decline in the automotive production levels of our major customers, particularly with respect to models for which we are a significant supplier, could materially reduce our sales and harm our profitability, thereby making it more difficult for us to make payments under our indebtedness or resulting in a decline in the value of our common stock.

The financial distress of our major customers and within the supply base could significantly affect our operating performance.

During 2007, General Motors, Ford and Chrysler continued to lower production levels on several of our key platforms, particularly light truck platforms, in an effort to reduce inventory levels. In addition, these customers have experienced declining market shares in North America and are continuing to restructure their North American operations in an effort to improve profitability. The domestic automotive manufacturers are also burdened with substantial structural costs, such as pension and healthcare costs, that have impacted their profitability and labor relations. Several other global automotive manufacturers are also experiencing operating and profitability issues as well as labor concerns. In this environment, it is difficult to forecast future customer production schedules, the potential for labor disputes or the success or sustainability of any strategies undertaken by any of our major customers in response to the current industry environment. This environment may also put additional pricing pressure on their suppliers, like us, to reduce the cost of our products, which would reduce our margins. In addition, cuts in production schedules are also sometimes announced by our customers with little advance notice, making it difficult for us to respond with corresponding cost reductions. Our supply base has also been adversely affected by industry conditions. Lower production levels for our key customers and increases in certain raw material, commodity and energy costs have resulted in severe financial distress among many companies within the automotive supply base. Several large suppliers have filed for bankruptcy protection or ceased operations. 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. In addition, the adverse industry environment has required us to provide financial support to distressed suppliers or take other measures to ensure uninterrupted production. While we have taken certain actions to mitigate these factors, we have offset only a portion of their overall impact on our operating results. The continuation or worsening of these industry conditions would adversely affect our profitability, operating results and cash flow.

The discontinuation of, the loss of business with respect to or a lack of commercial success of a particular vehicle model for which we are a significant supplier could reduce our sales and harm our profitability.

Although we have purchase orders from many of our customers, these purchase orders generally provide for the supply of a customer s annual requirements for a particular model and assembly plant, renewable on a year-to-year basis, rather than for the purchase of a specific quantity of products. In addition, it is possible that customers could elect to manufacture components internally that are currently produced by outside suppliers, such as Lear. The discontinuation of, the loss of business with respect to or a lack of commercial success of a particular vehicle model for which we are a significant supplier could reduce our sales and harm our profitability, thereby making it more difficult for us to make payments under our indebtedness or resulting in a decline in the value of our common stock.

Table of Contents

Our substantial international operations make us vulnerable to risks associated with doing business in foreign countries.

As a result of our global presence, a significant portion of our revenues and expenses are denominated in currencies other than U.S. dollars. In addition, we have manufacturing and distribution facilities in many foreign countries, including countries in Europe, Central and South America and Asia. International operations are subject to certain risks inherent in doing business abroad, including:

- exposure to local economic conditions;
- expropriation and nationalization;
- foreign exchange rate fluctuations and currency controls;
- withholding and other taxes on remittances and other payments by subsidiaries;
- investment restrictions or requirements;
- export and import restrictions; and
- increases in working capital requirements related to long supply chains.

Expanding our business in Asian markets and our business relationships with Asian automotive manufacturers worldwide are important elements of our strategy. In addition, our strategy includes increasing our European market share and expanding our manufacturing operations in lower-cost regions. As a result, our exposure to the risks described above may be greater in the future. The likelihood of such occurrences and their potential effect on us vary from country to country and are unpredictable. However, any such occurrences could be harmful to our business and our profitability, thereby making it more difficult for us to make payments under our indebtedness or resulting in a decline in the value of our common stock.

High raw material costs may continue to have a significant adverse impact on our profitability.

Unprecedented increases in the cost of certain raw materials, principally steel, resins, copper and certain chemicals, as well as higher energy costs, have had a material adverse impact on our operating results since 2005. While raw material, energy and commodity costs moderated somewhat in 2007, they remain high and will continue to have an adverse impact on our operating results in the foreseeable future. While we have developed and implemented strategies to mitigate or partially offset the impact of higher 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, no assurances can be given that the magnitude and duration of these cost increases or any future cost increases will not have a larger adverse impact on our profitability and consolidated financial position than currently anticipated.

A significant labor dispute involving us or one or more of our customers or suppliers or that could otherwise affect our operations could reduce our sales and harm our profitability.

Most of our employees and a substantial number of the employees of our largest customers and suppliers are members of industrial trade unions and are employed under the terms of collective bargaining agreements. Virtually all of our unionized facilities in the United States and Canada have a separate agreement with the union that represents the workers at such facilities, with each such agreement having an expiration date that is independent of other collective bargaining agreements. We have collective bargaining agreements covering approximately 71,000 employees globally. Within the United States and Canada, contracts covering approximately 64% of the unionized workforce are scheduled to expire during 2008. A labor dispute involving us or any of our customers or suppliers or that could otherwise affect our operations could reduce our sales and harm our profitability, thereby making it more difficult for us to make payments under our indebtedness or resulting in a decline in the value of our common stock. A labor dispute involving another supplier to our customers that results in a slowdown or closure of our customers assembly plants where our products are included in assembled vehicles could also have a material adverse effect on our business. In addition, the inability by us or any of our suppliers, our customers or our customers other suppliers to negotiate an extension of a collective bargaining agreement upon its expiration could reduce our sales and harm our profitability. Significant increases in labor costs as a result of the renegotiation of collective bargaining agreements could also be harmful to our business and our profitability.

Adverse developments affecting one or more of our major suppliers could harm our profitability.

We obtain components and other products and services from numerous tier II automotive suppliers and other vendors throughout the world. In certain instances, it would be difficult and expensive for us to change suppliers of products and services that are critical to our business. In addition, our OEM customers designate many of our suppliers and as a result, we do not always have the ability to change suppliers. Certain of our suppliers are financially distressed or may become financially distressed. Any significant disruption in our supplier relationships, including certain relationships with sole-source suppliers, could harm our profitability, thereby making it more difficult for us to make payments under our indebtedness or resulting in a decline in the value of our common stock.

We have substantial indebtedness, which could restrict our business activities.

As of December 31, 2007, we had $2.5 billion of outstanding indebtedness. We are permitted by the terms of our debt instruments to incur substantial additional indebtedness, subject to the restrictions therein. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our debt obligations on commercially reasonable terms, would have a material adverse effect on our business, financial condition and results of operations.

Our substantial indebtedness could:

- make it more difficult for us to satisfy our obligations under our indebtedness;
- limit our ability to borrow money for working capital, capital expenditures, debt service requirements or other corporate purposes;
- require us to dedicate a substantial portion of our cash flow to payments on our indebtedness, which would reduce the amount of cash flow available to fund working capital, capital expenditures, product development and other corporate requirements;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to respond to business opportunities; and
- subject us to financial and other restrictive covenants, which, if we fail to comply with these covenants and our failure is not waived or cured, could result in an event of default under our indebtedness.

Our failure to execute our strategic objectives would negatively impact our business.

Our financial performance and profitability depend in part on our ability to successfully execute our strategic objectives. Our corporate strategy involves, among other things, leveraging our core product lines, investing in strategic growth initiatives and restructuring actions, strengthening our electrical and electronic business, and expanding in Asia and with Asian manufacturers worldwide. Various factors, including the matters described in Item 7-Management s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements, could adversely impact our ability to execute our corporate strategy. There also can be no assurance that, even if implemented, our strategic objectives will be successful.

A significant product liability lawsuit, warranty claim or product recall involving us or one of our major customers could harm our profitability.

In the event that our products fail to perform as expected and such failure 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 certain of our customers related to our products. These customers may seek contribution or indemnification from us for all or a portion of the costs associated with product liability and warranty claims, recalls or other corrective actions involving our products. We carry insurance for certain product liability claims but such coverage may be limited. We do not maintain insurance

Table of Contents

for product warranty or recall matters. These types of claims could significantly harm our profitability, thereby making it more difficult for us to make payments under our indebtedness or resulting in a decline in the value of our common stock.

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.

We are involved in legal proceedings and commercial or contractual disputes that, from time to time, are significant. These are typically claims that arise in the normal course of business including, without limitation, commercial or contractual disputes, including disputes with our suppliers, intellectual property matters, personal injury claims, environmental issues, tax matters and employment matters. No assurances can be given that such proceedings and claims will not have a material adverse impact on our profitability and consolidated financial position.

ITEM 1B *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2 *PROPERTIES*

As of December 31, 2007, our operations were conducted through 215 facilities, some of which are used for multiple purposes, including 168 manufacturing facilities and assembly sites, 38 administrative/technical support facilities, five advanced technology centers and four distribution centers, in 34 countries. We also have warehouse facilities in the regions in which we operate. Our corporate headquarters is located in Southfield, Michigan. Our facilities range in size up to 620,615 square feet.

Of our 215 total facilities, which include facilities owned or leased by our consolidated subsidiaries, 100 are owned and 115 are leased with expiration dates ranging from 2008 through 2053. We believe that substantially all of our property and equipment is in good condition and that we have sufficient capacity to meet our current and expected manufacturing and distribution needs. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Financial Condition.

Table of Contents

The following table presents the locations of our operating facilities and the operating segments (1) that use such facilities:

Argentina
Escobar, BA (S)
Pacheco, BA (E)

Austria
Graz (S)
Koeflach (S)

Belgium
Genk (S)

Brazil
Betim (S)
Caçapava (A/T)
Camaçari (S)
Gravatai (S)
São Paulo (A/T)

Canada
Ajax, ON (S)
Kitchener, ON (S)
St. Thomas, ON (S)
Whitby, ON (S)
Windsor, ON (S)

China
Beijing (A/T)
Changchun (S)
Chongqing (S)
Ningbo (S)
Shanghai (S, A/T)
Shenyang (S)
Wuhan (E)
Wuhu (S)

Czech Republic
Kolin (S)
Vyskov (E)

France
Cergy (S)
Feignies (S)
Guipry (S)
Hordain (E)
Lagny-Le-Sec (S)
Offranville (S)

Germany
Allershausen-Leonhardsbuch (A/T)
Bersenbrueck (E)
Besigheim (S)
Boeblingen (A/T)
Bremen (S)
Eisenach (S)
Garching-Hochbrueck (A/T)
Ginsheim-Gustavsburg (S, A/T)
Kranzberg (A/T)
Kronach (E)
Munich (A/T)
Quakenbrueck (S)
Remscheid (E)
Rietberg (S)
Saarlouis (E)
Wackersdorf (S)
Wismar (E)
Wolfsburg (A/T)

Honduras
Naco (E)
San Pedro Sula (E)

Hungary
Gödöllö (E)
Gyöngyös (E)
Györ (S)
Mór (S)

India
Chennai (S)
Halol (S)
Nasik (S)
New Delhi (A/T)
Pune (A/T)
Thane (A/T)

Italy
Caivano, NA (S)
Cassino, FR (S)
Grugliasco, TO (S)

Japan
Atsugi-shi (A/T)
Hiroshima (A/T)
Tokyo (A/T)
Toyota City (A/T)
Utsunomiya (A/T)

Mexico
Chihuahua, CH (E)
Cuautlancingo, PU (S)
Hermosillo, SO (S)
Juarez, CH (S, E, A/T)
Mexico City, DF (S)
Monclova (S)
Piedras Negras, CO (S)
Ramos Arizpe, CO (S)
Saltillo, CO (S)
San Luis Potosi, SL (S)
Silao, GO (S)

Morocco
Tangier (E)

Netherlands
Weesp (A/T)

Philippines
LapuLapu City (E, A/T)

Poland

South Africa
East London (S)
Port Elizabeth (S)
Rosslyn (S)

South Korea
ChenAn (S)
Gyeongju (S)
Seoul (A/T)

Spain
Almussafes (E)
Avila (E)
Epila (S)
Logrono (S)
Roquetes (E)
Valdemoro (S)
Valls (E)

Sweden
Gothenburg (S)
Trollhattan (S)

Thailand
Bangkok (A/T)
Mueang Nakhon Ratchasima (S)
Rayong (S)

Tunisia
Bir El Bey (E)

Turkey
Bostanci-Istanbul (E)
Gemlik (S)

United Kingdom
Coventry (S, A/T)
Nottingham (S)
Sunderland (S)

United States
Arlington, TX (S)
Berne, IN (S)
Bridgeton, MO (S)
Brownstown, MI (S)
Columbia City, IN (S)
Columbus, OH (E)
Dearborn, MI (A/T)
Duncan, SC (S)
El Paso, TX (E)
Farwell, MI (S)
Fenton, MI (S)
Hammond, IN (S)
Hebron, OH (S)
Highland Park, MI (S)
Janesville, WI (S)
Liberty, MO (S)
Lordstown, OH (S)
Louisville, KY (S)
Mason, MI (S)
Montgomery, AL (S)
Morristown, TN (S)
Newark, DE (S)

(1) **Legend**
S Seating
E Electrical and electronic
A/T Administrative/technical

Rueil-Malmaison (A/T)
Velizy-Villacoublay (A/T)

Melfi, PZ (S)
Pozzo d Adda, MI (S)
Termini Imerese, PA (S)

Jaroslaw (S)
Mielec (E)
Tychy (S)

Portugal
Palmela (S)

Romania
Pitesti (A/T)

Russia
Nizhny Novgorod (S)

Singapore
Wisma Atria (A/T)

Slovakia
Presov (S)
Senec (S)

Plymouth, IN (E)
Rochester Hills, MI (S)
Romulus, MI (S)
Roscommon, MI (S)
Selma, AL (S)
Southfield, MI (A/T)
Tampa, FL (E)
Taylor, MI (E)
Traverse City, MI (E)
Troy, MI (A/T)
Walker, MI (S)
Wentzville, MO (S)
Zanesville, OH (E)

Venezuela
Valencia (S)

ITEM 3 *LEGAL PROCEEDINGS*

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

Table of Contents

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. The defendants have moved for summary judgment. The motion is fully briefed and the parties are awaiting a decision. No trial date has been set.

