

LEAR CORP
Form 10-K
February 10, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010.**
- 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

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*
21557 Telegraph Road, Southfield, MI
(Address of principal executive offices)

13-3386776
*(I.R.S. Employer
Identification No.)*
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:

Warrants to purchase Common Stock, par value \$0.01 per share

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

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

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files). Yes No

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 12b-2 of the Exchange Act. (Check one):

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

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

As of July 3, 2010, the aggregate market value of the registrant's common stock, par value \$0.01 per share, held by non-affiliates of the registrant was \$3,072,697,530. The closing price of the common stock on July 3, 2010, as reported on the New York Stock Exchange, was \$63.98 per share.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

As of February 4, 2011, the number of shares outstanding of the registrant's common stock was 52,605,002 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 in May 2011, as described in the Cross-Reference Sheet and Table of Contents included herewith, are incorporated by reference into Part III of this Report.

LEAR CORPORATION AND SUBSIDIARIES

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Certain information is incorporated by reference, as indicated below, to the registrant's Notice of Annual Meeting of Stockholders and Definitive Proxy Statement on Schedule 14A for its Annual Meeting of Stockholders to be held in May 2011 (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 Corporate Governance.
 - (3) Incorporated by reference to the Proxy Statement sections entitled Directors and Corporate Governance Director Compensation, Compensation Discussion and Analysis, Executive Compensation, Compensation Committee Interlocks and Insider Participation and Compensation Committee Report.
 - (4) A portion of the information required is incorporated by reference to the Proxy Statement section entitled Security Ownership of Certain Beneficial Owners, Directors and Management.
 - (5) Incorporated by reference to the Proxy Statement sections entitled Certain Relationships and Related-Party Transactions and Directors and Corporate Governance Independence of Directors.
 - (6) Incorporated by reference to the Proxy Statement section entitled Fees of Independent Accountants.
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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 context 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 Part II Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements.

BUSINESS OF THE COMPANY

General

Lear Corporation is a leading tier 1 supplier to the global automotive industry. Our business spans all major automotive markets, and we supply our products to virtually every major automotive manufacturer in the world. With a manufacturing, engineering and administrative footprint spanning 34 countries and 200 locations, we are continuing to expand into emerging markets as opportunities develop.

We conduct our business in two operating segments: Seating and Electrical Power Management Systems (EPMS). The seating segment includes seat systems and related components, such as seat frames, recliner mechanisms, seat tracks, seat trim covers, headrests and seat foam. The EPMS segment includes electrical distribution systems for traditional powertrain vehicles, as well as a new generation of hybrid and electric vehicles. Key components that allow us to route electrical signals and manage electrical power within a vehicle include: wiring harnesses, terminals and connectors, junction boxes, electronic control modules and wireless remote control devices, such as key fobs.

In recent years, we have implemented a number of strategic actions to better position our business to deliver superior long-term shareholder value while maintaining a strong and flexible balance sheet. We are focused on growing and improving the competitiveness of our two core businesses: Seating and EPMS. As a result, we have divested our interiors business and reduced capital spending in products determined to be non-core. These strategic actions allowed our global business units to better leverage their scale and low-cost capabilities to improve overall operating efficiency and align our product offerings with the increasing customer trend toward global platforms.

We believe that the initiatives implemented over the last few years will continue to add value for our stakeholders. Specific elements of the strategy to date have been:

Focus on Core Capabilities, Selective Vertical Integration and Investments in Technology

Leverage Global Presence/Scale and Expand Low-Cost Footprint

Enhance and Diversify Strong Customer Relationships, Primarily through Operating Performance

We believe that it is important to have capabilities that are aligned with our major customers' global product strategy and to leverage our expanding design, engineering and manufacturing footprint in low-cost regions. We are one of the few suppliers in each of our product segments that are able to serve customers with design, development, engineering, integration and production capabilities in all automotive-producing regions of the world and in every major market,

including North America, South America, Europe and Asia. We currently support our global operations with more than 100 manufacturing and engineering facilities located in 20 low-cost countries including China, India, Mexico, Morocco, the Philippines, Russia, Thailand and Vietnam. Our expansion plans are focused on emerging markets. Asia, in particular, continues to present significant growth opportunities, as major global automotive manufacturers implement production expansion plans and local automotive manufacturers aggressively expand their operations to meet expected growth in long-term demand in this region. Our expansion in Asia has been accomplished through wholly owned subsidiaries, as well as a series of joint ventures with our customers and/or local suppliers. As of December 31, 2010, we had 19 joint ventures located throughout Asia, as well as five in

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North America, three in Europe and Africa and one with operations in all three regions. In addition to helping us grow our business in new markets, these joint ventures have helped us to expand our product offerings and broaden our customer base.

Key trends affecting our business include:

Sustained recovery in mature markets, particularly North America, which is expected to continue based on recent industry sales rates below historical market replacement rates;

Continued growth in emerging markets;

Globalization of the automotive industry, including automotive manufacturers' increasing utilization of global vehicle platforms;

Growth in the compact car segment, with 75% of projected growth in industry production over the next five years coming from these vehicles, reflecting increasing fuel economy and affordability concerns;

Increasing demand for more features and functionality in vehicles, driving an increase in traditional electrical distribution systems; and

Emergence of alternative powertrains, including electric, hybrid-electric and other technologies, driving growth in high-power electrical systems and components.

We believe that our strong market presence will allow us to capitalize on mature market recoveries, while our global engineering and manufacturing capabilities will provide customers with options to support global vehicle platforms.

As a part of our focus on investing in technology, we have developed independent brand and marketing strategies for our product segments and focused our efforts in three principal areas: (i) where we have a competitive advantage, such as our flexible seat architectures, our industry-leading ProTec® products, including our self-aligning head restraints, and our leading electrical technology, including our solid state junction boxes, (ii) where we perceive that there is a significant market opportunity, such as electrical products for the hybrid and electric vehicle market, and (iii) where we can enhance the next generation of more fuel efficient and environmentally friendly vehicles, such as our lightweight, low-mass alternative materials and products, including SoyFoam™ and Dynamic Environmental Comfort System™.

History

Lear was founded in Detroit in 1917 as American Metal Products, a manufacturer of seating assemblies and other components for the automotive and aircraft industries. Through a management-led buyout in 1988, Lear Corporation established itself as a privately-held seat assembly operation for the North American automobile market with annual sales of approximately \$900 million. We completed an initial public offering in 1994 and developed into a global supplier through organic growth and a series of acquisitions.

In 2005, we initiated a multi-year operational restructuring strategy to (i) eliminate excess capacity and lower our operating costs, (ii) streamline our organizational structure and reposition our business for improved long-term profitability and (iii) better align our manufacturing footprint with the changing needs of our customers. In light of industry conditions and customer announcements, we expanded this strategy, and through the end of 2010, we incurred pretax costs of \$809 million, including related manufacturing inefficiency charges of \$73 million, in connection with these activities. This resulted in the closure of 44 manufacturing and 11 administrative facilities and a

current footprint with more than 80% of our component facilities and more than 90% of our related employment in 20 low-cost countries. Our just-in-time (JIT) facilities are necessarily located near our customers assembly plants. We expect elevated restructuring actions and related investments to continue in 2011 and to curtail thereafter. For further information, see Note 5, Restructuring, to the consolidated financial statements included in this Report.

Global industry production levels increased from 53.4 million units in 1999 to 68.7 million units in 2007. Since that time, the global automotive industry has undergone major restructuring and consolidation in response to overcapacity, uncompetitive labor agreements, narrow profit margins, excess debt and the necessary realignment of resources from mature markets to emerging markets. In 2008 and continuing into 2009, the global economic

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downturn and associated decline in automotive production (particularly in North America and Europe) represented a turning point for the industry. This included bankruptcy filings for Chrysler on April 30, 2009 and General Motors on June 1, 2009. While Lear's total restructuring efforts from 2005 through 2009 resulted in a cumulative improvement of approximately \$400 million in our annual on-going operating costs, it did not offset the financial impact of unprecedented volume reductions in our mature markets in 2009.

During this recent downturn, industry production in North America and Europe experienced the steepest peak-to-trough declines in history. In North America, industry production declined 50% from a peak of 17.2 million units in 2000 to a trough of 8.6 million units in 2009. In Europe, industry production declined over 20% from a peak of 20.2 million units in 2007 to a trough of 15.6 million units in 2009.

In 2009, following a comprehensive evaluation of our strategic and financial options, we concluded that voluntarily filing for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code (Chapter 11) was necessary in order to re-align our capital structure and position our business for long-term success. On July 7, 2009, Lear and certain of its U.S. and Canadian subsidiaries filed petitions for relief under Chapter 11 with the bankruptcy court. On November 9, 2009, our plan of reorganization became effective, and we emerged from Chapter 11 bankruptcy proceedings. For further information on the bankruptcy proceedings, see Note 2, Reorganization under Chapter 11, to the consolidated financial statements included in this Report. As a result of our financial restructuring, we finished 2009 with approximately \$1.6 billion of cash and \$972 million of total debt on our balance sheet, providing us with financial flexibility to invest in our business and execute our strategic objectives going forward.

In March 2010, we issued \$350 million in aggregate principal amount at maturity of senior unsecured notes due 2018 with a coupon rate of 7.875% and a yield to maturity of 8.00% and \$350 million in aggregate principal amount at maturity of senior unsecured notes due 2020 with a coupon rate of 8.125% and a yield to maturity of 8.25%. The net proceeds from the issuance of the notes, together with existing cash on hand, were used to repay in full an aggregate amount of \$925 million of term loans provided under our first and second lien credit agreements.

Since our emergence from Chapter 11 bankruptcy proceedings, Lear's corporate credit rating has continued to improve as judged by credit industry professionals.