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 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 arguments were held on December 3, 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 each sought indemnification for losses associated with the Mississippi claims from us under the respective acquisition agreements, and we 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 filed motions for summary judgment. On June 14, 2007, UTC s motion for summary disposition was granted holding that we were 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 court denied both Lear s and Johnson Electric s motions for summary disposition leaving the claims between Lear and Johnson Electric to proceed to trial. UTC moved to sever its judgment from the Lear/Johnson Electric dispute for the purpose of allowing it to enforce its judgment immediately. During the fourth quarter of 2007, UTC, Johnson Electric and Lear entered into a settlement agreement resolving all claims among the parties related to the Columbus, Mississippi lawsuits under which Lear paid UTC $2.65 million and Johnson Electric paid Lear $2.83 million, and the case was dismissed with prejudice.

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 8, 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.

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 Agreement and Plan of Merger (the Merger Agreement) with AREP Car Holdings Corp. and AREP Car Acquisition Corp. (collectively the AREP Entities) 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. On January 30, 2008, the Delaware court granted the plaintiffs motion for leave to file a fourth amended complaint leaving only derivative claims against the Lear directors and

AREP based on the payment by Lear to AREP of a termination fee pursuant to the Merger Agreement. The plaintiffs were also granted leave to file an interim petition for an award of fees and expenses related to the supplemental proxy disclosure. We believe that this lawsuit is without merit and intend to defend against it vigorously.

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 Merger Agreement. 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. The plaintiff filed a reply on April 11, 2007. On April 18, 2007, the Judge denied the 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. The 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, the plaintiff also filed a motion for a preliminary injunction to enjoin the merger, which motion was denied on June 25, 2007. On July 6, 2007, the 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.

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.

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 certain of 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.

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.

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.

Table of Contents

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

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

SUPPLEMENTARY ITEM EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth the names, ages and positions of our executive officers. Executive officers are elected annually by our Board of Directors and serve at the pleasure of our Board.

Name	Age	Position
James M. Brackenbury	49	Senior Vice President and President, European Operations
Shari L. Burgess	49	Vice President and Treasurer
Wendy L. Foss	50	Vice President, Corporate Controller and Chief Compliance Officer
Roger A. Jackson	61	Senior Vice President, Human Resources
Terrence B. Larkin	53	Senior Vice President, General Counsel and Corporate Secretary
Daniel A. Ninivaggi	43	Executive Vice President , Strategic and Corporate Planning and Chief Administrative Officer
Robert E. Rossiter	62	Chairman, Chief Executive Officer and President
Louis R. Salvatore	52	Senior Vice President and President, Global Seating Systems
Raymond E. Scott	42	Senior Vice President and President, Global Electrical and Electronic Systems
Matthew J. Simoncini	47	Senior Vice President and Chief Financial Officer
James H. Vandenberghe	58	Vice Chairman

Set forth below is a description of the business experience of each of our executive officers.

James M. Brackenbury

Mr. Brackenbury is our Senior Vice President and President, European Operations, a position he has held since September 2006. Previously, he served as our Senior Vice President and President, North American Seating Operations from April 2006 until September 2006 and our President, Mexican/Central American Regional Group from November 2004 until September 2006. Prior to that, he served as our President, DaimlerChrysler Division since December 2003 and in other positions dating back to 1983 when he joined Lear as a product engineer.

Shari L. Burgess

Ms. Burgess is our Vice President and Treasurer, a position she has held since August 2002. Previously, she served as our Assistant Treasurer since July 2000 and in various financial positions since November 1992.

Wendy L. Foss

Ms. Foss is our Vice President, Corporate Controller and Chief Compliance Officer, a position she has held since November 2007. Previously, she served as our Vice President, Audit Services and Chief Compliance Officer since September 2007, our Vice President, Finance and Administration and Corporate Secretary since May 2007 and our Vice President, Finance and Administration and Deputy Corporate Secretary since September 2006. Prior to this, Ms. Foss served as our Vice President, Accounting and Assistant Corporate Controller since July 2006 and our Assistant Corporate Controller since June 2003. Ms. Foss has also held several financial management

22

Table of Contents

	positions at Lear since joining Lear as part of Lear s acquisition of United Technologies Automotive (UTA).
Roger A. Jackson	Mr. Jackson is our Senior Vice President, Human Resources, a position he has held since October 1995. Prior to joining Lear, he was employed as Vice President, Human Resources at Allen Bradley, a wholly owned subsidiary of Rockwell International, since 1991. Mr. Jackson was employed by Rockwell International or one of its subsidiaries from December 1977 until September 1995.
Terrence B. Larkin	Mr. Larkin is our Senior Vice President, General Counsel and Corporate Secretary, a position he has held since January 2008. Prior to joining Lear, Mr. Larkin was a partner since 1986 of Bodman LLP, a Detroit-based law firm. Mr. Larkin served on the executive committee of Bodman LLP and was the chairman of it business law practice group. Mr. Larkin s practice was focused on general corporate, commercial transactions and mergers and acquisitions.
Daniel A. Ninivaggi	Mr. Ninivaggi is our Executive Vice President, Strategic and Corporate Planning, a position he has held since January 2008. Mr. Ninivaggi has served as our Executive Vice President since August 2006, our Senior Vice President since June 2004 and our Vice President since joining Lear in July 2003. Mr. Ninivaggi has also served as our Chief Administrative Officer since September 2007, our General Counsel from July 2003 until January 2008 and our Corporate Secretary from July 2003 until May 2007 and from September 2007 until January 2008. Prior to joining Lear, Mr. Ninivaggi was a partner since 1998 of Winston & Strawn LLP, specializing in corporate finance, securities law and mergers and acquisitions.
Robert E. Rossiter	Mr. Rossiter is our Chairman, Chief Executive Officer and President, a position he has held since August 2007. Mr. Rossiter has served as our Chairman since January 2003, our Chief Executive Officer since October 2000, our President since August 2007 and from 1984 until December 2002 and our Chief Operating Officer from 1988 until April 1997 and from November 1998 until October 2000. Mr. Rossiter also served as our Chief Operating Officer International Operations from April 1997 until November 1998. Mr. Rossiter has been a director of Lear since 1988.
Louis R. Salvatore	Mr. Salvatore is our Senior Vice President and President, Global Seating Systems, a position he has held since February 2008. Previously, he served as our Senior Vice President and President Global Asian Operations/Customers since August 2005, our President Ford, Electrical/Electronics and Interior Divisions since July 2004, our President Global Ford Division since July 2000 and our President DaimlerChrysler Division since December 1998. Prior to joining Lear, Mr. Salvatore worked with Ford Motor Company for fourteen years and held various increasingly senior positions within Ford s manufacturing, finance, engineering and purchasing activities.

Raymond E. Scott	Mr. Scott is our Senior Vice President and President, Global Electrical and Electronic Systems, a position he has held since February 2008. Previously, he served as our Senior Vice President and President, North American Seating Systems Group since August 2006, our Senior Vice President and President, North American Customer Group

Table of Contents

	since June 2005, our President, European Customer Focused Division since June 2004 and our President, General Motors Division since November 2000.
Matthew J. Simoncini	Mr. Simoncini is our Senior Vice President and Chief Financial Officer, a position he has held since October 2007. Previously, he served as our Senior Vice President, Finance and Chief Accounting Officer, since August 2006, our Vice President, Global Finance since February 2006, our Vice President of Operational Finance since June 2004, our Vice President of Finance Europe since 2001 and prior to 2001, in various senior financial positions for both Lear and UTA, which was acquired by Lear in 1999.
James H. Vandenberghe	Mr. Vandenberghe is our Vice Chairman, a position he has held since November 1998, and served as our Chief Financial Officer from March 2006 until October 2007. Mr. Vandenberghe also served as our President and Chief Operating Officer North American Operations from April 1997 until November 1998, our Chief Financial Officer from 1988 until April 1997 and as our Executive Vice President from 1993 until April 1997. Mr. Vandenberghe has been a director of Lear since 1995.

PART II

ITEM 5 *MARKET FOR THE COMPANY S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

Lear s common stock is listed on the New York Stock Exchange under the symbol LEA. The Transfer Agent and Registrar for Lear s common stock is The Bank of New York, located in New York, New York. On February 8, 2008, there were 1,517 holders of record of Lear s common stock.

On November 8, 2006, we completed the sale of 8,695,653 shares of common stock for an aggregate purchase price of $23 per share to affiliates of and funds managed by Carl C. Icahn.

The high and low sales prices per share of our common stock, as reported on the New York Stock Exchange, and the amount of our dividend declarations for 2007 and 2006 are shown below:

	Price Range of Common Stock		Cash Dividend
For the Year Ended December 31, 2007:	**High**	**Low**	**per Share**
4th Quarter	$ 36.36	$ 27.37	$
3rd Quarter	$ 40.58	$ 27.45	$
2nd Quarter	$ 37.76	$ 35.61	$
1st Quarter	$ 40.62	$ 27.79	$

Price Range of

For the Year Ended December 31, 2006:	Common Stock High	Common Stock Low	Cash Dividend per Share
4th Quarter	$ 34.01	$ 20.70	$
3rd Quarter	$ 24.41	$ 18.30	$
2nd Quarter	$ 28.00	$ 16.24	$
1st Quarter	$ 29.73	$ 16.01	$ 0.25

We initiated a quarterly cash dividend program in January 2004. On March 9, 2006, our quarterly cash dividend program was suspended indefinitely. The payment of cash dividends in the future is dependent upon our financial condition, results of operations, capital requirements, alternative uses of capital and other factors. Also, we

Table of Contents

are subject to the restrictions on the payment of dividends contained in the agreement governing our primary credit facility.

As discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Financial Condition Capitalization Common Stock Repurchase Program, in February 2008, our Board of Directors authorized a common stock repurchase program which permits the repurchase of up to 3,000,000 shares of our common stock through February 14, 2010. We expect to fund the share repurchases through a combination of cash on hand, future cash flow from operations and borrowings under available credit facilities. Share repurchases under this program may be made through open market purchases, privately negotiated transactions, block trades or other available methods. The timing and actual number of shares repurchased will depend on a variety of factors including price, alternative uses of capital, corporate and regulatory requirements and market conditions. The share repurchase program may be suspended or discontinued at any time.

In November 2007, our Board of Directors approved a common stock repurchase program which permitted the discretionary repurchase of up to 1,500,000 shares of our common stock through November 20, 2009. Under this program, we repurchased 154,258 shares of our outstanding common stock at an average purchase price of $28.18 per share, excluding commissions of $0.03 per share, in 2007. This program was terminated in February 2008 in connection with the adoption of the program described in the preceding paragraph. A summary of the shares of our common stock repurchased during the quarter ended December 31, 2007, is shown below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May yet be Purchased Under the Program
September 30, 2007 October 27, 2007				
October 28, 2007 November 24, 2007				1,500,000
November 25, 2007 December 31, 2007	154,258	$ 28.18*	154,258	1,345,742
Total	154,258	$ 28.18*	154,258	1,345,742

* Excludes commissions of $0.03 per share.

Table of Contents

Performance Graph

The following graph compares the cumulative total stockholder return from December 31, 2002 through December 31, 2007 for Lear common stock, the S&P 500 Index and peer group(1) of companies we have selected for purposes of this comparison. We have assumed that dividends have been reinvested and the returns of each company in the S&P 500 Index and the peer groups have been weighted to reflect relative stock market capitalization. The graph assumes that $100 was invested on December 31, 2002, in each of Lear s common stock, the stocks comprising the S&P 500 Index and the stocks comprising the peer group.

	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
LEAR CORPORATION	$ 100.00	$ 184.89	$ 186.33	$ 89.97	$ 94.15	$ 88.19
S&P 500	$ 100.00	$ 128.36	$ 142.14	$ 149.01	$ 172.27	$ 181.72
PEER GROUP(1)	$ 100.00	$ 148.14	$ 164.99	$ 164.90	$ 185.81	$ 226.19

(1) We do not believe that there is a single published industry or line of business index that is appropriate for comparing stockholder returns. The current Peer Group, as referenced in the graph above, that we have selected is comprised of representative independent automobile suppliers of comparable products whose common stock is publicly-traded. The current Peer Group consists of ArvinMeritor, Inc., BorgWarner Automotive, Inc., Eaton Corp., Gentex Corp., Johnson Controls, Inc., Magna International, Inc., Superior Industries International and Visteon Corporation. Prior to 2006, our previous Peer Group consisted of each of the entities in the current Peer Group, plus Collins & Aikman Corporation, Dana Corporation, Delphi Corporation (f/k/a Delphi Automotive Systems Corporation) and Tower Automotive. These four companies have each filed for bankruptcy and, as a result, were removed from the current Peer Group. As of December 31, 2002, these four companies had approximately $6.9 billion in combined stock market capitalization.

Table of Contents

ITEM 6 *SELECTED FINANCIAL DATA*

The following statement of operations, balance sheet and statement of cash flow data were derived from our consolidated financial statements. Our consolidated financial statements for the years ended December 31, 2007, 2006, 2005, 2004 and 2003, have been audited by Ernst & Young LLP. The selected financial data below should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements and the notes thereto included in this Report.

For the Year Ended December 31,	2007(1)	2006(2)	2005(3) (In millions (4))	2004	2003
Statement of Operations Data:					
Net sales	$ 15,995.0	$ 17,838.9	$ 17,089.2	$ 16,960.0	$ 15,746.7
Gross profit	1,148.5	927.7	736.0	1,402.1	1,346.4
Selling, general and administrative expenses	574.7	646.7	630.6	633.7	573.6
Goodwill impairment charges		2.9	1,012.8		
Divestiture of Interior business	10.7	636.0			
Interest expense	199.2	209.8	183.2	165.5	186.6
Other expense, net(5)	40.7	85.7	38.0	38.6	51.8
Income (loss) before provision for income taxes, minority interests in consolidated subsidiaries, equity in net (income) loss of affiliates and cumulative effect of a change in accounting principle	323.2	(653.4)	(1,128.6)	564.3	534.4
Provision for income taxes	89.9	54.9	194.3	128.0	153.7
Minority interests in consolidated subsidiaries	25.6	18.3	7.2	16.7	8.8
Equity in net (income) loss of affiliates	(33.8)	(16.2)	51.4	(2.6)	(8.6)
Income (loss) before cumulative effect of a change in accounting principle	241.5	(710.4)	(1,381.5)	422.2	380.5
Cumulative effect of a change in accounting principle(6)		2.9			
Net income (loss)	$ 241.5	$ (707.5)	$ (1,381.5)	$ 422.2	$ 380.5
Basic net income (loss) per share	$ 3.14	$ (10.31)	$ (20.57)	$ 6.18	$ 5.71
Diluted net income (loss) per share(7)	$ 3.09	$ (10.31)	$ (20.57)	$ 5.77	$ 5.31
Weighted average shares outstanding basic	76,826,765	68,607,262	67,166,668	68,278,858	66,689,757
Weighted average shares outstanding diluted(7)	78,214,248	68,607,262	67,166,668	74,727,263	73,346,568

Dividends per share	$	$ 0.25	$ 1.00	$ 0.80	$ 0.20
Balance Sheet Data:					
Current assets	$ 3,718.0	$ 3,890.3	$ 3,846.4	$ 4,372.0	$ 3,375.4
Total assets	7,800.4	7,850.5	8,288.4	9,944.4	8,571.0
Current liabilities	3,603.9	3,887.3	4,106.7	4,647.9	3,582.1
Long-term debt	2,344.6	2,434.5	2,243.1	1,866.9	2,057.2
Stockholders equity	1,090.7	602.0	1,111.0	2,730.1	2,257.5
Statement of Cash Flows Data:					
Cash flows from operating activities	$ 466.9	$ 285.3	$ 560.8	$ 675.9	$ 586.3
Cash flows from investing activities	(340.0)	(312.2)	(541.6)	(472.5)	(346.8)
Cash flows from financing activities	(49.8)	277.4	(347.0)	166.1	(158.6)
Capital expenditures	202.2	347.6	568.4	429.0	375.6
Other Data (unaudited):					
Ratio of earnings to fixed charges(8)	2.4x			3.7x	3.4x
Employees as of year end	91,455	104,276	115,113	110,083	111,022
North American content per vehicle(9)	$ 484	$ 645	$ 586	$ 588	$ 593
North American vehicle production(10)	15.0	15.2	15.8	15.7	15.9
European content per vehicle(11)	$ 344	$ 338	$ 350	$ 355	$ 312
European vehicle production(12)	20.0	19.0	18.7	18.7	18.1

(1) Results include $20.7 million of charges related to the divestiture of our interior business, $181.8 million of restructuring and related manufacturing inefficiency charges (including $16.8 million of fixed asset impairment charges), $36.4 million of a curtailment gain related to the freeze of the U.S. salaried pension plan, $34.9 million of merger transaction costs, $3.9 million of losses related to the acquisition of the minority interest in an affiliate and $24.8 million of net tax benefits related to changes in valuation allowances in several foreign jurisdictions, tax rates and various other tax items.

(2) Results include $636.0 million of charges related to the divestiture of our interior business, $2.9 million of goodwill impairment charges, $10.0 million of fixed asset impairment charges, $99.7 million of restructuring and related manufacturing inefficiency charges (including $5.8 million of fixed asset impairment charges), $47.9 million of charges related to the extinguishment of debt, $26.9 million of gains related to the sales of our interests in two affiliates and $19.5 million of net tax benefits related to the expiration of the statute of limitations in a foreign taxing jurisdiction, a tax audit resolution, a favorable tax ruling and several other tax items.

(3) Results include $1,012.8 million of goodwill impairment charges, $82.3 million of fixed asset impairment charges, $104.4 million of restructuring and related manufacturing inefficiency charges (including $15.1 million of fixed asset impairment charges), $39.2 million of litigation-related charges, $46.7 million of charges related to the divestiture and/or capital restructuring of joint ventures, $300.3 million of tax charges, consisting of a U.S. deferred tax asset valuation allowance of $255.0 million and an increase in related tax reserves of $45.3 million, and a tax benefit related to a tax law change in Poland of $17.8 million.

(4) Except per share data, weighted average shares outstanding, ratio of earnings to fixed charges, employees as of year end and content per vehicle information.

(5) Includes non-income related taxes, foreign exchange gains and losses, discounts and expenses associated with our asset-backed securitization and factoring facilities, losses on the extinguishment of debt, gains and losses on the sales of fixed assets and other miscellaneous income and expense.

(6) The cumulative effect of a change in accounting principle in 2006 resulted from the adoption of Statement of Financial Accounting Standards No. 123(R), Share Based Payment.

(7) On December 15, 2004, we adopted the provisions of Emerging Issues Task Force 04-08, The Effect of Contingently Convertible Debt on Diluted Earnings per Share. Accordingly, diluted net income per share and weighted average shares outstanding diluted have been restated to reflect the 4,813,056 shares issuable upon conversion of our outstanding zero-coupon convertible senior notes since the issuance date of February 14, 2002.

(8) Fixed charges consist of interest on debt, amortization of deferred financing fees and that portion of rental expenses representative of interest. Earnings consist of income (loss) before provision for income taxes, minority interests in consolidated subsidiaries, equity in the undistributed net (income) loss of affiliates, fixed charges and cumulative effect of a change in accounting principle. Earnings in 2006 and 2005 were insufficient to cover fixed charges by $651.8 million and $1,123.3 million, respectively. Accordingly, such ratio is not presented for these years.

(9) North American content per vehicle is our net sales in North America divided by estimated total North American vehicle production. Content per vehicle data excludes business conducted through non-consolidated joint ventures. Content per vehicle data for 2006 has been updated to reflect actual production levels.

(10) North American vehicle production includes car and light truck production in the United States, Canada and Mexico as provided by Ward s Automotive. Production data for 2006 has been updated to reflect actual production levels.

(11) European content per vehicle is our net sales in Europe divided by estimated total European vehicle production. Content per vehicle data excludes business conducted through non-consolidated joint ventures.

(12) European vehicle production includes car and light truck production in Austria, Belgium, Bosnia, Czech Republic, Finland, France, Germany, Hungary, Italy, Netherlands, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, Turkey, Ukraine and United Kingdom as provided by CSM Worldwide.

ITEM 7 *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 sales. We supply every major automotive manufacturer in the world, including General Motors, Ford, BMW, Fiat, Chrysler, PSA, Volkswagen, Hyundai, Renault-Nissan, Daimler, 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, we have divested substantially all of the assets of this segment to joint ventures in which we hold a minority interest.

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 was to merge with and into Lear, with Lear continuing 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 in October 2006 to affiliates of and funds managed by Carl C. Icahn (collectively, the Termination Consideration). The shares of our common stock issued as part of the Termination Consideration were initially issued pursuant to an exemption from registration under Section 4(2) and Regulation D promulgated under the Securities Act of 1933, as amended (the Securities Act). The resale of these shares was subsequently registered under the Securities Act. The Termination Consideration to AREP Car Holdings is to be credited against any 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. We recognized costs of approximately $35 million, including $25 million associated with the Termination Consideration and $10 million in transaction costs relating to the proposed merger, in selling, general and administrative expense in 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 this Report.

Interior Segment

In recent years, the level of profitability and the return on investment of our interior segment has been significantly below that of our seating and electrical and electronic segments. In 2005, as a result of unfavorable operating results due to higher raw material costs, lower production volumes on key platforms, industry overcapacity, insufficient customer pricing and changes in certain customer s sourcing strategies, we evaluated the carrying value of goodwill within our interior segment for potential impairment and recorded goodwill impairment charges of approximately $1.0 billion. We also concluded that certain fixed assets within our interior segment were materially impaired and recorded fixed asset impairment charges of $82 million. In 2006, we recorded additional goodwill impairment charges of $3 million and fixed asset impairment charges of $10 million related to our 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, affiliates of WL Ross & Co. LLC (WL Ross) and 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 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 the 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 2007, we completed negotiations related to the amount of additional funding, and on October 10, 2007, we made a cash payment to IAC of approximately $13 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 $612 million, of which approximately $5 million was recognized in 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 consolidated statement of operations for the year ended December 31, 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 included 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

Table of Contents

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 2007 and approximately $29 million was recognized in 2006.

For further information related to the divestiture of our interior business, see Note 4, Divestiture of Interior Business, to the accompanying consolidated financial statements and the Purchase Agreement, LLC Agreement and related documents, which are incorporated by reference as exhibits to this Report.

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 internally 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 42% of our net sales in 2007, 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 2007, 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 declining sales. In Europe, the market structure is more fragmented with significant overcapacity. We expect these challenging industry conditions to continue in the foreseeable future. During 2007, North American production levels declined by approximately 2% as compared to 2006, and production levels on several of our key platforms 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 68.0% in 2007 as compared to 68.8% in 2006 and 68.3% in 2005. Raw material, energy and commodity costs generally remained high in 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 large SUV platforms. While raw material, energy and commodity costs moderated somewhat in 2007, they remain high and will continue to have an adverse impact on our operating results in the foreseeable future. See Item 1A, Risk Factors High raw material costs may continue to have a significant adverse impact on our profitability.