2010 Developments

Our sales are driven by the number of vehicles produced by the automotive manufacturers, which is ultimately dependent on consumer and fleet demand for automotive vehicles, and our level of content on specific vehicle platforms. In 2010, our average content per vehicle produced in North America and Europe was \$340 and \$285, respectively. In Asia, where we are pursuing a strategy of aggressive expansion of our sales and operations, we had net sales of \$1.9 billion in 2010, as compared to \$1.3 billion in 2009. Our sales are well diversified geographically. In 2010, approximately 42% of our sales were generated in Europe, 34% in North America, 16% in Asia and 8% in the rest of the world. General Motors, Ford and BMW are our three largest customers globally. In addition, Daimler, Fiat (excluding Chrysler), Hyundai, PSA, Renault-Nissan and VW each represented 3% or more of our 2010 net sales. We supply and have expertise in all vehicle segments of the automotive market. Our sales content tends to be higher on those vehicle platforms and segments which offer more features and functionality. The popularity of particular vehicle platforms and segments varies over time and by regional market. We expect to continue to win new business on vehicle platforms and segments in line with market trends. We believe that there are opportunities in the trends toward hybrid and electric vehicles and increasing consumer demand for additional features and functionality in vehicles.

Our customers typically award contracts several years before actual production is scheduled to start. Each year, the automotive manufacturers introduce new vehicles, update existing models and discontinue certain models and, recently, even complete brands. In this process, we may be selected as the supplier on a new model, we may continue

as the supplier on an updated model or we may lose a new or updated model to a competitor. Our sales backlog reflects anticipated net sales from formally awarded new and open replacement programs, less lost and discontinued programs. We measure our sales backlog based on contracts to be executed in the next three years. This measure excludes sales at our non-consolidated joint ventures and does not reflect customer-imposed price reductions on newly awarded or existing programs. As of January 2010, our sales backlog was \$1.4 billion, of which

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\$300 million related to programs starting in 2010. As of January 2011, our sales backlog is \$2.2 billion, of which \$900 million relates to programs starting in 2011. Our current sales backlog assumes volumes based on the independent industry projections of IHS Automotive as of October 15, 2010, and a Euro exchange rate \$1.33 / Euro. This sales backlog is generally subject to a number of risks and uncertainties, including vehicle production volumes on new and replacement programs and foreign exchange rates, as well as the timing of production launches and changes in customer development plans. For additional information regarding risks that may affect our sales backlog, see Part II Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements.

Details on auto production in certain key regions for 2010 and 2009 are provided below. The year-over-year North American increase of 39% in 2010 is substantial; however, the 2010 volume of 11.9 million units remains significantly below the 15.0 million units produced as recently as 2007. The year-over-year European increase of 12% in 2010 reflects, in part, the subsidized new car purchase programs adopted by several countries in the European Union in 2009. Brazil, Russia, India and China continued to demonstrate strong volume increases. The largest country represented in the rest of world category is Japan, where we have a relatively small presence. Global vehicle production in 2010 of 71.5 million units exceeded the previous record of 68.7 million units in 2007. Actual results are impacted by the specific mix of products within each market.

	2010	2009	% Change
	(In thousands of units)		
North America	11,908.9	8,558.2	39%
Europe	17,446.1	15,599.7	12
Brazil	3,155.5	2,924.4	8
Russia	1,285.6	657.9	95
India	3,161.7	2,403.5	32
China	14,506.7	11,121.3	30
Rest of world	20,083.8	16,149.0	24
Total	71,548.3	57,414.0	25%

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 Securities and Exchange Commission (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 standing committees of our Board of Directors and other information related to the Company. We are not including the information contained on our website as a part of, or incorporating it by reference into, this Report.

The public may read and copy any materials that 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.

Seating Segment

Lear is a recognized global leader in complete automotive seat systems, as well as in certain individual component parts. The seating segment consists of the design, manufacture, assembly and supply of vehicle seating requirements. We produce seat systems for automobiles and light trucks that are fully assembled and ready for installation. In all cases, seat systems are designed and engineered for specific vehicle models or platforms. We have developed modular seat architectures for both front and rear seats, whereby we utilize pre-developed, modular design concepts to build a program-specific seat, incorporating the latest performance requirements and safety

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technology, in a shorter period of time, thereby assisting our customers in achieving a faster time-to-market and lower cost. Our seat systems can be designed to achieve maximum passenger comfort by adding a wide range of manual and power features, such as lumbar supports, cushion and back bolsters and leg supports.

We have been pursuing a selective vertical integration strategy to enhance growth, improve quality, increase profitability and defend our current market position in JIT seat assembly. We produce components for seat assemblies, such as seat frames, recliner mechanisms, seat tracks, seat trim covers, headrests and seat foam. In this regard, we have expanded our cut and sew operations in low-cost markets, entered the fabric business (acquisition of New Trend™), developed leather finishing and marketing capability (introduction of Aventino™ premium leather), expanded our precision engineered seat mechanism expertise and increased our foam capability (acquisition of Renosol Seating, L.L.C.).

Our product strategy is to develop standardized seat structures and mechanisms that can be adapted to multiple segments to minimize investment costs. We have modular seat designs that allow for sub-assemblies to be produced in any region of the world. We have improved our basic seat structure and mechanism designs, which will provide cost competitive entry level seats to our customers to support export from emerging markets to North America and Europe.

As a result of our innovative product design and technology capabilities, we are a leader in the design of seats with enhanced safety and convenience features. For example, our ProTec® PLuS Self-Aligning Head Restraint is an advancement in seat safety features. By integrating the head restraint with the lumbar support, the occupant's head is supported earlier and for a longer period of time in a rear-impact collision, potentially reducing the risk of injury. We also supply ECO and EVO lightweight seat structures which have been designed to accommodate our customers needs for all market segments, from emerging to mature, and incorporate our ultra lightweight seat adjustment mechanisms. To address the increasing focus on craftsmanship, we have developed concave seat contours that eliminate wrinkles and provide improved styling. We are also satisfying our customers' growing demand for reconfigurable and lightweight 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 pickup trucks use our reconfigurable seat technology, and General Motors' full-size sport utility vehicles, as well as the Ford Explorer, use our thin profile rear seat technology for their third row seats. Additionally, our LeanProfile™ seats incorporate the next generation of low-mass, high-function and environmentally friendly features, and our Dynamic Environmental Comfort System™ can offer weight reductions of 30%–40%, as compared to current foam seat designs, and utilizes environmentally friendly materials, which reduce carbon dioxide emissions. Our seating products also reflect our environmental focus. For example, in addition to our Dynamic Environmental Comfort System™, our SoyFoam™ seats, which are used in the Ford Mustang, are up to 24% renewable, as compared to nonrenewable, petroleum-based foam seats.

Superior quality and customer service continue to be areas of competitive advantage for our seating business. Lear presently ranks as the highest quality major seat manufacturer in the annual J.D. Power and Associates Seat Quality and Satisfaction Studysm and has held that distinction for nine out of the last ten years.

Our seat assembly facilities use lean manufacturing techniques, and products are delivered to the automotive manufacturers on a JIT basis, matching our customers' exact build specifications for a particular day and shift, thereby reducing inventory levels. These facilities are typically located adjacent to or near our customers' manufacturing and assembly sites. Our seat components, including recliner mechanisms, seat tracks and seat trim covers, are manufactured in batches, typically utilizing facilities in low-cost regions. The principal raw materials used in our seat systems, including steel, foam chemicals and leather hides, are generally available and obtained from multiple suppliers under various types of supply agreements. Fabric, foam, seat frames, recliner mechanisms, seat tracks and certain other components are either manufactured internally or purchased from multiple suppliers under various types of supply agreements. The majority of the steel used in our products is comprised of components that are integrated into a seat system, such as seat frames, recliner mechanisms, seat tracks and other mechanical components. Therefore,

our exposure to changes in steel prices is primarily indirect, through these purchased components. We utilize a combination of short-term and long-term supply contracts 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.

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A summary of revenues from external customers and other financial information for our seating segment is shown below. For additional information regarding Lear's total sales and long-lived assets by geographic area, as well as customer concentrations, see Note 14, Segment Reporting, to the consolidated financial statements included in this Report. The top five customers of this segment are: General Motors, Ford, BMW, Fiat and Volkswagen.

	2010		2009⁽¹⁾		2008
	Successor	Combined	Successor	Predecessor	Predecessor
	(In millions)				
Revenues from external customers	\$ 9,395.3	\$ 7,812.9	\$ 1,251.1	\$ 6,561.8	\$ 10,726.9
Segment earnings ⁽²⁾	655.0	237.3	52.4	184.9	386.7
Depreciation and amortization	145.7	156.5	24.9	131.6	176.2
Capital expenditures	114.2	65.5	19.0	46.5	106.3
Total assets	3,491.1	3,182.9	3,182.9	N/A	3,349.5

- (1) As discussed in Note 1, Basis of Presentation, to the consolidated financial statements included in this Report, in connection with the Company's emergence from Chapter 11 bankruptcy proceedings on November 9, 2009, the Company adopted fresh-start accounting on November 7, 2009. As a result, financial data presented for periods prior to November 7, 2009, is identified as Predecessor information, and financial data presented for periods subsequent to November 7, 2009, is identified as Successor information. For purposes of this table, 2009 Successor amounts and 2009 Predecessor amounts have been combined to enhance comparability between periods.
- (2) As discussed in Note 14, Segment Reporting, segment earnings represents pretax income (loss) before goodwill impairment charges, interest expense, other (income) expense, reorganization items and fresh-start accounting adjustments and equity in net (income) loss of affiliates.

Competition

We are one of only two primary independent suppliers with global scale and the capability to design, develop, manufacture and deliver complete seat systems and components to every automotive market in the world. Based on independent market studies and management estimates, we believe that we hold a #2 position globally on the basis of revenue with strong positions in all major markets. We estimate the global seat systems market to be approximately \$50 billion in 2010. We believe that we are also among the leading suppliers of various components produced for complete seat systems.

Our primary independent competitor globally is Johnson Controls, Inc. Other competitors in this segment include Faurecia S.A., Toyota Boshoku Corporation, TS Tech Co., Ltd. and Magna International Inc., which have varying market presence depending on the region, country or automotive manufacturer. Peugeot S.A., Toyota Motor Corporation and Honda Motor Co. Ltd. hold equity ownership positions in Faurecia S.A., Toyota Boshoku Corporation and TS Tech Co., Ltd., respectively. Other automotive manufacturers maintain a presence in the seat systems market through wholly owned companies or in-house operations. In seat components, we compete with the seat systems suppliers identified above, as well as certain regional suppliers that specialize in particular components.

Technology

We maintain state-of-the-art testing, instrumentation and data analysis capabilities. We own industry-leading seat validation test centers featuring crashworthiness, durability and full acoustic and sound quality testing capabilities. Together with computer-controlled data acquisition and analysis capabilities, these centers provide precisely controlled laboratory conditions for sophisticated testing of parts, materials and systems.