Outlook

In evaluating our financial condition and operating performance, we focus primarily on earnings 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 fourteen 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, Central America and Mexico.

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 impacted by our ability to efficiently manage our capital spending. We utilize return on investment as a 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 2007 and were 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 have incurred pretax costs of approximately $386 million through 2007. 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 $182 million in 2007, $100 million in 2006 and $104 million in 2005.

Table of Contents

Financing Transactions

On April 25, 2006, we amended and restated our primary credit facility. On November 24, 2006, we completed the issuance of $300 million aggregate principal amount of 8.50% senior notes due 2013 and $600 million aggregate principal amount of 8.75% senior notes due 2016. Using the net proceeds from these financing transactions, we repurchased Euro 194 million (approximately $257 million based on the exchange rate in effect as of the transaction dates) aggregate principal amount of 8.125% senior notes due 2008, $759 million aggregate principal amount of 8.11% senior notes due 2009 and outstanding zero-coupon convertible notes due 2022 with an accreted value of $303 million. In connection with these refinancing transactions, we recognized a net loss on the extinguishment of debt of approximately $48 million in 2006.

On November 8, 2006, we completed the sale of $200 million of common stock in a private placement to affiliates of and funds managed by Carl C. Icahn. The proceeds of this offering were used for general corporate purposes, including strategic investments.

Other Matters

In 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 2006, we recognized aggregate gains of $27 million related to the sales of our interests in two affiliates. In 2005, we recognized aggregate charges of $47 million related to the divestiture of an equity investment in a non-core business and the capital restructuring of two previously unconsolidated affiliates.

In the fourth quarter of 2005, we concluded that it was no longer more likely than not that we would realize our U.S. deferred tax assets. As a result, we recorded a tax charge of $300 million comprised of (i) a full valuation allowance in the amount of $255 million with respect to our net U.S. deferred tax assets and (ii) an increase in related tax reserves of $45 million. During 2006 and 2007, we continued to maintain a valuation allowance related to our net U.S. deferred tax assets. In addition, we maintain valuation allowances related to our net deferred tax assets in certain foreign jurisdictions. Our current and future provision for income taxes is significantly impacted by the initial recognition of and changes in valuation allowances in certain countries, particularly in 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 provision for income taxes will include no tax benefit with respect to losses incurred and no tax expense with respect to income generated in these countries until the respective valuation allowance is eliminated.

In 2007, we recognized a net tax benefit of $17 million as a result of changes in valuation allowances in several foreign jurisdictions and a tax benefit of $17 million related to a tax rate change in Germany, partially offset by one-time tax expenses of $9 million related to various tax items. In 2006, we recorded a tax benefit of $20 million related to a number of items, including the expiration of the statute of limitations in a foreign taxing jurisdiction, a tax audit resolution, a favorable tax ruling and several other items. In the first quarter of 2005, we recorded a tax benefit of $18 million resulting from a tax law change in Poland.

As discussed above, our results for the years ended December 31, 2007, 2006 and 2005, reflect the following items (in millions):

For the Year Ended December 31,	2007	2006	2005
Costs related to divestiture of interior business	$ 21	$ 636	$
Goodwill impairment charges related to interior business		3	1,013
Fixed asset impairment charges related to interior business		10	82
Costs of restructuring actions, including manufacturing inefficiencies of $13 million in 2007, $7 million in 2006 and $15 million in 2005	182	100	104
U.S. salaried pension plan curtailment gain	(36)		
Costs related to merger transaction	35		
Loss on the extinguishment of debt		48	
(Gains) losses related to affiliate transactions	4	(27)	47
Tax benefits	(25)	(20)	(18)
Tax charge related to U.S. deferred tax asset valuation allowance			300

For further information related to these items, see Restructuring and Note 2, Summary of Significant Accounting Policies Goodwill, and Long-Lived Assets, Note 3, Merger Agreement, Note 4, Divestiture of Interior Business, Note 6, Restructuring, Note 7, Investments in Affiliates and Other Related Party Transactions, and Note 10, Income Taxes, to the consolidated financial statements included in this Report.

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 Item 1A, Risk Factors, and Forward-Looking Statements.

Results of Operations

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

For the Year Ended December 31,	2007		2006		2005	
Net sales						
Seating	$ 12,206.1	76.3%	$ 11,624.8	65.2%	$ 11,035.0	64.6%
Electrical and electronic	3,100.0	19.4	2,996.9	16.8	2,956.6	17.3
Interior	688.9	4.3	3,217.2	18.0	3,097.6	18.1
Net sales	15,995.0	100.0	17,838.9	100.0	17,089.2	100.0
Gross profit	1,148.5	7.2	927.7	5.2	736.0	4.3
Selling, general and administrative expenses	574.7	3.6	646.7	3.6	630.6	3.7
Goodwill impairment charges			2.9		1,012.8	5.9
Divestiture of Interior business	10.7	0.1	636.0	3.5		
Interest expense	199.2	1.2	209.8	1.2	183.2	1.1
Other expense, net	40.7	0.3	85.7	0.5	38.0	0.2
Provision for income taxes	89.9	0.6	54.9	0.3	194.3	1.2
	(33.8)	(0.2)	(16.2)		51.4	0.3

Equity in net (income) loss of affiliates						
Minority interests in consolidated subsidiaries	25.6	0.1	18.3	0.1	7.2	
Net income (loss)	241.5	1.5	(707.5)	(4.0)	(1,381.5)	(8.1)

34

Table of Contents

Year Ended December 31, 2007, Compared With Year Ended December 31, 2006

Net sales for the year ended December 31, 2007 were $16.0 billion, as compared to $17.8 billion for the year ended December 31, 2006, a decrease of $1.8 billion or 10.3%. The divestiture of our interior business, as well as unfavorable vehicle platform mix and lower industry production volumes in North America, negatively impacted net sales by $2.5 billion and $825 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 $876 million and $682 million, respectively.

Gross profit and gross margin were $1,149 million and 7.2% in 2007, as compared to $928 million and 5.2% in 2006. New business, primarily outside of North America, and the divestiture of our interior business favorably impacted gross profit by $119 million and $61 million, respectively. Unfavorable vehicle platform mix and lower industry production volumes in North America and the impact of net selling price reductions were more than offset by the benefit of our restructuring and other productivity actions.

Selling, general and administrative expenses, including research and development, were $575 million for the year ended December 31, 2007, as compared to $647 million for the year ended December 31, 2006. As a percentage of net sales, selling, general and administrative expenses were 3.6% in 2007 and 2006. The decrease in selling, general and administrative expenses was largely due to reductions of $54 million related to the divestiture of our interior business, 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, which were partially offset by costs related to the merger transaction of $35 million.

Research and development costs incurred in connection with the development of new products and manufacturing methods, to the extent not recoverable from the customer, are charged to selling, general and administrative expenses as incurred. Such costs totaled $135 million in 2007 and $170 million in 2006. The divestiture of our interior business resulted in a $13 million reduction in research and development costs. In certain situations, the reimbursement of pre-production engineering, research and design costs is contractually guaranteed by, and fully recoverable from, our customers and is therefore capitalized. For the years ended December 31, 2007 and 2006, we capitalized $106 million and $122 million, respectively, of such costs.

Interest expense was $199 million in 2007, as compared to $210 million in 2006, primarily due to lower borrowing levels in 2007, offset, in part, by increased costs associated with our 2006 debt refinancing transactions.

Other expense, which includes non-income related taxes, foreign exchange gains and losses, discounts and expenses associated with our asset-backed securitization and factoring facilities, losses on the extinguishment of debt, gains and losses on the sales of assets and other miscellaneous income and expense, was $41 million in 2007, as compared to $86 million in 2006. In 2006, we recorded a loss on the extinguishment of debt of $48 million related to our repurchase of senior notes due 2008 and 2009, as well as a gain of $13 million on the sale of an affiliate. In 2007, reductions in foreign exchange and expenses associated with our asset-backed securitization facility were partially offset by increases in other miscellaneous income and expense and non-income related taxes.

The provision for income taxes was $90 million for the year ended December 31, 2007, representing an effective tax rate of 27.1% on pretax income of $331 million, as compared to $55 million for the year ended December 31, 2006, on a pretax loss of $656 million, representing an effective tax rate of (8.4)%. The 2007 provision for income taxes was impacted by costs of $21 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 transaction, 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, a net tax benefit of $17 million as a result of changes in valuation allowances in several foreign jurisdictions and a tax benefit of $17 million related to a tax rate change in Germany, partially offset by one-time tax expenses of $9 million related to various tax items. Excluding these items, the effective tax rate in 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.

The 2006 provision for income taxes was significantly impacted by losses incurred in the United States for which no tax benefit was provided due to the U.S. valuation allowance. The 2006 provision for income taxes includes one-time net tax benefits of $20 million related to a number of items, including the expiration of the statute of limitations in a foreign taxing jurisdiction, a tax audit resolution, a favorable tax ruling and several other items. Further, our current and future provision for income taxes is significantly impacted by the initial recognition of and changes in 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 provision for income taxes will include no tax benefit with respect losses incurred and no tax expense with respect to income generated in these countries until the respective valuation allowance is eliminated. Accordingly, income taxes are impacted by the U.S. and foreign valuation allowances and the mix of earnings among jurisdictions.

Equity in net income of affiliates was $34 million for the year ended December 31, 2007, as compared to $16 million for the year ended December 31, 2006. The increase was due to our equity in the net income of IACNA and IAC Europe, as well as the improved performance of certain of our other equity affiliates. In addition, we sold our interest in an equity affiliate in 2006, recognizing a gain of $13 million. Minority interest expense related to our consolidated subsidiaries was $26 million in 2007, as compared to $18 million in 2006. In 2007, we recorded a loss of $4 million related to the acquisition of the minority interest in an affiliate.

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 2006 related to a change in accounting for forfeitures. For further information, see Note 2, Summary of Significant Accounting Policies Stock-Based Compensation, to the consolidated financial statements included in this Report.

Net income in 2007 was $242 million, or $3.09 per diluted share, as compared to a net loss in 2006 of $708 million, or $10.31 per diluted share, reflecting the loss on divestiture of our interior business of $11 million and $636 million in 2007 and 2006, respectively, and for the reasons described above. For further information related to our divestiture of our interior business, see Note 4, Divestiture of Interior Business, to the consolidated financial statements included in this Report.

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, terminals and connectors, various electronic control modules, as well as audio sound systems and in-vehicle television and video entertainment 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 4, Divestiture of Interior Business, to the consolidated financial statements included in this Report. 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 charges, divestiture of Interior business, interest expense, other expense, provision for income taxes, minority interests in consolidated subsidiaries, equity in net (income) loss of affiliates 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 (loss), 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

Table of Contents

accounting principle, see Note 14, Segment Reporting, to the consolidated financial statements included in this Report.

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

For the Year Ended December 31,	2007	2006
Net sales	$ 12,206.1	$ 11,624.8
Segment earnings(1)	758.7	604.0
Margin	6.2%	5.2%

(1) See definition above.

Seating net sales were $12.2 billion for the year ended December 31, 2007, as compared to $11.6 billion for the year ended December 31, 2006, an increase of $581 million or 5.0%. The benefit of new business, primarily outside of North America, and the impact of net foreign exchange rate fluctuations favorably impacted net sales by $825 million and $535 million, respectively. These increases were partially offset by unfavorable vehicle platform mix and lower industry production volumes in North America. Segment earnings, including restructuring costs, and the related margin on net sales were $759 million and 6.2% in 2007, as compared to $604 million and 5.2% in 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 industry production volumes in North America and the impact of net selling price reductions. During 2007, we incurred costs related to our restructuring actions in the seating segment of $92 million, as compared to $42 million in 2006.

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

For the Year Ended December 31,	2007	2006
Net sales	$ 3,100.0	$ 2,996.9
Segment earnings(1)	40.8	102.5
Margin	1.3%	3.4%

(1) See definition above.

Electrical and electronic net sales were $3.1 billion for the year ended December 31, 2007, as compared to $3.0 billion for the year ended December 31, 2006, an increase of $103 million or 3.4%. The impact of net foreign exchange rate fluctuations and the benefit of new business outside of North America, net of the roll-off of certain programs in North America, favorably impacted net sales by $141 million and $45 million, respectively. These increases were partially offset by unfavorable vehicle platform mix and lower industry production volumes in North America and the impact of net selling price reductions. Segment earnings and the related margin on net sales were $41 million and 1.3% in 2007, as compared to $103 million and 3.4% in 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 industry 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. During 2007, we incurred costs related to our restructuring actions of $70 million, as compared to $45 million in 2006.

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

For the Year Ended December 31,	**2007**	**2006**
Net sales	$ 688.9	$ 3,217.2
Segment earnings(1)	8.2	(183.8)
Margin	1.2%	(5.7)%

(1) See definition above.

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 for the year ended December 31, 2007, as compared to $3.2 billion for the year ended December 31, 2006. Segment earnings and the related margin on net sales were $8 million and 1.2% in 2007, as compared to $(184) million and (5.7)% in 2006. During 2007, we incurred costs related to our restructuring actions of $5 million, as compared to $13 million in 2006. In addition, we recorded asset impairment charges of $10 million in 2006.

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

For the Year Ended December 31,	2007	2006
Net sales	$	$
Segment earnings(1)	(233.9)	(241.7)
Margin	N/A	N/A

(1) See definition above.

Our other category includes unallocated corporate and geographic headquarter costs, as well as the elimination of intercompany activity. Corporate and geographic headquarter 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 ($234) million in 2007, as compared to ($242) million in 2006. Costs related to the merger transaction of $35 million were more than offset by a curtailment gain of $36 million related to our decision to freeze our U.S. salaried pension plan and savings from our restructuring and other cost improvement actions. During 2007, we incurred costs related to our restructuring actions of $15 million, as compared to $7 million in 2006.

Year Ended December 31, 2006, Compared With Year Ended December 31, 2005

Net sales for the year ended December 31, 2006 were $17.8 billion, as compared to $17.1 billion for the year ended December 31, 2005, an increase of $750 million or 4.4%. New business favorably impacted net sales by $1.9 billion. This increase was partially offset by the impact of unfavorable vehicle platform mix and lower industry production volumes primarily in North America, which reduced net sales by $1.2 billion.

Gross profit and gross margin were $928 million and 5.2% in 2006, as compared to $736 million and 4.3% in 2005. New business favorably impacted gross profit by $186 million. Gross profit also benefited from our productivity initiatives and other efficiencies. The 2005 period also included incremental fixed asset impairment charges of $72 million. The improvements in gross profit were partially offset by the impact of net selling price reductions, unfavorable vehicle platform mix and lower industry production volumes primarily in North America, which collectively reduced gross profit by $175 million. Gross profit was also negatively impacted by higher raw material and commodity costs.

Selling, general and administrative expenses, including research and development, were $647 million for the year ended December 31, 2006, as compared to $631 million for the year ended December 31, 2005. As a percentage of net sales, selling, general and administrative expenses were 3.6% and 3.7% in 2006 and 2005, respectively. The increase in selling, general and administrative expenses was largely due to inflationary increases in compensation, facility maintenance and insurance expense, as well as incremental infrastructure and development costs in Asia, partially offset by a decrease in litigation-related charges and the impact of census reduction actions.

Research and development costs incurred in connection with the development of new products and manufacturing methods, to the extent not recoverable from the customer, are charged to selling, general and administrative expenses as incurred. Such costs totaled $170 million in 2006 and $174 million in 2005. In certain situations, the reimbursement of pre-production engineering, research and design costs is contractually guaranteed by, and fully recoverable from, our customers and is therefore capitalized. For the years ended December 31, 2006 and 2005, we capitalized $122 million and $227 million, respectively, of such costs.

Table of Contents

Interest expense was $210 million in 2006, as compared to $183 million in 2005. This increase was largely due to an increase in short-term interest rates and increased costs associated with our debt refinancings.

Other expense, which includes non-income related taxes, foreign exchange gains and losses, discounts and expenses associated with our asset-backed securitization and factoring facilities, losses on the extinguishment of debt, gains and losses on the sales of assets and other miscellaneous income and expense, was $86 million in 2006, as compared to $38 million in 2005. The increase was largely due to a loss on the extinguishment of debt of $48 million related to our repurchase of senior notes due 2008 and 2009. An increase of $18 million in foreign exchange losses was largely offset by a gain on the sale of an affiliate.

The provision for income taxes was $55 million for the year ended December 31, 2006, as compared to $194 million for the year ended December 31, 2005. The decrease in the provision for income taxes was primarily due to the tax charge recognized in the fourth quarter of 2005 related to our decision to provide a full valuation allowance with respect to our net U.S. deferred tax assets, as well as the mix of earnings among countries. The 2006 provision for income taxes includes one-time net tax benefits of $20 million related to a number of items, including the expiration of the statute of limitations in a foreign taxing jurisdiction, a tax audit resolution, a favorable tax ruling and several other items. In the first quarter of 2005, we recorded a tax benefit of $18 million resulting from a tax law change in Poland. Our current and future provision for income taxes is significantly impacted by the initial recognition of and changes in valuation allowances in certain countries, particularly the United States. We intend to maintain these valuation allowances until it is more likely than not that the deferred tax assets will be realized. Our future provision for income taxes will include no tax benefit with respect to losses incurred and no tax expense with respect to income generated in these countries until the respective valuation allowance is eliminated.

Equity in net income of affiliates was $16 million for the year ended December 31, 2006, as compared to equity in net loss of affiliates of $51 million for the year ended December 31, 2005. In 2006, we sold our interest in an equity affiliate, recognizing a gain of $13 million. In 2005, we divested an equity investment in a non-core business, recognizing a charge of $17 million. In December 2005, we also recognized a loss of $30 million related to two previously unconsolidated affiliates as a result of capital restructurings, changes in the investors and amendments to the related operating agreements.

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 quarter of 2006 related to a change in accounting for forfeitures. For further information, see Note 2, Summary of Significant Accounting Policies Stock-Based Compensation, to the consolidated financial statements included in this Report.

Net loss in 2006 was $708 million, or $10.31 per diluted share, as compared to net loss in 2005 of $1.4 billion, or $20.57 per diluted share, reflecting the loss on divestiture of our interior business of $636 million in 2006 and goodwill impairment charges of $1.0 billion in 2005 and for the reasons described above. For further information related to our 2006 loss on divestiture of our interior business and 2005 goodwill impairment charges, see Note 2, Summary of Significant Accounting Policies Impairment of Goodwill, and Note 4, Divestiture of Interior Business, to the consolidated financial statements included in this Report.

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, terminals and connectors, various electronic control modules, as well as audio sound systems and in-vehicle television and video entertainment 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 4, "Divestiture of Interior Business," to the consolidated financial statements included in this Report. 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 charges, divestiture of Interior business, interest expense, other expense, provision for income taxes, minority interests in consolidated subsidiaries, equity in net (income) loss of affiliates 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 (loss), 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 14, Segment Reporting, to the consolidated financial statements included in this Report

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

For the Year Ended December 31,	**2006**	**2005**
Net sales	$ 11,624.8	$ 11,035.0
Segment earnings(1)	604.0	323.3
Margin	5.2%	2.9%

(1) See definition above.

Seating net sales were $11.6 billion for the year ended December 31, 2006, as compared to $11.0 billion for the year ended December 31, 2005, an increase of $590 million or 5.3%. New business and net foreign exchange rate fluctuations favorably impacted net sales by $1.1 billion and $138 million, respectively. These increases were partially offset by changes in industry production volumes and vehicle platform mix, which reduced net sales by $724 million. Segment earnings and the related margin on net sales were $604 million and 5.2% in 2006, as compared to $323 million and 2.9% in 2005. The collective impact of net new business and changes in industry production volumes and vehicle platform mix favorably impacted segment earnings by $189 million. Segment earnings also benefited from the impact of our productivity initiatives and other efficiencies. Litigation-related charges reduced segment earnings in 2005 by $30 million. During 2006, we incurred costs related to our restructuring actions of $42 million, as compared to $33 million in 2005.

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

For the Year Ended December 31,	**2006**	**2005**
Net sales	$ 2,996.9	$ 2,956.6
Segment earnings(1)	102.5	180.0
Margin	3.4%	6.1%

(1) See definition above.

Electrical and electronic net sales were $3.0 billion for the year ended December 31, 2006 an increase of $40 million or 1.4%, compared to 2005. New business favorably impacted net sales by $181 million. This increase was largely offset by changes in industry production volumes and vehicle platform mix, which reduced net sales by $145 million. Segment earnings and the related margin on net sales were $103 million and 3.4% in 2006, as compared to $180 million and 6.1% in 2005. The decline was primarily the result of changes in vehicle platform mix, net selling price reductions and the gross impact of higher raw material and commodity costs (principally copper), offset in part by the benefit of our productivity initiatives and other efficiencies. During 2006, we incurred costs related to our restructuring actions of $45 million, as compared to $39 million in 2005.

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

For the Year Ended December 31,	2006	2005
Net sales	$ 3,217.2	$ 3,097.6
Segment earnings(1)	(183.8)	(191.1)
Margin	(5.7)%	(6.2)%

(1) See definition above.

Interior net sales were $3.2 billion for the year ended December 31, 2006, as compared to $3.1 billion for the year ended December 31, 2005, an increase of $120 million or 3.9%. New business favorably impacted net sales by $604 million. This increase was partially offset by changes in industry production volumes and vehicle platform mix and the divestiture of our European interior business, which reduced net sales by $363 million and $150 million, respectively. Segment earnings and the related margin on net sales were ($184) million and (5.7)% in 2006, as compared to ($191) million and (6.2)% in 2005. The change is primarily the result of lower fixed asset impairment charges of $72 million in 2006 as compared to 2005, largely offset by changes in industry production volumes and vehicle platform mix and the gross impact of higher raw material and commodity costs. During 2006, we incurred costs related to our restructuring actions of $13 million, as compared to $32 million in 2005.

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

For the Year Ended December 31,	2006	2005
Net sales	$	$
Segment earnings(1)	(241.7)	(206.8)
Margin	N/A	N/A

(1) See definition above.

Our other category includes unallocated corporate and geographic headquarter costs, as well as the elimination of intercompany activity. Corporate and geographic headquarter 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 ($242) million in 2006, as compared to ($207) million in 2005. The change was largely due to inflationary increases in compensation, facility maintenance and insurance expense, as well as costs related to the implementation of our interior segment strategy.

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.

Through December 31, 2007, we have incurred pretax costs of approximately $386 million in connection with the restructuring actions. Such costs included 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 included equipment and personnel relocation costs. We also incurred incremental manufacturing inefficiency costs at the operating locations impacted by the restructuring actions during the related restructuring implementation period. Restructuring costs were recognized in our consolidated financial statements in accordance with accounting principles generally accepted in the United States.

In 2007, we recorded restructuring and related manufacturing inefficiency charges of $182 million. This consisted of $166 million recorded as cost of sales and $16 million recorded as selling, general and administrative expenses. Cash expenditures related to our restructuring actions totaled $111 million in 2007. The 2007

Table of Contents

restructuring charges consisted of employee termination benefits of $115 million, asset impairment charges of $17 million and net contract termination costs of $25 million, as well as other net costs of $12 million. We also estimate that we incurred approximately $13 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 related to the disposal of buildings, leasehold improvements and machinery and equipment with carrying values of $17 million in excess of related estimated fair values. Contract termination costs included a net pension and other postretirement benefit plan curtailment charge of $19 million, lease cancellation costs of $5 million and the repayment of various government-sponsored grants of $1 million.

In 2006, we recorded restructuring and related manufacturing inefficiency charges of $100 million. This consisted of $88 million recorded as cost of sales and $17 million recorded as selling, general and administrative expenses, offset by gains on the sales of two facilities, which are recorded as other expense, net. Cash expenditures related to our restructuring actions totaled $73 million in 2006. The 2006 restructuring charges consist of employee termination benefits of $79 million, asset impairment charges of $6 million and contract termination costs of $6 million, as well as other net costs of $2 million. We also estimate that we incurred approximately $7 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 buildings, leasehold improvements and machinery and equipment with carrying values of $6 million in excess of related estimated fair values. Contract termination costs include the termination of subcontractor and other relationships of $4 million, lease cancellation costs of $1 million and pension and other postretirement benefit plan curtailments of $1 million.