In addition, we incorporate many convenience, comfort and safety features into our designs, including advanced whiplash prevention concepts, integrated restraint seat systems (3-point and 4-point integrated belt systems), side impact airbags and integrated child restraint seats. We also invest in our computer-aided engineering

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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, which is used for global customer telecommunications, technology communications, collaboration and the direct exchange of digital assets.

For additional factors that may impact this operating segment's business, financial condition, operating results and/or cash flows, see Item 1A, Risk Factors.

EPMS Segment

The EPMS segment consists of the design, manufacture, assembly and supply of electrical distribution systems and components for traditional powertrain vehicles, as well as a new generation of hybrid and electric vehicles. With the increase in the number of electrical features and electronically controlled functions on the vehicle, there is an increasing focus on improving the functionality of the vehicle's electrical architecture. We are able to provide our customers with design and engineering solutions and manufactured systems, modules and components that optimally integrate the entire electrical distribution system, consisting of wiring, terminals and connectors, junction boxes and electronic modules, within the overall architecture of the vehicle. This integration can reduce the overall system cost and weight and improve the reliability and packaging by reducing the number of wires and terminals and connectors normally required to manage electrical power and signal distribution within a vehicle. For example, our integrated seat adjuster module has twenty-four fewer cut circuits and five fewer connectors, weighs one-half pound less and costs 20% 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, which allows additional function integration.

We have structured our business globally to achieve engineering synergies and take advantage of the industry shift toward global vehicle platforms. We have narrowed our product focus to the electrical distribution system of the vehicle and have substantially exited non-core product lines, such as switches and tire pressure monitoring systems.

Our High Power Global Center of Excellence, which opened in 2008, is dedicated to the development of high-power wiring, terminals and connectors and high-power and hybrid electrical systems and components. Additionally, we are supplying, or will supply, one or more high-power systems or components, including high voltage wire harnesses, custom terminals and connectors, Smart Connectortm technology, battery chargers and voltage quality modules, for new models from Daimler, Renault and General Motors (including the Chevrolet Volt extended range electric vehicle), BMW, Nissan, Land Rover and Coda Automotive.

Electrical distribution systems are comprised primarily of wire harness assemblies, terminals and connectors and control modules, including junction boxes and fuse boxes. Wire harness assemblies consist of a collection of wiring and terminals and connectors that connect all of the various electrical and electronic devices within the vehicle to each other and/or to a power source. Fuse boxes are centrally located boxes within the vehicle that contain fuses and/or relays for circuit and device protection, as well as for power distribution. Junction boxes serve as a connection point for multiple wire harness assemblies. They may also contain fuses and/or relays for circuit and device protection.

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 reduce the number of electronic modules within the 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 may 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 the controls for seat adjustment, power lumbar support, memory function and seat heating and ventilation. The integrated door module combines the controls for window lift, door lock, power mirror and seat

heating and ventilation.

Wireless products send and receive signals using radio frequency technology. Our wireless systems include passive entry systems and dual range/dual function remote keyless entry systems. Passive entry systems allow the

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vehicle operator to unlock the door without using a key or physically activating a remote keyless fob. Dual range/dual function remote keyless entry 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 lighting control module integrates electronic control logic and diagnostics with the headlamp switch. Entertainment products include radio amplifiers, 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.

Electrical distribution systems are networks of wiring and associated control devices that route electrical signals and manage electrical power within a 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. Substantially all of our materials are purchased from suppliers, with the exception of a portion of the terminals and connectors that are produced internally. The majority of our copper purchases are comprised of extruded wire that is integrated into electrical wire. Certain materials, particularly circuit boards, are available from a limited number of suppliers. Supply agreements typically last for up to one year, and our copper wire contracts are generally subject to price index agreements. The assembly process is labor intensive, and as a result, production is generally performed in low-cost labor sites in Mexico, Honduras, Eastern Europe, Africa, China and the Philippines.

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 North America, Europe and the Philippines with a proprietary, capital-intensive assembly process, using printed circuit boards, a portion of which are purchased from third-party suppliers. Proprietary features 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 North America and Europe.

Increasing demand for more features and functionality in vehicles is driving an increase in traditional electrical distribution systems. In addition, the emergence of alternative powertrains, including electric, hybrid-electric and other technologies is driving growth in high-power electrical systems and components. Hybrid and electric vehicles offer a significant content opportunity with the potential to more than double the electrical content per vehicle. The EPMS segment is technology driven and typically has higher investment requirements as a percentage of sales than our seating segment. Our complete electrical distribution system design capabilities, coupled with certain market-leading component technologies, allow access to our customers' development teams, which provides an early indication of our customers' product needs. We also believe that our capabilities in terminals and connectors can be leveraged to a great extent to capture not only additional market share and margins in wire harnesses but also provide the longer term potential for non-automotive applications. As mentioned above, our products are very cost sensitive because of their labor intensity and batch processing nature. Our manufacturing strategy is to produce all components in low-cost or emerging markets leveraging our existing footprint. We plan to increase our manufacturing capacity in Thailand, Brazil and China to support our present backlog.

Financial Summary

A summary of revenues from external customers and other financial information for our EPMS segment is shown below. For additional information regarding Lear's total sales and long-lived assets by geographic area, as

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well as customer concentrations, see Note 14, *Segment Reporting*, to the consolidated financial statements included in this Report. The top five customers of this segment are: Ford, BMW, Nissan, PSA and Volvo.

	2010		2009⁽¹⁾		2008
	Successor	Combined	Successor	Predecessor	Predecessor
	(In millions)				
Revenues from external customers	\$ 2,559.3	\$ 1,926.7	\$ 329.8	\$ 1,596.9	\$ 2,843.6
Segment earnings ⁽²⁾	100.5	(155.8)	(24.5)	(131.3)	44.7
Depreciation and amortization	83.9	94.2	14.0	80.2	108.7
Capital expenditures	71.1	44.8	16.9	27.9	60.8
Total assets	1,052.2	966.5	966.5	N/A	1,385.7

(1) As discussed in Note 1, *Basis of Presentation*, to the consolidated financial statements included in this Report, in connection with the Company's emergence from Chapter 11 bankruptcy proceedings on November 9, 2009, the Company adopted fresh-start accounting on November 7, 2009. As a result, financial data presented for periods prior to November 7, 2009, is identified as *Predecessor* information, and financial data presented for periods subsequent to November 7, 2009, is identified as *Successor* information. For purposes of this table, 2009 *Successor* amounts and 2009 *Predecessor* amounts have been combined to enhance comparability between periods.

(2) As discussed in Note 14, *Segment Reporting*, segment earnings represents pretax income (loss) before goodwill impairment charges, interest expense, other (income) expense, reorganization items and fresh-start accounting adjustments and equity in net (income) loss of affiliates.

Competition

We estimate our global target market for electrical distribution systems to be approximately \$40 billion. Our major competitors in this market include Delphi Corporation, Yazaki Corporation, Sumitomo Corporation, Leoni AG and Furukawa Electric Co., Ltd., as well as certain regional suppliers. We are one of only four suppliers with complete electrical distribution design and manufacturing capabilities for both traditional and high-power systems and components in every automotive market in the world. Our competition in terminals and connectors includes Tyco Electronics, Molex Incorporated and FCI SA.

Technology

The hybrid and electric vehicle market represents a significant advancement in emerging technology for electrical distribution systems and components. We offer a product portfolio of stand-alone and fully integrated solutions for our customers' existing and future hybrid and electric vehicles. Our systems and components have achieved industry leading efficiency, packaging and reliability. We have over 100 patents and patents pending in our high-power product segment, and our product portfolio includes the following:

High-power charging systems comprised of on/off board chargers, a family of charge cord sets, fast charge stations and charge receptacles and couplers.

High-power distribution systems including high voltage wire harnesses found throughout the vehicle and battery pack, high-power terminals and connectors (designed to carry high amounts of electric current, to be

packaged tightly and to provide proper sealing, high-use reliability and ease of use for the consumer) and battery disconnect units, as well as manual service disconnects.

Energy management systems including DC-DC converters, battery monitoring systems, dual storage management units and our patent-pending integrated power module, which integrates the functionality of charging and energy management for an efficient solution for the upcoming generation of plug-in hybrid and electric vehicles.

We continue to develop new products and technologies, including solid state smart junction boxes and new radio-frequency products, as well as high-end electronics for the premier luxury automotive manufacturers around the world, such as gateway signal-routing modules, exterior and interior lighting controls and other highly

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integrated electronic body modules. Solid state smart 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 enables the integration of additional feature content into the smart junction box with a sizable cost reduction for the electrical system.

Our High Power Global Center of Excellence, also located in Southfield, Michigan, supports growth opportunities in the hybrid and electric vehicle market through the development of high-power and hybrid electrical systems and components.

We also maintain electromagnetic compatibility labs at several of our electrical facilities, where we develop and test electronic products for compliance with government 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.

For additional factors that may impact this operating segment's business, financial condition, operating results and/or cash flows, see Item 1A, Risk Factors.

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 many customer plants typically close for model year changeovers and/or vacations or during periods of high vehicle inventory. See Note 16, Quarterly Financial Data, to the consolidated financial statements included in this Report.

Customers

We serve the worldwide automotive and light truck market, which produced over 71 million vehicles in 2010. We have automotive content on over 300 vehicle nameplates worldwide and serve all of the world's major automotive manufacturers.

In 2010, General Motors and Ford, two of the largest automotive and light truck manufacturers in the world, accounted for 21% and 18%, respectively, of our net sales. In addition, BMW accounted for approximately 11% of our net sales. 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 purchase orders from our customers that generally provide for the supply of a customer's annual requirements for a particular vehicle model and assembly plant, or in some cases, for the supply of a customer's requirements for the life of a particular vehicle model, rather than for the purchase of a specified quantity of products. Although most purchase orders may be terminated by our customers at any time, such terminations have been minimal and have not had a material impact on our operating results. We are subject to risks 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. 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 cars and light trucks, as well as vehicle platforms that offer more features and functionality, such as luxury, sport utility and crossover vehicles, typically have more content and, therefore, tend to have a more significant impact on our operating performance.

Our agreements with our major customers generally provide for an annual productivity price reduction. Historically, cost reductions through product design changes, increased manufacturing productivity and similar programs with our suppliers have generally offset these customer-imposed price reduction requirements. However, in recent years, unprecedented increases and volatility in raw material, energy and commodity costs had a material adverse impact on our operating results and made it more difficult to offset these customer-imposed price reduction requirements. While we have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, these strategies typically offset only a portion of the adverse impact. Although raw material, energy and commodity costs (with the exception of copper costs) have moderated, these costs remain volatile, and no assurance can be given that we will be able to achieve or offset such customer-imposed price

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reduction targets in the future. In addition, we are exposed to increasing market risk associated with fluctuations in foreign exchange as a result of our low-cost footprint and vertical integration strategies. We intend to use derivative financial instruments to manage a portion of our exposure to fluctuations in foreign exchange. For additional information regarding our foreign exchange risk, see Part II – Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Financial Condition – Foreign Exchange.

Employees

As of December 31, 2010 and 2009, our employment levels worldwide were approximately as follows:

Region	2010	2009
United States and Canada	6,900	5,500
Mexico	27,500	22,200
Central and South America	7,100	6,800
Europe and Africa	30,700	28,100
Asia	14,600	12,300
Total	86,800	74,900

A substantial number of our employees are members of unions or national trade organizations. We have collective bargaining agreements with several unions, including the United Auto Workers, the Canadian Auto Workers and the International Association of Machinists and Aerospace Workers. All of our unionized facilities in the United States and Canada have a separate collective bargaining agreement with the union that represents the workers at such facilities, with each such agreement having an expiration date that is independent of other agreements. The majority of our employees outside of the United States and Canada are members of industrial trade union organizations or 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 adversely affect our financial performance, and Part II – Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations – Forward-Looking Statements.

Technology

Worldwide, we hold many patents and patents with applications pending. 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.

Advanced technology development is conducted worldwide at our six advanced technology centers and at our product engineering centers. 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 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, PROTEC, PROTEC PLUS and others are used in connection with certain of our product lines and services.

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We will continue to dedicate resources to engineering and development. Engineering and development costs incurred in connection with the development of new products and manufacturing methods more than one year prior to launch, to the extent not recoverable from our customers, are charged to selling, general and administrative expenses as incurred. These costs, excluding amounts recoverable from our customers, totaled approximately \$81 million, \$83 million and \$113 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Environmental Matters

We are subject to local, state, federal and foreign laws, regulations and ordinances which govern activities or operations that may have adverse environmental effects and which impose liability for clean-up costs resulting from past spills, disposals or other releases of hazardous wastes and environmental compliance. For a description of our outstanding environmental matters and other legal proceedings, see Note 13, Commitments and Contingencies, to the consolidated financial statements included in this Report.

In addition, our customers are subject to significant environmentally focused state, federal and foreign laws and regulations that regulate vehicle emissions, fuel economy and other matters related to the environmental impact of vehicles. To the extent that such laws and regulations ultimately increase or decrease automotive vehicle production, such laws and regulations would likely impact our business. See Item 1A, Risk Factors Risk Related to Our Business.

Furthermore, we currently offer products with environmentally friendly features, and our expertise and capabilities are allowing us to expand our product offerings in this area. We will continue to monitor emerging developments in this area.

Joint Ventures and Noncontrolling Interests

We form joint ventures in order to gain entry into new markets, 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, particularly in emerging markets. We also partner with companies having significant local experience in commerce, customs and capacity to reduce our financial risk and enhance our potential for achieving expected financial returns. In some cases, these joint ventures may be located in North America and used to expand our customer relationships.

As of December 31, 2010, we had 28 operating joint ventures located in 20 countries. Of these joint ventures, twelve are consolidated and 16 are accounted for using the equity method of accounting. Nineteen of the joint ventures operate in Asia, five operate in North America (including two that are dedicated to serving Asian automotive manufacturers), three operate in Europe (including one that is dedicated to serving Asian automotive manufacturers) or Africa and one operates in all three regions. With the exception of International Automotive Components Group North America, LLC, all of our joint ventures operate in our core products. Net sales of our consolidated joint ventures accounted for approximately 11% of our net sales in 2010. As of December 31, 2010, our investments in non-consolidated joint ventures totaled \$173 million. A summary of our non-consolidated operating joint ventures, including ownership percentages, is shown below. For further information related to our

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joint ventures, see Note 6, Investments in Affiliates and Other Related Party Transactions, to the consolidated financial statements included in this Report.

Country	Name	Ownership Percentage
China	Shanghai Lear STEC Automotive Parts Co., Ltd.	55%
China	Lear Dongfeng Automotive Seating Co., Ltd.	50
China	Jiangxi Jiangling Lear Interior Systems Co., Ltd.	50
China	Beijing BAI Lear Automotive Systems Co., Ltd.	50
China	Beijing Lear Automotive Electronics and Electrical Products Co., Ltd.	50
China	Changchun Lear FAW Sihuan Automotive Electrical and Electronics Co., Ltd.	49
China	Beijing Lear Dymos Automotive Systems Co., Ltd.	40
Honduras	Honduras Electrical Distribution Systems S. de R.L. de C.V.	49
India	Dymos Lear Automotive India Private Limited (India)	35
Korea	Dong Kwang Lear Yuhan Hoesa (Korea)	50
Malaysia	TS Lear Automotive Sdn Bhd. (Malaysia)	46
South Africa	Lear Shurlok Electronics (Proprietary) Limited (South Africa)	51
Spain	Industrias Cousin Freres, S.L. (Spain)	50
United States	Kyungshin-Lear Sales and Engineering LLC	49
United States	Tacle Seating USA, LLC	49
United States	International Automotive Components Group North America, LLC	23

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 our business identified elsewhere in this Report, the most significant factors affecting our operations include the following:

Risks Related to Our Business

A decline in the production levels of our major customers, particularly with respect to models for which we are a significant supplier, could adversely affect our financial performance.

Our sales are driven by the number of vehicles produced by the automotive manufacturers, which is ultimately dependent on consumer and fleet demand for automotive vehicles, and our level of content on specific vehicle platforms. Automotive sales and production can be affected by general economic or industry conditions, labor relations issues, fuel prices, regulatory requirements, government initiatives, trade agreements, the availability and cost of credit and other factors. In recent years, the global automotive industry has undergone major restructuring and consolidation in response to overcapacity, uncompetitive labor agreements, narrow profit margins, excess debt and the necessary realignment of resources from mature markets to emerging markets. In 2008 and continuing into 2009, the global economic downturn and associated decline in automotive production (particularly in North America and Europe) represented a turning point for the industry. During this period, industry production in North America and Europe experienced the steepest peak-to-trough declines in history.

Our ability to maintain and improve our financial performance in the future will depend, in part, on our ability to continue to diversify our sales on a customer, product, platform and geographic basis to reflect the market overall.

While we are pursuing a strategy of aggressively expanding our sales and operations in Asia, no assurance can be given as to how successful we will be in doing so. As a result, a decline in the production levels of our major customers, particularly with respect to models for which we are a significant supplier, could reduce our sales and thereby adversely affect our financial condition, operating results and cash flows.

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The loss of business with respect to, or the lack of commercial success of, a vehicle model for which we are a significant supplier could adversely affect our financial performance.

Although we receive purchase orders from our customers, these purchase orders generally provide for the supply of a customer's annual requirements for a particular vehicle model and assembly plant, or in some cases, for the supply of a customer's requirements for the life of a particular vehicle model, rather than for the purchase of a specific quantity of products. In addition, it is possible that customers could elect to manufacture our products internally. The loss of business with respect to, or the lack of commercial success of, a vehicle model for which we are a significant supplier could reduce our sales and thereby adversely affect our financial condition, operating results and cash flows.

Our industry is cyclical and our financial performance could be adversely affected by industry downturns.

The automotive industry is cyclical and sensitive to general economic conditions and other factors, including the global credit markets, interest rates, consumer credit and consumer spending and preferences. An economic downturn that results in a reduction in vehicle production levels could adversely affect our financial condition, operating results and cash flows.

Our inability to achieve product cost reductions which offset customer-imposed price reductions could adversely affect our financial performance.

We regularly negotiate contracts and sales prices with our customers. These contracts require us to reduce our prices over the life of a vehicle model and, at the same time, assume significant responsibility for the design, development and engineering of our products. Our financial performance 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 financial performance by investing in product development, 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 our operating costs. Our inability to achieve product cost reductions which offset customer-imposed price reductions could adversely affect our financial condition, operating results and cash flows.

Increases in the costs and restrictions on the availability of raw materials, energy, commodities and product components could adversely affect our financial performance.

Raw material, energy and commodity costs have been extremely volatile over the past several years. While we have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. Although raw material, energy and commodity costs (with the exception of copper costs) have moderated, these costs remain volatile. In addition, the availability of raw materials, energy, commodities and product components fluctuates from time to time due to factors outside of our control. If the costs of raw materials, energy, commodities and product components increase or the availability thereof is restricted, it could adversely affect our financial condition, operating results and cash flows.

Adverse developments affecting or the financial distress of one or more of our suppliers could adversely affect our financial performance.

We obtain components and other products and services from numerous tier 2 automotive suppliers and other vendors throughout the world. We are responsible for managing our supply chain, including suppliers who may be the sole-sources of products that we require, who our customers direct us to use or who have unique capabilities that would make it difficult and/or expensive to re-source. In certain instances, entire industries may experience short-term

capacity constraints. Any significant supply disruption could adversely affect our financial performance. In addition, unfavorable industry conditions could result in financial distress within our supply base, thereby increasing the risk of supply disruption. In 2008 and continuing into 2009, the global economic downturn and

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challenging industry conditions adversely affected the global automotive industry, including several of our suppliers. Although market conditions improved in 2010 and are continuing to improve, another economic downturn or other unfavorable industry conditions could cause a supply disruption and thereby adversely affect our financial condition, operating results and cash flows.

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 the U.S. dollar. In addition, we have substantial manufacturing and distribution facilities in many foreign countries, including Mexico and countries in Europe, Central and South America, Africa and Asia. International operations are subject to certain risks inherent in doing business abroad, including:

exposure to local economic conditions;

political, economic and civil instability (including acts of terrorism, civil unrest, drug-cartel related and other forms of violence and outbreaks of war);

expropriation and nationalization;

currency exchange rate fluctuations and currency controls;

withholding and other taxes on remittances and other payments by subsidiaries;

investment restrictions or requirements;

repatriation restrictions and requirements;

export and import restrictions; and

increases in working capital requirements related to long supply chains.