In 2005, we recorded restructuring and related manufacturing inefficiency charges of $104 million. This consisted of $100 million recorded as cost of sales and $6 million recorded as selling, general and administrative expenses, offset by a gain on the sale of a facility, which is recorded as other expense, net. Cash expenditures related to our restructuring actions totaled $67 million 2005. The 2005 charges consist of employee termination benefits of $57 million, asset impairment charges of $15 million and contract termination costs of $13 million, as well as other net costs of $4 million. We also estimate that we incurred approximately $15 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 buildings, leasehold improvements and machinery and equipment with carrying values of $15 million in excess of related estimated fair values. Contract termination costs include lease cancellation costs of $3 million, the repayment of various government-sponsored grants of $5 million, the termination of joint venture, subcontractor and other relationships of $3 million and pension and other postretirement benefit plan curtailments of $2 million.

Liquidity and Financial Condition

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 10, Income Taxes, to the consolidated financial statements included in this Report.

Equity Offering

On November 8, 2006, we completed the sale of $200 million of common stock in a private placement to affiliates of and funds managed by Carl C. Icahn. The proceeds of this offering were used for general corporate purposes, including strategic investments.

Table of Contents

Cash Flows

Net cash provided by operating activities was $467 million in 2007, as compared to $285 million in 2006. The increase in operating cash flow was due largely to the improvement in net income between periods. This increase was partially offset by the net change in working capital items, including the net change in recoverable customer engineering and tooling, which resulted in a $105 million decrease in operating cash flows between periods. Decreases in accounts receivable and accounts payable were a source of $79 million of cash and a use of $126 million of cash, respectively, in 2007, reflecting the decreased volumes and the timing of payments received from our customers and made to our suppliers.

Net cash used in investing activities was $340 million in 2007, as compared to $312 million in 2006. A decrease of $145 million in capital spending between periods was more than offset by incremental cash used of $85 million related to the divestiture of our interior business and a decrease in cash proceeds of $72 million related to the disposition of assets. In 2008, capital spending is estimated in the range of $255 to $275 million.

Financing activities were a use of $50 million of cash in 2007, as compared to a source of $277 million of cash in 2006. In 2006, financing activities include the incurrence of an additional $600 million of term loans due 2010 under our primary credit facility, the issuance of $900 million aggregate principal amount of senior notes due 2013 and 2016, the repurchase of $1.3 billion aggregate principal amount (or accreted value) of senior notes due 2008, 2009 and 2022 and the issuance of 8.7 million shares of our common stock in a private placement for a net purchase price of $199 million.

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 years ended December 31, 2007 and 2006, our average outstanding long-term debt balance, as of the end of each fiscal quarter, was $2.5 billion and $2.4 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 7.3% for the respective periods.

We utilize uncommitted lines of credit as needed for our short-term working capital fluctuations. For the years ended December 31, 2007 and 2006, our average outstanding unsecured short-term debt balance, as of the end of each fiscal quarter, was $17 million and $20 million, respectively. The weighted average interest rate, including the effect of hedging activities, was 4.7% and 4.4% 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. The primary credit facility provides for multicurrency borrowings in a maximum aggregate amount of $750 million, Canadian borrowings in a maximum aggregate amount of $200 million and swing-line borrowings in a maximum aggregate amount of $300 million, the commitments for which are part of the aggregate revolving credit facility commitment. As of December 31, 2007, we had $991 million in borrowings outstanding under our term loan facility, with no additional availability. There were no amounts outstanding under the revolving credit facility and $63 million committed under outstanding letters of credit as of December 31, 2007.

In 2006, we entered into our existing primary credit facility, the proceeds of which were used to repay the term loan facility under our prior primary credit facility and to repurchase outstanding zero-coupon convertible senior notes with an accreted value of $303 million, Euro 13 million aggregate principal amount of our senior notes due 2008 and $207 million aggregate principal amount of our senior notes due 2009. In connection with these transactions, we recognized a net gain of less than $1 million on the extinguishment of debt, which is included in other expense, net in the consolidated statement of operations for the year ended December 31, 2006.

Borrowings under the primary credit facility bear interest, payable no less frequently than quarterly, at (a) (1) applicable interbank rates, on Eurodollar and Eurocurrency loans, (2) the greater of the U.S. prime rate and the federal funds rate plus 0.50%, on base rate loans, (3) the greater of the prime rate publicly announced by the Canadian administrative agent and the federal funds rate plus 0.50%, on U.S. dollar denominated Canadian loans, (4) the greater of the prime rate publicly announced by the Canadian administrative agent and the average Canadian interbank bid rate (CDOR) plus 1.0%, on Canadian dollar denominated Canadian loans, and (5) various published or quoted rates, on swing-line and other loans, plus (b) a percentage spread ranging from 0% to a maximum of 2.75%, depending on the type of loan and/or currency and our credit rating or leverage ratio. Under the primary credit facility, we agree to pay a facility fee, payable quarterly, at rates ranging from 0.15% to 0.50%, depending on our credit rating or leverage ratio.

Subsidiary Guarantees 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 guarantee our obligations under our outstanding senior notes and all of which are directly or indirectly wholly owned by the Company.

Covenants 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 3.50 to 1, as of December 31, 2007, with decreases over time and an interest coverage ratio of not less than 2.75 to 1, as of December 31, 2007 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, which is incorporated by reference as an exhibit to this Report. 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 cash equivalents 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 December 31, 2007, we were in compliance with all covenants set forth in the primary credit facility. Our leverage and interest coverage ratios were 1.9 to 1 and 5.5 to 1, respectively. These ratios are calculated on a trailing four quarter basis. As a result, any decline in our future operating results will negatively impact our coverage ratios. Our failure to comply with these financial covenants could have a material adverse effect on our liquidity and operations.

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):

	December 31, 2007
Consolidated indebtedness	$ 1,853.3
Cash and cash equivalents	601.3
Reported debt	$ 2,454.6

Table of Contents

	Year Ended December 31, 2007
Consolidated operating profit	$ 990.6
Depreciation and amortization	(296.9)
Consolidated interest expense	(181.2)
Costs related to divestiture of interior business	(20.7)
Other expense, net (excluding certain amounts related to asset-backed securitization facility)	(41.5)
Restructuring charges (subject to $285 million limitation)	(73.3)
Other excluded items	1.4
Other non-cash items	(55.2)
Income before provision for income taxes, minority interests in consolidated subsidiaries, equity in net (income) loss of affiliates and cumulative effect of a change in accounting principle	$ 323.2
Consolidated interest expense	$ 181.2
Certain amounts related to asset-backed securitization facility	0.8
Amortization of deferred financing fees	8.8
Bank facility and other fees	8.4
Reported interest expense	$ 199.2

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 9, Long-Term Debt, to the consolidated financial statements included in this Report and the agreement governing our primary credit facility, which has been incorporated by reference as an exhibit to this Report.

Senior Notes

As of December 31, 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 $81 million based on the exchange rate in effect as of December 31, 2007) aggregate principal amount of senior notes due 2008 and $41 million aggregate principal amount of senior notes due 2009.

In November 2006, we issued $300 million aggregate principal amount of unsecured 8.50% senior notes due 2013 and $600 million aggregate principal amount of unsecured 8.75% senior notes due 2016. The notes are unsecured and rank equally with our other unsecured senior indebtedness, including our other senior notes. The proceeds from this note offering were used to repurchase our senior notes due 2008 and 2009 in an aggregate principal amount of Euro 181 million and $552 million, respectively, for an aggregate purchase price of $836 million, including related fees. In connection with these transactions, we recognized a loss of $48 million on the extinguishment of debt, which is included in other expense, net in the consolidated statement of operations for the year ended December 31, 2006. In January 2007, we completed an exchange offer of the 2013 and 2016 senior notes for substantially identical notes registered under the Securities Act of 1933, as amended.

During 2006, using proceeds from the issuance of our senior notes due 2013 and 2016 and borrowings under our primary credit facility, we repurchased an aggregate principal amount of Euro 194 million ($257 million based on exchange rates in effect as of the transaction dates) and $759 million of our senior notes due 2008 and 2009, respectively. See also Primary Credit Facility.

Zero-Coupon Convertible Senior Notes In February 2002, we issued $640 million aggregate principal amount at maturity of zero-coupon convertible senior notes due 2022, yielding gross proceeds of $250 million. As discussed above, in 2006, we repurchased substantially all of the outstanding zero-coupon convertible notes with borrowings under our new credit agreement. As of December 31, 2007, notes with an accreted value of $1 million remain outstanding. See also Primary Credit Facility.

Subsidiary Guarantees 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.

Covenants With the exception of our zero-coupon convertible senior notes, our senior notes contain covenants restricting our ability to incur liens and to enter into sale and leaseback transactions. As of December 31, 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 December 31, 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.

For further information related to our senior notes described above, see Note 9, Long-Term Debt, to the consolidated financial statements included in this Report and the indentures governing our senior notes, which have been incorporated by reference as exhibits to this Report.

Contractual Obligations

Our scheduled maturities of long-term debt, including capital lease obligations, our scheduled interest payments on our outstanding debt and our lease commitments under non-cancelable operating leases as of December 31, 2007, are shown below (in millions):

	2008	2009	2010	2011	2012	Thereafter	Total
Long-term debt maturities	$ 96.1	$ 53.2	$ 10.4	$ 8.1	$ 968.2	$ 1,304.7	$ 2,440.7
Interest payments on our outstanding debt	166.2	160.9	158.9	158.5	120.1	281.5	1,046.1
Lease commitments	86.0	70.7	53.1	40.3	32.0	75.9	358.0
Total	$ 348.3	$ 284.8	$ 222.4	$ 206.9	$ 1,120.3	$ 1,662.1	$ 3,844.8

Borrowings under our primary credit facility bear interest at variable rates. Therefore, an increase in interest rates would reduce our profitability. See Market Risk Sensitivity.

In addition to the obligations set forth above, we have capital requirements with respect to new programs. We enter into agreements with our customers to produce products at the beginning of a vehicle s life. Although such agreements do not provide for minimum quantities, once we enter into such agreements, we are generally required to fulfill our customers purchasing requirements for the entire production life of the vehicle. Prior to being formally awarded a program, we typically work closely with our customers in the early stages of designing and engineering a vehicle s systems. Failure to complete the design and engineering work related to a vehicle s systems, or to fulfill a customer s contract, could adversely affect our business.

We also enter into agreements with suppliers to assist us in meeting our customers production needs. These agreements vary as to duration and quantity commitments. Historically, most have been short-term agreements not providing for minimum purchases or are requirements-based contracts.

We may be required to make significant cash outlays related to our unrecognized tax benefits. However, due to the uncertainty of the timing of future cash flows associated with our unrecognized tax benefits, we are unable to make reasonably reliable estimates of the period of cash settlement, if any, with the respective taxing authorities. Accordingly, unrecognized tax benefits of $136 million as of December 31, 2007, have been excluded from the contractual obligations table above. For further information related to unrecognized tax benefits, see Note 10, Income Taxes, to the consolidated financial statements included in this Report.

We also have minimum funding requirements with respect to our pension obligations. We expect to contribute approximately $40 million to our domestic and foreign pension plans in 2008 as compared to $70 million in 2007. We may make contributions in excess of minimum requirements in response to investment performance, changes in interest rates or when we believe it is financially advantageous to do so and based on our other capital requirements. Our minimum funding requirements after 2008 will depend on several factors, including the investment performance of our retirement plans and prevailing interest rates. Our funding obligations may also be affected by changes in applicable legal requirements. We also have payments due with respect to our postretirement benefit obligations. We do not fund our postretirement benefit obligations. Rather, payments are made as costs are incurred by covered retirees. We expect other postretirement benefit payments to be approximately $11 million in 2008 as compared to $10 million in 2007.

Effective December 31, 2006, we elected to freeze our tax-qualified U.S. salaried defined benefit pension plan and the related non-qualified benefit plans. In conjunction with this, we established a new defined contribution retirement plan for our salaried employees effective January 1, 2007. Our contributions to this plan will be determined as a percentage of each covered employee s eligible compensation and are expected to be approximately $20 million in 2008 as compared to $14 million 2007. In addition, in December 2007, the related non-qualified defined benefit plans were amended to, among other things, provide for the distribution of vested benefits to participants in equal installments over a five-year period beginning at age 60. Payments of such amounts for active participants will be used to fund a third-party annuity or other investment vehicle. We expect to distribute approximately $12 million in 2008 to participants as a result of these non-qualified defined benefit plan amendments. For further information related to our pension and other postretirement benefit plans, see Other Matters Pension and Other Postretirement Benefit Plans and Note 11, Pension and Other Postretirement Benefit Plans, to the consolidated financial statements included in this Report.