Expanding our sales and operations in Asia is an important element 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 is substantial. The likelihood of such occurrences and their potential effect on us vary from country to country and are unpredictable. However, any such occurrences could adversely affect our financial condition, operating results and cash flows.

We operate in a highly competitive industry and efforts by our competitors to gain market share could adversely affect our financial performance.

We operate in a highly competitive industry. We and most of our competitors are seeking to expand market share with new and existing customers, including in Asia and other high growth regions. Our customers award business based on, among other things, price, quality, service and technology. Our competitors' efforts to grow market share could exert downward pressure on our product pricing and margins. If we are unable to differentiate our products or maintain a low-cost footprint, we may lose market share or be forced to reduce prices, thereby lowering our margins. Any such occurrences could adversely affect our financial condition, operating results and cash flows.

Our inability to effectively manage the timing, quality and costs of new program launches could adversely affect our financial performance.

In connection with the award of new business, we obligate ourselves to deliver new products and services that are subject to our customers' timing, performance and quality standards. Additionally, as a tier 1 supplier, we must effectively coordinate the activities of numerous suppliers in order for the program launches of our products to be successful. Given the complexity of new program launches, we may experience difficulties managing product quality, timeliness and associated costs. In addition, new program launches require a significant ramp up of costs; however, our sales related to these new programs generally is dependent upon the timing and success of our

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customers' introduction of new vehicles. Our inability to effectively manage the timing, quality and costs of these new program launches could adversely affect our financial condition, operating results and cash flows.

A significant labor dispute involving us or one or more of our customers or suppliers or that could otherwise affect our operations could adversely affect our financial performance.

A substantial number of our employees and the employees of our largest customers and suppliers are members of industrial trade unions and are employed under the terms of collective bargaining agreements. All of our unionized facilities in the United States and Canada have a separate collective bargaining agreement with the union that represents the workers at such facilities, with each such agreement having an expiration date that is independent of other agreements. We have collective bargaining agreements covering approximately 52,000 employees globally. In the United States and Canada, contracts covering approximately 18% of our unionized workforce are scheduled to expire during 2011. A labor dispute involving us, any of our customers or suppliers or any other suppliers to our customers or that otherwise affects our operations, or the inability by us, any of our customers or suppliers or any other suppliers to our customers to negotiate, upon the expiration of a collective bargaining agreement, an extension of such agreement or a new agreement on satisfactory terms could adversely affect our financial condition, operating results and cash flows.

Our existing indebtedness and the inability to access capital markets could restrict our business activities or adversely affect our financial performance.

As of December 31, 2010, we had approximately \$699 million of outstanding indebtedness. The debt instruments governing our indebtedness contain covenants that may restrict our business activities, and our failure to comply with these covenants could result in a default under our indebtedness. In addition, we are permitted by the terms of our notes and our other debt instruments to incur substantial additional indebtedness. Our inability to generate sufficient cash flow to satisfy our debt obligations, to refinance our debt obligations or to access capital markets on commercially reasonable terms could adversely affect our financial condition, operating results and cash flows.

Significant changes in discount rates, the actual return on pension assets and other factors could adversely affect our financial performance.

Our earnings may be positively or negatively impacted by the amount of income or expense recorded related to our defined benefit plans. Accounting principles generally accepted in the United States (GAAP) require that income or expense related to the defined benefit plans be calculated at the annual measurement date using actuarial calculations, which reflect certain assumptions. The most significant of these assumptions relate to interest rates, the capital markets and other economic conditions. These assumptions, as well as the actual value of pension assets at the measurement date, will impact the calculation of pension and other postretirement benefit expense for the year. Although pension expense and pension contributions are not directly related, the key economic indicators that affect pension expense also affect the amount of cash that we will contribute to our pension plans. Because interest rates and the values of these pension assets have fluctuated and will continue to fluctuate in response to changing market conditions, pension and other postretirement benefit expense in subsequent periods, the funded status of the pension plans and the future minimum required pension contributions, if any, could adversely affect our financial condition, operating results and cash flows.

Impairment charges relating to our goodwill and long-lived assets could adversely affect our financial performance.

We regularly monitor our goodwill and long-lived assets for impairment indicators. In conducting our goodwill impairment testing, we compare the fair value of each of our reporting units to the related net book value. In

conducting our impairment analysis of long-lived assets, we compare the undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. Changes in economic or operating conditions impacting our estimates and assumptions could result in the impairment of our goodwill or long-lived assets. In the event that we determine that our goodwill or long-lived assets are impaired, we may be required to record a significant charge to earnings that could adversely affect our financial condition and operating results.

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Our failure to execute our strategic objectives could adversely affect our financial performance.

Our financial performance depends, in part, on our ability to successfully execute our strategic objectives. Our corporate strategy involves, among other things, leveraging our global presence and expanding our low-cost footprint, focusing on our core capabilities, selective vertical integration and investments in technology, and enhancing and diversifying our strong customer relationships through operating performance. Various factors, including the industry environment and the other matters described in Part II Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, including Forward-Looking Statements, could adversely affect our ability to execute our corporate strategy. Our failure to execute our strategic objectives could adversely affect our financial condition, operating results and cash flows. Moreover, 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 adversely affect our financial performance.

In the event that our products fail to perform as expected, whether allegedly due to our fault or that of one of our sub-suppliers, 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 pursue claims against us for contribution of all or a portion of the amounts sought in connection 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 for product warranty or recall matters. In addition, we may not be successful in recovering amounts from third parties, including sub-suppliers, in connection with these claims. These types of claims could adversely affect our financial condition, operating results and cash flows.

We are involved from time to time in various legal and regulatory proceedings and claims, which could adversely affect our financial performance.

We are involved in various legal and regulatory proceedings and claims 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 customers, suppliers or competitors, intellectual property matters, personal injury claims, environmental matters, tax matters and employment matters. No assurance can be given that such proceedings and claims will not adversely affect our financial condition, operating results and cash flows.

New laws or regulations or changes in existing laws or regulations could adversely affect our financial performance.

We and the automotive industry are subject to a variety of federal, state, local and foreign laws and regulations, including those related to health, safety and environmental matters. Governmental regulations also affect taxes and levies, capital markets, healthcare costs, energy usage, international trade and immigration and other labor issues, all of which may have a direct or indirect effect on our business and the businesses of our customers and suppliers. We cannot predict the substance or impact of pending or future legislation or regulations, or the application thereof. The introduction of new laws or regulations or changes in existing laws or regulations, or the interpretation thereof, could increase the costs of doing business for us or our customers or suppliers or restrict our actions and adversely affect our financial condition, operating results and cash flows.

We are required to comply with environmental laws and regulations that could cause us to incur significant costs.

Our manufacturing facilities are subject to numerous laws and regulations designed to protect the environment, and we expect that additional requirements with respect to environmental matters will be imposed on us in the future. Material future expenditures may be necessary if compliance standards change or material unknown conditions that require remediation are discovered. Environmental laws could also restrict our ability to expand our facilities or could require us to acquire costly equipment or to incur other significant expenses in connection with

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our business. If we fail to comply with present and future environmental laws and regulations, we could be subject to future liabilities, which could adversely affect our financial condition, operating results and cash flows.

Developments or assertions by or against us relating to intellectual property rights could adversely affect our financial performance.

We own significant intellectual property, including a large number of patents, trademarks, copyrights and trade secrets, and we are involved in numerous licensing arrangements. Our intellectual property plays an important role in maintaining our competitive position in a number of the markets that we serve. Developments or assertions by or against us relating to intellectual property rights could adversely affect our financial condition, operating results and cash flows.

Our U.S. net operating loss, capital loss and tax credit carryforwards could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.

We have significant U.S. net operating loss, capital loss and tax credit carryforwards (collectively, the Tax Attributes). Under federal tax laws, we can carry forward and use our Tax Attributes to reduce our future U.S. taxable income until such Tax Attributes expire in accordance with the Internal Revenue Code, as amended (the IRC). Section 382 and Section 383 of the IRC provide an annual limitation on our ability to utilize our Tax Attributes, as well as certain built-in-losses, against future U.S. taxable income in the event of a change in ownership, as defined under the IRC. Our emergence from Chapter 11 bankruptcy proceedings is considered a change in ownership for purposes of IRC Section 382. The limitation under the IRC is based on the value of the Company as of the emergence date. As a result, our future U.S. taxable income may not be fully offset by the Tax Attributes if such income exceeds our annual limitation, and we may incur a tax liability with respect to such income. In addition, we may experience a change in ownership in the future as a result of changes in our stock ownership that are beyond our control, and any such subsequent changes in ownership for purposes of the IRC could further limit our ability to use our Tax Attributes.

Because of the adoption of fresh-start accounting and the effects of the transactions contemplated by the Plan, financial information subsequent to November 7, 2009, is not comparable to financial information prior to November 7, 2009.

Upon our emergence from Chapter 11 bankruptcy proceedings, we adopted fresh-start accounting in accordance with the provisions of ASC 852, pursuant to which our reorganization value was allocated to our assets in conformity with the procedures specified by ASC 805, Business Combinations. Accordingly, our consolidated statements of financial position and consolidated statements of operations subsequent to November 7, 2009, are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations prior to November 7, 2009. The lack of comparable historical financial information may discourage investors from purchasing our capital stock.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

As of December 31, 2010, our operations were conducted through 200 facilities, some of which are used for multiple purposes, including 81 just-in-time manufacturing facilities, 78 dedicated component manufacturing facilities, 11 sequencing and distribution sites, 24 administrative/technical support facilities and six advanced technology centers, in 34 countries. Our corporate headquarters is located in Southfield, Michigan.

Of our 200 total facilities, which include facilities owned or leased by our consolidated subsidiaries, 81 are owned and 119 are leased with expiration dates ranging from 2011 through 2039. 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 Part II Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Financial Condition.

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

SEATING

Argentina Escobar, BA Ferreyra, CBA	Czech Republic Kolin Stribro	Italy Caivano, NA Cassino, FR Grugliasco, TO Melfi, PZ Pozzo d'Adda, MI Termini Imerese, PA	Poland Jaroslaw Tychy	Turkey Gemlik
Belgium Genk	France Cergy Feignies Guipry	Mexico Cuaulancingo, PU Hermosillo, SO Juarez, CH Mexico City, DF Monclova, CO Nuevo Casas Grandes, CH Piedras Negras, CO Ramos Arizpe, CO Saltillo, CO San Felipe, GU San Luis Potosi, SL Silao, GO Toluca, MX Villa Ahumada, CH	Russia Kaluga Nizhny Novgorod St. Petersburg	United Kingdom Coventry Redditch Sunderland
Brazil Betim Caçapava Camaçari Gravatá	Germany Besigheim Boeblingen Bremen Eisenach Garching-Hochbrueck Ginsheim-Gustavsburg Munich Quakenbrueck Rietberg Wackersdorf	Moldova Ungheni	Slovak Republic Presov Senec	United States Arlington, TX Brownstown Township, MI Columbia City, IN Detroit, MI Duncan, SC Farwell, MI Hammond, IN Hebron, OH Louisville, KY Mason, MI Montgomery, AL Morristown, TN Rochester Hills, MI Roscommon, MI Selma, AL Wentzville, MO
Canada Ajax, ON Kitchener, ON St. Thomas, ON Whitby, ON	Hungary Győr Mór	Morocco Tangier	South Africa East London Port Elizabeth Rosslyn	
China Changchun Chongqing Liuzhou Nanjing Rui'an Shanghai Shenyang Wuhan Wuhu	India Chakan Chennai Halol Maraimalai Nagar Nasik Pune		South Korea Gyeongju	
			Spain Epila Logrono Valdemoro	
			Sweden Trollhattan	Vietnam Hai Phong City
			Thailand Mueang Nakhon Ratchasima Samprakarn	

ELECTRICAL POWER MANAGEMENT SYSTEMS

Argentina Pacheco, BA	France Hordain Sandouville	Hungary Gödöllő Gyöngyös	Philippines LapuLapu City	Spain Almussafes Valls
China Chongqing Nanjing Shanghai	Germany Bersenbrueck Kronach	India Pune	Poland Mielec	Turkey Bostanci-Instanbul
			Russia	

Wuhan	Remscheid	Mexico	Volokolamsk	Tunisia
	Saarlouis	Apodaca, NL		Bir El Bey
Czech Republic	Wismar	Chihuahua, CH	Romania	
Vyskov		Juarez, CH	Campulung	United States
	Honduras		Pitesti	Plymouth, IN
	Naco	Morocco		Taylor, MI
		Tangier		Traverse City, MI

ADMINISTRATIVE/TECHNICAL

Australia	Germany	India	Netherlands	Sweden
Flemington	Allershausen-	Pune	Weesp	Gothenburg
	Leonhardsbuch	Thane		
Brazil	Boeblingen		Philippines	Thailand
São Paulo	Ginsheim-Gustavsburg	Italy	LapuLapu City	Bangkok
	Kranzberg	Grugliasco, TO		
China	Munich		Singapore	United Kingdom
Shanghai	Wolfsburg	Japan		Coventry
		Atsugi	Spain	
Czech Republic		Hiroshima	Valls	United States
Brno		Kariya		El Paso, TX
			South Korea	Southfield, MI
France			Seoul	
Vélizy-Villacoublay				

Table of Contents**ITEM 3 LEGAL PROCEEDINGS****Legal and Environmental Matters**

We are involved from time to time in various legal proceedings and claims, including, without limitation, commercial or contractual disputes, product liability claims and environmental and other matters. For a description of risks related to various legal proceedings and claims, see Item 1A, Risk Factors. For a description of our outstanding material legal proceedings, see Note 13, Commitments and Contingencies, to the consolidated financial statements included in this Report.

SUPPLEMENTARY ITEM EXECUTIVE OFFICERS OF THE COMPANY

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

Name	Age	Position
Shari L. Burgess	52	Vice President and Treasurer
Wendy L. Foss	53	Vice President and Corporate Controller
Terrence B. Larkin	56	Senior Vice President, General Counsel and Corporate Secretary
Robert E. Rossiter	64	Chief Executive Officer and President
Louis R. Salvatore	55	Senior Vice President and President, Global Seating Operations
Raymond E. Scott	45	Senior Vice President and President, Global Electrical Power Management Systems
Matthew J. Simoncini	50	Senior Vice President and Chief Financial Officer
Melvin L. Stephens	55	Senior Vice President, Communications, Human Resources and Investor Relations

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

Shari L. Burgess

Ms. Burgess is the Company's Vice President and Treasurer, a position she has held since August 2002. She has served in various financial roles since joining Lear in 1992, most recently as Assistant Treasurer. Prior to joining Lear, Ms. Burgess served as the corporate controller for Victor International Corporation and as an audit manager for Ernst & Young LLP.

Wendy L. Foss

Ms. Foss is the Company's Vice President and Corporate Controller, a position she has held since November 2007. Previously, she served as Vice President and Chief Compliance Officer from January 2007 until February 2009, Vice President, Audit Services since September 2007, Vice President, Finance and Administration and Corporate Secretary since May 2007, Vice President, Finance and Administration and Deputy Corporate Secretary since September 2006, Vice President, Accounting since July 2006, Assistant Corporate Controller since June 2003 and prior to 2003, in various financial management

positions for both the Company and UT Automotive, Inc. (UT Automotive), which was acquired by Lear in 1999.

Terrence B. Larkin

Mr. Larkin is the Company's Senior Vice President, General Counsel and Corporate Secretary, a position he has held since January 2008. Prior to joining the Company, Mr. Larkin was a partner since 1986 of Bodman PLC, a Detroit-based law firm. Mr. Larkin served on the executive committee of Bodman PLC and was the chairman of its business law practice group. Mr. Larkin's practice was focused on general corporate, commercial transactions and mergers and acquisitions.

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Robert E. Rossiter

Mr. Rossiter is the Company's Chief Executive Officer and President, a position he has held since August 2007. Mr. Rossiter served as Chairman from January 2003 until August 2010, Chief Executive Officer since October 2000, President since August 2007 and from 1984 until December 2002 and Chief Operating Officer from 1988 until April 1997 and from November 1998 until October 2000. Mr. Rossiter also served as Chief Operating Officer International Operations from April 1997 until November 1998. Mr. Rossiter has been a director of the Company since 1988.

Louis R. Salvatore

Mr. Salvatore is the Company's Senior Vice President and President, Global Seating Operations, a position he has held since February 2008. Previously, he served as Senior Vice President and President Global Asian Operations/Customers since August 2005, President Ford, Electrical/Electronics and Interior Divisions since July 2004, President Global Ford Division since July 2000 and President DaimlerChrysler Division since December 1998. Prior to joining the Company, Mr. Salvatore worked with Ford Motor Company for fourteen years and held various increasingly senior positions in manufacturing, finance, engineering and purchasing.

Raymond E. Scott

Mr. Scott is the Company's Senior Vice President and President, Global Electrical Power Management Systems, a position he has held since February 2008. Previously, he served as Senior Vice President and President, North American Seating Systems Group since August 2006, Senior Vice President and President, North American Customer Group since June 2005, President, European Customer Focused Division since June 2004 and President, General Motors Division since November 2000.

Matthew J. Simoncini

Mr. Simoncini is the Company's Senior Vice President and Chief Financial Officer, a position he has held since October 2007. Previously, he served as Senior Vice President, Finance and Chief Accounting Officer since August 2006, Vice President, Global Finance since February 2006, Vice President of Operational Finance since June 2004, Vice President of Finance Europe since 2001 and prior to 2001, in various senior financial management positions for both the Company and UT Automotive.

Melvin L. Stephens

Mr. Stephens is the Company's Senior Vice President, Communications, Human Resources and Investor Relations, a position he has held since September 2009. Previously, he served as Vice President of Corporate Communications and Investor Relations since January 2002. Prior to joining the Company, Mr. Stephens worked with Ford Motor Company and held various leadership positions in finance, business planning, corporate strategy, communications, sales and marketing and investor relations.

Table of Contents**PART II****ITEM 5 MARKET FOR THE COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our existing common stock is listed on the New York Stock Exchange under the symbol LEA.

Prior to July 2, 2009, our old common stock traded on the New York Stock Exchange under the symbol LEA until trading was suspended by the New York Stock Exchange and the shares were subsequently delisted from the New York Stock Exchange. In connection with our emergence from Chapter 11 bankruptcy proceedings, our existing common stock began trading on the New York Stock Exchange on November 9, 2009. On November 9, 2009, all of our old common stock was extinguished in accordance with the terms of our plan of reorganization.

Because the value of our old common stock bears no relation to the value of our existing common stock, only the trading prices of our existing common stock, following its listing on the New York Stock Exchange, are set forth below.

The high and low sales prices per share of our existing common stock, based on the daily closing price as reported on the New York Stock Exchange, for the year ended December 31, 2010, and for the period from November 9, 2009 through December 31, 2009, are shown below:

	Price Range of Common Stock	
	High	Low
2010:		
4th Quarter	\$ 99.75	\$ 78.83
3rd Quarter	81.30	63.61
2nd Quarter	83.90	63.98
1st Quarter	81.85	68.65

	Price Range of Common Stock	
	High	Low
2009:		
4th Quarter (November 9, 2009 through December 31, 2009)	\$ 68.58	\$ 56.25

 Holders of Common Stock

The Transfer Agent and Registrar for our common stock is BNY Mellon, located in New York, New York. On February 4, 2011, there were 106 registered holders of record of our common stock.

For certain information regarding our equity compensation plans, see Part III Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters Equity Compensation Plan Information.

Dividends

We have not paid cash dividends since 2006. The payment of cash dividends in the future will be dependent upon our financial condition, results of operations, capital requirements, alternative uses of capital and other factors that our Board of Directors may consider in its discretion. Our existing credit facility and bond indentures place certain limitations on the payment of cash dividends.

Table of Contents**Performance Graph**

The following graph compares the cumulative total stockholder return from November 9, 2009, the date of our emergence from Chapter 11 bankruptcy proceedings, through December 31, 2010, for our existing common stock, the S&P 500 Index and a peer group(1) of companies that we have selected for purposes of this comparison. Because the value of our old common stock bears no relation to the value of our existing common stock, the graph below reflects only our existing common stock. We have assumed that dividends have been reinvested, and the returns of each company in the S&P 500 Index and the peer group have been weighted to reflect relative stock market capitalization. The graph below assumes that \$100 was invested on November 9, 2009, in each of our existing common stock, the stocks comprising the S&P 500 Index and the stocks comprising the peer group.