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 as of December 31, 2007. As of December 31, 2007, 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 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. In October 2007, the ABS facility was amended to extend the termination date from October 2007 to April 2008. No assurances can be given that the ABS facility will be extended upon its maturity. For further information related to the ABS facility, see Note 15, Financial Instruments, to the consolidated financial statements included in this Report.

Guarantees and Commitments We guarantee 40% of certain of the debt of Beijing Lear Dymos Automotive Seating and Interior Co., Ltd., 49% of certain of the debt of Tacle Seating USA, LLC and 60% of certain of the debt of Honduras Electrical Distribution Systems S. de R.L. de C.V. The percentages of debt guaranteed of these entities are based on our ownership percentages. As of December 31, 2007, the aggregate amount of debt guaranteed was approximately $14 million.

Accounts Receivable Factoring

Certain of our European and Asian subsidiaries periodically factor their accounts receivable with financial institutions. Such receivables are factored without recourse to us and are excluded from accounts receivable in our consolidated balance sheets. As of December 31, 2007 and 2006, the amount of factored receivables was $104 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 senior 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

Dividends

See Item 5, Market for the Company s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Common Stock Repurchase Program

In February 2008, our Board of Directors authorized a common stock repurchase program which permits the repurchase of up to 3,000,000 shares of our common stock through February 14, 2010. We expect to fund the share repurchases through a combination of cash on hand, future cash flow from operations and borrowings under available credit facilities. Share repurchases under this program may be made through open market purchases, privately negotiated transactions, block trades or other available methods. The timing and actual number of shares repurchased will depend on a variety of factors including price, alternative uses of capital, corporate and regulatory requirements and market conditions. The share repurchase program may be suspended or discontinued at any time.

In November 2007, our Board of Directors approved a common stock repurchase program which permitted the discretionary repurchase of up to 1,500,000 shares of our common stock through November 20, 2009. Under this program, we repurchased 154,258 shares of our outstanding common stock at an average purchase price of $28.18 per share, excluding commissions of $0.03 per share, in 2007. This program was terminated in February 2008 in connection with the adoption of the program described in the preceding paragraph.

Adequacy of Liquidity Sources

We believe that cash flows from operations and 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 Item 1A, Risk Factors, Executive Overview and Forward-Looking Statements.

Market Risk Sensitivity

In the normal course of business, we are exposed to market risk associated with fluctuations in foreign exchange rates and interest rates. We manage these risks through the use of derivative financial instruments in

48

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 various European currencies. We have performed a quantitative analysis of our overall currency rate exposure as of December 31, 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 2008 is approximately $4 million. The potential adverse earnings impact related to net transactional exposures from a similar strengthening of the Euro relative to all other currencies for 2008 is approximately $13 million.

As of December 31, 2007, foreign exchange contracts representing $661 million of notional amount were outstanding with maturities of less than twelve months. As of December 31, 2007, the fair market value of these contracts was approximately $11 million. A 10% change in the value of the U.S. dollar relative to all other currencies would result in a $28 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 $19 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 2007, net sales outside of the United States accounted for 72% of our consolidated net sales. We do not enter into foreign exchange contracts to mitigate this exposure.

Interest Rates

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. These contracts convert certain variable rate debt obligations to fixed rate, matching effective and maturity dates to 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 and other derivative contracts are executed with banks that we believe are creditworthy and are denominated in currencies that match the underlying debt instrument. Net interest payments or receipts from interest rate swap contracts are 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 December 31, 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 2008 is approximately $2 million.

As of December 31, 2007, interest rate swap and other 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 modify the variable rate characteristics of our variable rate debt instruments. The fair market value of all outstanding interest rate swap contracts is subject to changes in value due to changes in interest rates. As of December 31, 2007, the fair market value of these contracts was approximately negative $18 million. A 100 basis point parallel shift in interest rates would result in a $11 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 had a material adverse impact on our operating results in 2005 and 2006. These costs generally remained high in 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, 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. While raw material, energy and commodity costs moderated somewhat in 2007, they remain high and will continue to have an adverse impact on our operating results in the foreseeable future. See Item 1A, Risk Factors High raw material costs may continue to have a significant adverse impact on our profitability, and Forward-Looking Statements.

We use derivative instruments to reduce our exposure to fluctuations in certain commodity prices including copper and natural gas. Commodities contracts are executed with banks that we believe are creditworthy. A portion of our derivative instruments are currently designated as cash flow hedges. As of December 31, 2007, the total notional amount of commodity swap contracts outstanding with maturities of less than twelve months was $49 million. As of December 31, 2007, the fair market value of these contracts was approximately negative $4 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 $4 million.

For further information related to the financial instruments described above, see Note 9, Long-Term Debt, and Note 15, Financial Instruments, to the consolidated financial statements included in this Report.

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. The defendants have moved for summary judgment. The motion is fully briefed and the parties are awaiting a decision. No trial date has been set.

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 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 arguments were held on December 3, 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 each sought indemnification for losses associated with the Mississippi claims from us under the respective acquisition agreements, and we 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 filed motions for summary judgment. On June 14, 2007, UTC s motion for summary disposition was granted holding that we were 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 court denied both Lear s and Johnson Electric s motions for summary disposition leaving the claims between Lear and Johnson Electric to proceed to trial. UTC moved to sever its judgment from the Lear/Johnson Electric dispute for the purpose of allowing it to enforce its judgment immediately. During the fourth quarter of 2007, UTC, Johnson Electric and Lear entered into a settlement agreement resolving all claims among the parties related to the Columbus, Mississippi lawsuits under which Lear paid UTC $2.65 million and Johnson Electric paid Lear $2.83 million and the case was dismissed with prejudice.

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 8, 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.

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 Agreement and Plan of Merger (the Merger Agreement) with AREP Car Holdings Corp. and AREP Car Acquisition Corp. (collectively the AREP Entities) 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. On January 30, 2008, the Delaware court granted the plaintiffs motion for leave to file a fourth amended complaint leaving only derivative claims against the Lear directors and AREP based on the payment by Lear to AREP of a termination fee pursuant to the Merger Agreement. The plaintiffs were also granted leave to file an interim petition for an award of fees and expenses related to the supplemental proxy disclosure. We believe that this lawsuit is without merit and intend to defend against it vigorously.

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 Merger Agreement. 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. The plaintiff filed a reply on April 11, 2007. On April 18, 2007, the Judge denied the 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. The 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, the plaintiff also filed a motion for a preliminary injunction to enjoin the merger, which motion was denied on June 25, 2007. On July 6, 2007, the plaintiff filed an amended complaint. On August 3, 2007, the court dismissed the AREP

Table of Contents

Entities from the case without prejudice. On August 31, 2007, the court dismissed the Lear Defendants without prejudice.

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.

Significant Accounting Policies and Critical Accounting Estimates

Our significant accounting policies are more fully described in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements included in this Report. Certain of our accounting policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on our historical experience, the terms of existing contracts, our evaluation of trends in the industry, information provided by our customers and suppliers and information available from other outside sources, as appropriate. However, they are subject to an inherent degree of uncertainty. As a result, actual results in these areas may differ significantly from our estimates.

We consider an accounting estimate to be critical if it requires us to make assumptions about matters that were uncertain at the time the estimate was made and changes in the estimate would have had a significant impact on our consolidated financial position or results of operations.

Pre-Production Costs Related to Long-Term Supply Arrangements

We incur pre-production engineering, research and development (ER&D) and tooling costs related to the products produced for our customers under long-term supply agreements. We expense all pre-production ER&D costs for which reimbursement is not contractually guaranteed by the customer. In addition, we expense 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 2007 and 2006, we capitalized $106 million and $122 million, respectively, of pre-production ER&D costs for which reimbursement is contractually guaranteed by the customer. During 2007 and 2006, we also capitalized $152 million and $449 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. During 2007 and 2006, we collected $298 million and $765 million, respectively, of cash related to ER&D and tooling costs.

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

A change in the commercial arrangements affecting any of our significant programs that would require us to expense ER&D or tooling costs that we currently capitalize could have a material adverse impact on our operating results.

Impairment of Goodwill

As of December 31, 2007 and 2006, we had recorded goodwill of approximately $2.1 billion and $2.0 billion, respectively. Goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment, or decline in value, may have occurred. In conducting our impairment testing, we compare the fair value of each of our reporting units to the related net book value. If the fair value of a reporting unit exceeds its net book value, goodwill is considered not to be impaired. If the net book value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. We conduct our annual impairment testing on the first day of the fourth quarter each year.

We utilize an income approach to estimate the fair value of each of our reporting units. The income approach is based on projected debt-free cash flow which is discounted to the present value using discount factors that consider the timing and risk of cash flows. We believe that this approach is appropriate because it provides a fair value estimate based upon the reporting unit s expected long-term operating cash flow performance. This approach also mitigates the impact of cyclical trends that occur in the industry. Fair value is estimated using recent automotive industry and specific platform production volume projections, which are based on both third-party and internally-developed forecasts, as well as commercial, wage and benefit, inflation and discount rate assumptions. Other significant assumptions include terminal value growth rates, terminal value margin rates, future capital expenditures and changes in future working capital requirements. While there are inherent uncertainties related to the assumptions used and to management s application of these assumptions to this analysis, we believe that the income approach provides a reasonable estimate of the fair value of our reporting units.

Our 2007 annual goodwill impairment analysis, completed as of the first day of the fourth quarter, resulted in no impairment.

We monitor our goodwill for impairment indicators on an ongoing basis. While we have recently experienced a decline in the operating results of our electrical and electronic segment, we do not currently believe that there is any goodwill impairment. We have initiated restructuring and other actions to improve the performance of this segment; however, a further decline in the operating results of our electrical and electronic business could result in goodwill impairment charges.

Impairment of Long-Lived Assets

We monitor our 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, we perform the required analysis and record impairment charges in accordance with SFAS No. 144. In conducting our analysis, we compare the undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. If the undiscounted cash flows exceed the net book value, the long-lived assets are considered not to be impaired. If the net book value exceeds the undiscounted cash flows, an impairment loss is measured and recognized. An impairment loss is measured as the difference between the net book value and the fair value of the long-lived assets. Fair value is estimated based upon either discounted cash flow analyses or estimated salvage values. Cash flows are estimated using internal budgets based on recent sales data, independent automotive production volume estimates and customer commitments, as well as assumptions related to discount rates. Changes in economic or operating conditions impacting these estimates and assumptions could result in the impairment of long-lived assets.

We recorded fixed asset impairment charges related to certain operating locations within our interior segment of $10 million and $82 million in the years ended December 31, 2006 and 2005, respectively. The remaining fixed assets of our North American interior business were written down to zero in the fourth quarter of 2006 as a result of entering into the agreement relating to the divestiture of our North American interior business. See Overview Interior Segment.

In the years ended December 31, 2007, 2006 and 2005, we also recognized fixed asset impairment charges of $17 million, $6 million and $15 million, respectively, in conjunction with our restructuring actions. We have certain other facilities that have generated operating losses in recent years. The results of the related impairment analyses indicated that impairment of the fixed assets was not material.

These fixed asset impairment charges are recorded in cost of sales in the consolidated statements of operations for the years ended December 31, 2007, 2006 and 2005.

Table of Contents

Restructuring

Accruals have been recorded in conjunction with our restructuring actions, as well as the integration of acquired businesses. These accruals include estimates primarily related to facility consolidations and closures, census reductions and contract termination costs. Actual costs may vary from these estimates. Restructuring-related accruals are reviewed on a quarterly basis, and changes to the restructuring actions are appropriately recognized when identified.

Legal and Other Contingencies

We are subject to legal proceedings and claims, including product liability claims, commercial or contractual disputes, environmental enforcement actions and other claims that arise in the normal course of business. We routinely assess the likelihood of any adverse judgments or outcomes to these matters, as well as ranges of probable losses, by consulting with internal personnel principally involved with such matters and with our outside legal counsel handling such matters. We have accrued for estimated losses in accordance with accounting principles generally accepted in the United States for those matters where we believe that the likelihood that a loss has occurred is probable and the amount of loss is reasonably estimable. The determination of the amount of such reserves is based on knowledge and experience with regard to past and current matters and consultation with internal personnel principally involved with such matters and with our outside legal counsel handling such matters. The reserves may change in the future due to new developments or changes in circumstances. The inherent uncertainty related to the outcome of these matters can result in amounts materially different from any provisions made with respect to their resolution.

Pension and Other Postretirement Defined Benefit Plans We provide certain pension and other postretirement benefits to our employees and retired employees, including pensions, postretirement heath care benefits and other postretirement benefits.

Plan assets and obligations are measured using various actuarial assumptions such as discount rates, rate of compensation increase, mortality rates, turnover rates and health care cost trend rates, which are determined as of the current year measurement date. The measurement of net periodic benefit cost is based on various actuarial assumptions including discount rates, expected return on plan assets and rate of compensation increase, which are determined as of the prior year measurement date. We review our actuarial assumptions on an annual basis and modify these assumptions when appropriate. As required by accounting principles generally accepted in the United States, the effects of the modifications are recorded currently or amortized over future periods.

Approximately 17% of our active workforce is covered by defined benefit pension plans. Approximately 4% of our active workforce is covered by other postretirement benefit plans. Pension plans provide benefits based on plan-specific benefit formulas as defined by the applicable plan documents. Postretirement benefit plans generally provide for the continuation of medical benefits for all eligible employees. We also have contractual arrangements with certain employees which provide for supplemental retirement benefits. In general, our policy is to fund our pension benefit obligation based on legal requirements, tax considerations and local practices. We do not fund our postretirement benefit obligation.

As of December 31, 2007 (primarily based on a September 30, 2007 measurement date), our projected benefit obligations related to our pension and other postretirement benefit plans were $887 million and $274 million, respectively, and our unfunded pension and other postretirement benefit obligations were $159 million and $274 million, respectively. These benefit obligations were valued using a weighted average discount rate of 6.25% and 6.10% for domestic pension and other postretirement benefit plans, respectively, and 5.40% and 5.60% for foreign pension and other postretirement benefit plans, respectively. The determination of the discount rate is based on the construction of a hypothetical bond portfolio consisting of high-quality fixed income securities with durations that match the timing of expected benefit payments. Changes in the selected discount rate could have a material impact on our projected benefit obligations and the unfunded status of our pension and other postretirement benefit plans. Decreasing the discount rate by 1% would have increased the projected benefit obligations and unfunded status of our pension and other postretirement benefit plans by approximately $150 million and $6 million, respectively.

Table of Contents

For the year ended December 31, 2007, pension and other postretirement net periodic benefit cost was $37 million and $15 million, respectively, and was determined using a variety of actuarial assumptions. Pension net periodic benefit cost in 2007 was calculated using a weighted average discount rate of 6.00% for domestic and 5.00% for foreign plans and an expected return on plan assets of 8.25% for domestic and 6.90% for foreign plans. The expected return on plan assets is determined based on several factors, including adjusted historical returns, historical risk premiums for various asset classes and target asset allocations within the portfolio. Adjustments made to the historical returns are based on recent return experience in the equity and fixed income markets and the belief that deviations from historical returns are likely over the relevant investment horizon. Other postretirement net periodic benefit cost was calculated in 2007 using a discount rate of 5.90% and 5.30% for domestic and foreign plans, respectively. Adjustments to our actuarial assumptions could have a material adverse impact on our operating results. Decreasing the discount rate by 1% would have increased pension and other postretirement net periodic benefit cost by approximately $7 million and approximately $6 million, respectively, for the year ended December 31, 2007. Decreasing the expected return on plan assets by 1% would have increased pension net periodic benefit cost by approximately $6 million for the year ended December 31, 2007.

Aggregate pension and other postretirement net periodic benefit cost is forecasted to be approximately $42 million in 2008. This estimate is based on a weighted average discount rate of 6.25% and 5.40% for domestic and foreign pension plans, respectively, and 6.10% and 5.60% for domestic and foreign other postretirement benefit plans, respectively. Actual cost is also dependent on various other factors related to the employees covered by these plans.

We expect to contribute approximately $40 million to our domestic and foreign pension plans in 2008. Contributions to our pension plans are consistent with minimum funding requirements of the relevant governmental authorities. We may make contributions in excess of minimum requirements in response to investment performance, changes in interest rates or when we believe it is financially advantageous to do so and based on our other capital requirements. In addition, our future funding obligations may be affected by changes in applicable legal requirements.

Effective December 31, 2006, we elected to freeze our tax-qualified U.S. salaried defined benefit pension plan and the related non-qualified defined benefit plans. In conjunction with this, we established a new defined contribution retirement program for our salaried employees effective January 1, 2007. Our contributions to the defined contribution retirement program will be determined as a percentage of each covered employee s eligible compensation and are expected to be approximately $20 million in 2008. In addition, in December 2007, the related non-qualified benefit plans were amended to, among other things, provide for the distribution of vested benefits in equal installments over a five-year period beginning at age 60. Payments of such amounts for active participants will be used to fund a third-party annuity or other investment vehicle. We expect to distribute approximately $12 million in 2008 to participants as a result of these non-qualified defined benefit plan amendments.

For further information related to our pension and other postretirement benefit plans, see Note 11, Pension and Other Postretirement Benefit Plans, to the consolidated financial statements included in this Report.

Revenue Recognition and Sales Commitments

We enter into agreements with our customers to produce products at the beginning of a vehicle s life. Although such agreements do not provide for minimum quantities, once we enter into such agreements, we are generally required to fulfill our customers purchasing requirements for the entire production life of the vehicle. These agreements generally may be terminated by our customer at any time. Historically, terminations of these agreements have been minimal. In certain instances, we may be committed under existing agreements to supply products to our customers at selling prices which are not sufficient to cover the direct cost to produce such products. In such situations, we recognize losses as they are incurred.

We receive blanket purchase orders from our customers on an annual basis. Generally, each purchase order provides the annual terms, including pricing, related to a particular vehicle model. Purchase orders do not specify quantities. We recognize revenue based on the pricing terms included in our annual purchase orders as our products are shipped to our customers. We are asked to provide our customers with annual cost reductions as part of certain agreements. We accrue for such amounts as a reduction of revenue as our products are shipped to our customers. In addition, we have ongoing adjustments to our pricing arrangements with our customers based on the related content, the cost of our products and other commercial factors. Such pricing accruals are adjusted as they are settled with our customers.

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

Income Taxes

We account for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and other loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

In determining the provision for income taxes for financial statement purposes, we make certain estimates and judgments, which affect our evaluation of the carrying value of our deferred tax assets, as well as our calculation of certain tax liabilities. In accordance with SFAS No. 109, we evaluate the carrying value of our deferred tax assets on a quarterly basis. In completing this evaluation, we consider all available evidence. Such evidence includes historical results, expectations for future pretax operating income, the time period over which our temporary differences will reverse and the implementation of feasible and prudent tax planning strategies.

In the fourth quarter of 2005, we concluded that it was no longer more likely than not that we would realize our U.S. deferred tax assets. As a result, we provided a full valuation allowance in the amount of $255 million with respect to our net U.S. deferred tax assets. During 2006 and 2007, we continued to maintain a valuation allowance related to our net U.S. deferred tax assets. In addition, we maintain valuation allowances related to our net deferred tax assets in certain foreign jurisdictions. As of December 31, 2007, we had a valuation allowance of $749 million related to tax loss and tax credit carryforwards and other deferred tax assets in the United States and in certain foreign jurisdictions. Our current and future provision for income taxes is significantly impacted by the initial recognition of and changes in valuation allowances in certain countries, particularly in 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 provision for income taxes will include no tax benefit with respect to losses incurred and no tax expense with respect to income generated in these countries until the respective valuation allowance is eliminated.

In addition, the calculation of our tax benefits and liabilities includes uncertainties in the application of complex tax regulations in a multitude of jurisdictions across our global operations. We recognize tax benefits and liabilities based on our estimate of whether, and the extent to which, additional taxes will be due. We adjust these liabilities based on changing facts and circumstances; however, due to the complexity of some of these uncertainties and the impact of any tax audits, the ultimate resolutions may be materially different from our estimated liabilities.

On January 1, 2007, we 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, we must review all of our 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.

We recognized the cumulative impact of the adoption of FIN 48 as a $4.5 million decrease to our liability for unrecognized tax benefits with a corresponding decrease to our retained deficit balance as of January 1, 2007.

For further information related to income taxes, see Note 10,   Income Taxes,   to the consolidated financial statements included in this Report.

Table of Contents

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. During 2007, there were no material changes in the methods or policies used to establish estimates and assumptions. Generally, matters subject to estimation and judgment include amounts related to accounts receivable realization, inventory obsolescence, asset impairments, useful lives of intangible and fixed assets, unsettled pricing discussions with customers and suppliers, restructuring accruals, deferred tax asset valuation allowances and income taxes, pension and other postretirement benefit plan assumptions, accruals related to litigation, warranty and environmental remediation costs and self-insurance accruals. Actual results may differ from estimates provided.

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 were 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 were 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 the fiscal year beginning January 1, 2008. Other than the newly required disclosures, we do not expect the effects of adoption to be significant.

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 provides entities with the option 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 the first fiscal year beginning after November 15, 2007. Currently, we do not intend to apply the provisions of SFAS No. 159 to any of our existing financial assets or liabilities.

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). This statement requires recognition of the funded status of a company s defined benefit pension and postretirement benefit plans as an asset or liability on the balance sheet. Previously, under the provisions of SFAS No. 87, Employers Accounting for Pensions, and SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, the asset or liability recorded on the balance sheet reflected the funded status of the plan, net of certain unrecognized items that qualified for delayed income statement recognition. Under SFAS No. 158, these previously unrecognized items are to be recorded in accumulated other comprehensive loss when the recognition provisions are adopted. We adopted the recognition provisions as of December 31, 2006, and the funded status of our defined benefit plans is reflected in our consolidated balance sheets as of December 31, 2007 and 2006.

Table of Contents

This statement also requires the measurement of defined benefit plan asset and liabilities as of the annual balance sheet date. Currently, we measure our 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 will adopt the measurement date provisions of SFAS No. 158 in 2008 using the fifteen month measurement approach, under which we will record an adjustment to beginning retained deficit as of January 1, 2008 to recognize the net periodic benefit cost for the period from October 1, 2007 through December 31, 2007. This adjustment will represent a pro rata portion of the net periodic benefit cost determined for period beginning October 1, 2007 and ending December 31, 2008. We expect to record a pretax transition adjustment of $9 million as an increase to beginning retained deficit, $2 million as an increase to other comprehensive income (loss) and $7 million as an increase to other long-term liabilities.

The Emerging Issues Task Force (EITF) issued EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. EITF 06-4 requires the recognition of a liability, in accordance with SFAS No. 106, for endorsement split-dollar life insurance arrangements that provide postretirement benefits. This EITF is effective for fiscal periods beginning after December 15, 2007. In accordance with the EITF s transition provisions, we expect to record approximately $4 million as a cumulative effect of a change in accounting principle as of January 1, 2008. The cumulative effect adjustment will be recorded as a reduction to beginning stockholders equity and an increase to other long-term liabilities. In addition, we expect to record additional postretirement benefit expenses of less than $1 million in 2008 associated with the adoption of this EITF.

Business Combinations and Noncontrolling Interests

The FASB issued SFAS No. 141 (revised 2007), Business Combinations. This statement significantly changes the financial accounting and reporting of business combination transactions. The provisions of this statement are to be applied prospectively to business combination transactions in the first annual reporting period beginning on or after December 15, 2008.

The FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS No. 160 establishes accounting and reporting standards for noncontrolling interests in subsidiaries. This statement requires the reporting of all noncontrolling interests as a separate component of stockholders equity, the reporting of consolidated net income (loss) as the amount attributable to both the parent and the noncontrolling interests and the separate disclosure of net income (loss) attributable to the parent and to the noncontrolling interests. In addition, this statement provides accounting and reporting guidance related to changes in noncontrolling ownership interests. Other than the reporting requirements described above which require retrospective application, the provisions of SFAS No. 160 are to be applied prospectively in the first annual reporting period beginning on or after December 15, 2008. As of December 31, 2007 and 2006, noncontrolling interests of $27 million and $38 million, respectively, were recorded in other long-term liabilities on our consolidated balance sheets. Our consolidated statements of operations for the years ended December 31, 2007, 2006 and 2005 reflect expense of $26 million, $18 million and $7 million, respectively, related to net income attributable to noncontrolling interests.

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, ex 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

Table of Contents

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;
- changes in our current vehicle production estimates;
- 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;
- the cost and availability of raw materials and energy;
- our ability to mitigate any 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;
- our ability to access capital markets on commercially reasonable terms; and
- other risks, described in Item 1A, Risk Factors, 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.