	November 9, 2009	December 31, 2009	December 31, 2010
Lear Corporation	\$ 100.00	\$ 133.94	\$ 195.47
S&P 500	\$ 100.00	\$ 104.63	\$ 120.14
Peer Group ⁽¹⁾	\$ 100.00	\$ 104.48	\$ 169.16

(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 peer group, as referenced in the graph above, that we have selected is comprised of representative independent automotive suppliers whose common stock is publicly traded. The peer group consists of ArvinMeritor, Inc., BorgWarner Inc., Cooper Tire & Rubber Company, Eaton Corp., Gentex Corp., Goodyear Tire & Rubber Company, Johnson Controls, Inc., Magna International, Inc., Superior Industries International, Inc. and TRW Automotive Holdings Corp.

Table of Contents**ITEM 6 SELECTED FINANCIAL DATA**

The following statement of operations, statement of cash flow and balance sheet data were derived from our consolidated financial statements. Our consolidated financial statements for the year ended December 31, 2010, the two month period ended December 31, 2009, the ten month period ended November 7, 2009, and the years ended December 31, 2008, 2007 and 2006, 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.

	Successor			Predecessor		
	Year Ended	Two Month	Ten Month	December 31,	Year Ended	December 31,
	December 31,	Period	Period	December 31,	December 31,	December 31,
	2010 ⁽¹⁾	Ended	Ended	2008 ⁽⁴⁾	2007 ⁽⁵⁾	2006 ⁽⁶⁾
		December 31,	November 7,			
		2009 ⁽²⁾	2009 ⁽³⁾			
Statement of Operations Data:						
(in millions)						
Net sales	\$ 11,954.6	\$ 1,580.9	\$ 8,158.7	\$ 13,570.5	\$ 15,995.0	\$ 17,838.9
Gross profit	1,018.3	72.8	287.4	747.6	1,151.8	930.8
Selling, general and administrative expenses	452.7	71.2	376.7	511.5	572.8	644.6
Amortization of intangible assets	27.2	4.5	4.1	5.3	5.2	5.2
Goodwill impairment charges			319.0	530.0		2.9
Divestiture of Interior business					10.7	636.0
Interest expense	55.4	11.1	151.4	190.3	199.2	209.8
Other (income) expense, net ⁽⁷⁾	34.2	19.8	(16.6)	51.9	40.7	85.7
Reorganization items and fresh-start accounting adjustments, net			(1,474.8)			
Consolidated income (loss) before provision (benefit) for income taxes, equity in net (income) loss of	448.8	(33.8)	927.6	(541.4)	323.2	(653.4)

affiliates and cumulative effect of a change in accounting principle Provision (benefit) for income taxes	24.6	(24.2)	29.2	85.8	89.9	54.9
Equity in net (income) loss of affiliates	(37.2)	(1.9)	64.0	37.2	(33.8)	(16.2)
Consolidated income (loss) before cumulative effect of a change in accounting principle	461.4	(7.7)	834.4	(664.4)	267.1	(692.1)
Cumulative effect of a change in accounting principle ⁽⁸⁾						(2.9)
Consolidated net income (loss)	461.4	(7.7)	834.4	(664.4)	267.1	(689.2)
Net income (loss) attributable to noncontrolling interests	23.1	(3.9)	16.2	25.5	25.6	18.3
Net income (loss) attributable to Lear	\$ 438.3	\$ (3.8)	\$ 818.2	\$ (689.9)	\$ 241.5	\$ (707.5)
Basic net income (loss) per share attributable to Lear	\$ 8.60	\$ (0.11)	\$ 10.56	\$ (8.93)	\$ 3.14	\$ (10.31)
Diluted net income (loss) per share attributable to Lear	\$ 8.11	\$ (0.11)	\$ 10.55	\$ (8.93)	\$ 3.09	\$ (10.31)
Weighted average shares						

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outstanding						
Basic	47,407,022	34,525,187	77,499,860	77,242,360	76,826,765	68,607,262
Diluted	54,061,075	34,525,187	77,559,792	77,242,360	78,214,248	68,607,262
Dividends per share	\$	\$	\$	\$	\$	\$ 0.25

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	Successor			Predecessor		
	Year	Two	Ten	Year Ended		
	Ended	Month	Month	December 31,	December 31,	December 31,
	December 31,	December 31,	November 7,	December 31,	December 31,	December 31,
	2010 ⁽¹⁾	2009 ⁽²⁾	2009 ⁽³⁾	2008 ⁽⁴⁾	2007 ⁽⁵⁾	2006 ⁽⁶⁾
Statement of Cash Flow Data:						
(in millions)						
Cash flows from operating activities	\$ 621.9	\$ 324.0	\$ (499.2)	\$ 163.6	\$ 487.5	\$ 299.1
Cash flows from investing activities	(192.1)	(39.5)	(52.7)	(144.4)	(340.0)	(312.2)
Cash flows from financing activities	(320.7)	30.2	165.0	987.3	(70.4)	263.6
Capital expenditures	193.3	41.3	77.5	167.7	202.2	347.6
Other Data (unaudited):						
Ratio of earnings to fixed charges ⁽⁹⁾	6.6x		6.3x		2.4x	

As of or Year Ended	Successor			Predecessor	
	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006
Balance Sheet Data:					
(in millions)					
Current assets	\$ 4,385.5	\$ 3,787.0	\$ 3,674.2	\$ 3,718.0	\$ 3,890.3
Total assets	6,621.1	6,073.3	6,872.9	7,800.4	7,850.5
Current liabilities	2,818.5	2,400.8	4,609.8	3,603.9	3,887.3
Long-term debt	694.9	927.1	1,303.0	2,344.6	2,434.5
Equity	2,568.8	2,181.8	247.7	1,117.5	640.0
Other Data (unaudited):					
Employees at year end	86,757	74,870	80,112	91,455	104,276
North American content per vehicle ⁽¹⁰⁾	\$ 340	\$ 344	\$ 391	\$ 483	\$ 645
North American vehicle production (in millions) ⁽¹¹⁾	11.9	8.6	12.6	15.0	15.2
European content per vehicle ⁽¹²⁾	\$ 285	\$ 294	\$ 350	\$ 342	\$ 338
European vehicle production (in millions) ⁽¹³⁾	17.4	15.6	18.8	20.2	19.0

(1) Results include \$69.0 million of restructuring and related manufacturing inefficiency charges (including \$3.6 million of fixed asset impairment charges), \$21.7 million of fees and expenses related to our capital restructuring and other related matters, an \$11.8 million loss on the extinguishment of debt resulting from the write-off of unamortized debt issuance costs and \$51.6 million of tax benefits related to reductions in recorded tax reserves and various other items.

- (2) Results include \$44.5 million of restructuring and related manufacturing inefficiency charges, a \$1.9 million loss related to a transaction with an affiliate, \$15.1 million of charges as a result of the bankruptcy proceedings and the application of fresh-start accounting and a \$27.6 million tax benefit primarily related to the settlement of a tax matter in a foreign jurisdiction.
- (3) Results include \$319.0 million of goodwill impairment charges, a gain of \$1,474.8 million related to reorganization items and fresh-start accounting adjustments, \$23.9 million of fees and expenses related to our capital restructuring, \$115.5 million of restructuring and related manufacturing inefficiency charges (including \$5.6 million of fixed asset impairment charges), \$42.0 million of impairment charges related to our investments in two equity affiliates, a \$9.9 million loss related to a transaction with an affiliate and a \$23.1 million tax benefit related to reorganization items and fresh-start accounting adjustments.
- (4) Results include \$530.0 million of goodwill impairment charges, \$193.9 million of restructuring and related manufacturing inefficiency charges (including \$17.5 million of fixed asset impairment charges), \$7.5 million

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of gains related to the extinguishment of debt, a \$34.2 million impairment charge related to an investment in an affiliate, \$22.2 million of gains related to the sales of our interests in two affiliates and \$8.5 million of net tax benefits related to a reduction in recorded tax reserves, the reversal of a valuation allowance in a European subsidiary and the establishment of a valuation allowance in another European subsidiary.

- (5) 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 noncontrolling 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.
- (6) 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.
- (7) Includes non-income related taxes, foreign exchange gains and losses, discounts and expenses associated with our asset-backed securitization and factoring facilities, gains and losses related to certain derivative instruments and hedging activities, gains and losses on the extinguishment of debt, gains and losses on the sales of fixed assets and other miscellaneous income and expense.
- (8) The cumulative effect of a change in accounting principle in 2006 resulted from the adoption of FASB Accounting Standards Codification[™] 718, Compensation Stock Compensation.
- (9) Fixed charges consist of interest on debt, amortization of deferred financing fees and that portion of rental expenses representative of interest. Earnings consist of consolidated income (loss) before provision (benefit) for income taxes and equity in the undistributed net (income) loss of affiliates, fixed charges and cumulative effect of a change in accounting principle. Earnings in the two month period ended December 31, 2009, and in the years ended December 31, 2008 and 2006, were insufficient to cover fixed charges by \$33.2 million, \$537.3 million and \$651.8 million, respectively. Accordingly, such ratio is not presented for these periods.
- (10) 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 2009 has been updated to reflect actual production levels.
- (11) 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 2009 has been updated to reflect actual production levels.
- (12) 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. Content per vehicle data for 2009 has been updated to reflect actual production levels.
- (13) European vehicle production includes car and light truck production in Austria, Belarus, Belgium, Bosnia, Czech Republic, Finland, France, Germany, Hungary, Italy, Netherlands, Norway, Poland, Portugal, Romania,

Serbia, Slovakia, Slovenia, Spain, Sweden, Turkey, Ukraine and the United Kingdom as provided by IHS Automotive. Production data for 2009 has been updated to reflect actual production levels.

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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 a leading tier 1 supplier to the global automotive industry. We supply our products to virtually every major automotive manufacturer in the world.

We supply automotive manufacturers with complete automotive seat systems and related components, as well as electrical distribution systems and related components. Our strategy is to focus on our core capabilities, selective vertical integration and investments in technology; leverage our global presence and expand our low-cost footprint; and enhance and diversify our strong customer relationships through our operational performance.

Industry Overview

Our sales are driven by the number of vehicles produced by the automotive manufacturers, which is ultimately dependent on consumer and fleet demand for automotive vehicles, and our level of content on specific vehicle platforms. Automotive sales and production can be affected by general economic or industry conditions, labor relations issues, fuel prices, regulatory requirements, government initiatives, trade agreements, availability and cost of credit and other factors. Our operating results are also significantly impacted by the overall commercial success of the vehicle platforms for which we supply particular products, as well as the profitability of the products that we supply for these platforms. In addition, it is possible that customers could elect to manufacture our products internally. The 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 operating results. In addition, larger cars and light trucks, as well as vehicle platforms that offer more features and functionality, such as luxury, sport utility and crossover vehicles, typically have more content and, therefore, tend to have a more significant impact on our operating results.

In recent years, the global automotive industry has undergone major restructuring and consolidation in response to overcapacity, narrow profit margins, excess debt and the necessary realignment of resources from mature markets to emerging markets. In 2008 and continuing into 2009, the global economic downturn and associated decline in automotive production (particularly in North America and Europe) represented a turning point for the industry.

During this period, industry production in North America and Europe experienced the steepest peak-to-trough declines in history. In North America, industry production declined 50% from a peak of 17.2 million units in 2000 to a trough of 8.6 million units in 2009. In Europe, industry production declined over 20% from a peak of 20.2 million units in 2007 to a trough of 15.6 million units in 2009.

The year ended December 31, 2010 saw a significant improvement in industry production volumes globally. North American industry production increased by approximately 39% from a year ago levels to 11.9 million units. European industry production increased by approximately 12% from a year ago levels to 17.4 million units. Global vehicle production in 2010 of 71.5 million units exceeded the previous record of 68.7 million units in 2007.

The majority of our sales continue to be derived from automotive manufacturers based in North America and Europe. Some of these customers have experienced declines in market share in their traditional markets. Our ability to maintain and improve our financial performance in the future will depend, in part, on our ability to continue to diversify our sales on a customer, product, platform and geographic basis to reflect the market overall.

Our customers require us to reduce our prices over the life of a vehicle model and, at the same time, assume significant responsibility for the design, development and engineering of our products. Our financial performance 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 financial performance by investing in product development, 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 our operating costs.

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Our material cost as a percentage of net sales was 67.9% in 2010, as compared to 69.0% in 2009 and 69.3% in 2008. Raw material, energy and commodity costs have been extremely volatile over the past several years. Unfavorable industry conditions have also resulted in financial distress within our supply base and an increase in the risk of supply disruption. We have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, which include cost reduction actions, such as the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments and the selective expansion of low-cost country sourcing and engineering, as well as value engineering and product benchmarking. However, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. These costs remain volatile and could have an adverse impact on our operating results in the foreseeable future. See Part I Item 1A, Risk Factors Increases in the costs and restrictions on the availability of raw materials, energy, commodities and product components could adversely affect our financial performance, and Forward-Looking Statements.

Financial Measures

In evaluating our financial condition and operating performance, we focus primarily on earnings, cash flows and return on invested capital. In addition to maintaining and expanding our business with our existing customers in our more established markets, our expansion plans are focused on emerging markets. Asia, in particular, continues to present significant growth opportunities, as major global automotive manufacturers implement production expansion plans and local automotive manufacturers aggressively expand their operations to meet long-term demand in this region. As of December 31, 2010, we had 20 joint ventures with operations in Asia, as well as an additional three joint ventures in North America and Europe dedicated to serving Asian automotive manufacturers. In addition, we have aggressively pursued this strategy by selectively increasing our vertical integration capabilities and expanding our component manufacturing capacity in Mexico, Eastern Europe, Africa and Asia. Furthermore, we have expanded our low-cost engineering capabilities in China, India and the Philippines.

Our success in generating cash flow will depend, in part, on our ability to manage working capital effectively. 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 automotive industry conditions, as well as our financial results. In addition, our cash flow is impacted by our ability to manage our inventory and capital spending effectively. We utilize return on invested capital as a measure of the efficiency with which assets are deployed to increase our earnings. Improvements in our return on invested capital will depend on our ability to maintain an appropriate asset base for our business and to increase productivity and operating efficiency.

Operational and Financial Restructuring

In 2005, we initiated a multi-year operational restructuring strategy to (i) eliminate excess capacity and lower our operating costs, (ii) streamline our organizational structure and reposition our business for improved long-term profitability and (iii) better align our manufacturing footprint with the changing needs of our customers. In light of industry conditions and customer announcements, we expanded this strategy. Through the end of 2009, we incurred pretax restructuring costs of approximately \$672 million and related manufacturing inefficiency charges of \$68 million.

In 2010, we incurred additional restructuring costs of approximately \$64 million and related manufacturing inefficiency charges of approximately \$5 million as we continued to restructure our global operations and aggressively reduce our costs. Cash expenditures related to our restructuring actions totaled \$103 million in 2010.

Our restructuring strategy has resulted in the closure of 44 manufacturing and 11 administrative facilities and a current footprint with more than 80% of our component facilities and more than 90% of our related employment in 20 low-cost countries. We expect elevated restructuring actions and related investments to continue in 2011 and to curtail thereafter.

Restructuring costs include employee termination benefits, fixed asset impairment charges and contract termination costs, as well as other incremental costs resulting from the restructuring actions. These incremental

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costs principally include equipment and personnel relocation costs. We also incur incremental manufacturing inefficiency costs at the operating locations impacted by the restructuring actions during the related restructuring implementation period. Restructuring costs are recognized in our consolidated financial statements in accordance with accounting principles generally accepted in the United States (GAAP). Generally, charges are recorded as restructuring actions are approved and/or implemented. Actual costs recorded in our consolidated financial statements may vary from current estimates.

For further information, see Note 5, *Restructuring*, to the consolidated financial statements included in this Report.

In 2009, following a comprehensive evaluation of our strategic and financial options, we concluded that voluntarily filing for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code (Chapter 11) was necessary in order to re-align our capital structure and position our business for long-term success. On July 7, 2009, Lear and certain of its U.S. and Canadian subsidiaries filed petitions for relief under Chapter 11 with the bankruptcy court. On November 9, 2009, our plan of reorganization became effective, and we emerged from Chapter 11 bankruptcy proceedings. For further information on the bankruptcy proceedings, see Note 2, *Reorganization under Chapter 11*, to the consolidated financial statements included in this Report.

Goodwill

In 2009 and 2008, we evaluated the carrying value of our goodwill and recorded impairment charges of \$319 million and \$530 million, respectively, related to our electrical power management systems (EPMS) segment. In 2009, our goodwill impairment analysis was based on our distributable value, which was approved by the Bankruptcy Court, and resulted in impairment charges of \$319 million. In 2008, the impairment charges were primarily the result of significant declines in estimated production volumes. For further information, see Note 4, *Summary of Significant Accounting Policies – Impairment of Goodwill*, to the consolidated financial statements included in this Report.

Other Matters

In 2010, we recognized a loss on the extinguishment of debt of approximately \$12 million, resulting from the write-off of unamortized debt issuance costs in conjunction with our debt refinancing in March 2010. We also recognized tax benefits of \$33 million related to reductions in recorded tax reserves, as well as net tax benefits of \$19 million related to restructuring, a tax law change in Mexico, the reduction of a valuation allowance in a foreign subsidiary and various other items.

In 2009, we incurred fees and expenses of \$24 million related to our capital restructuring efforts prior to our bankruptcy filing. In addition, we recognized impairment charges of \$42 million related to our investments in two equity affiliates and a loss of \$12 million related to a transaction with an affiliate. In 2009, we also recognized a tax benefit of \$23 million related to reorganization items and fresh-start accounting adjustments, as well as a tax benefit of \$28 million primarily related to the settlement of a tax matter in a foreign jurisdiction.

In 2008, we recognized a net gain on the extinguishment of debt of approximately \$8 million. We also recognized an impairment charge of \$34 million related to our investment in an equity affiliate and gains of \$22 million related to the sales of our interests in two affiliates. In addition, we recognized a tax benefit of \$9 million related to a reduction in recorded tax reserves, a tax benefit of \$19 million related to the reversal of a valuation allowance in a European subsidiary and tax expense of \$19 million related to the establishment of a valuation allowance in another European subsidiary.

For further information, see Note 4, *Summary of Significant Accounting Policies – Impairment of Investments in Affiliates*, Note 6, *Investments in Affiliates and Other Related Party Transactions*, Note 8, *Long-Term Debt*, and

Note 9, Income Taxes, to the consolidated financial statements included in this Report.

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As discussed above, our results for the year ended December 31, 2010, the 2009 Successor Period, the 2009 Predecessor Period and the year ended December 31, 2008, reflect the following items (in millions):

	Successor		Predecessor	
	Year	Two Month	Ten Month	
	Ended	Period	Period Ended	
	December 31,	Ended	November 7,	
	2010	December 31,	2009	
	\$	2009	Year Ended	
		December 31,	December 31,	
		2009	2008	
		\$	\$	
Goodwill impairment charges	\$	\$	\$ 319	\$ 530
Reorganization items and fresh-start accounting adjustments, net			(1,475)	
Costs of restructuring actions, including manufacturing inefficiencies of \$5 million in 2010, \$1 million in the two month period ended December 31, 2009, \$15 million in the ten month period ended November 7, 2009, and \$17 million in 2008	69	44	116	194
Fees and expenses related to capital restructuring and other related matters	22	15	24	
(Gains) losses on the extinguishment of debt	12			(8)
Impairment of investment in affiliates			42	34
(Gains) losses related to affiliate transactions		2	10	(22)
Tax benefits, net	(52)	(28)	(23)	(9)

This section includes forward-looking statements that are subject to risks and uncertainties. For further information regarding these and other factors that have had, or may have in the future, a significant impact on our business, financial condition or results of operations, see Part I Item 1A, Risk Factors, and Forward-Looking Statements.

Results of Operations

In connection with our emergence from Chapter 11 bankruptcy proceedings and the adoption of fresh-start accounting, the results of operations for 2009 separately present the 2009 Successor Period and the 2009 Predecessor Period. Although the 2009 Successor Period and the 2009 Predecessor Period are distinct reporting periods, the effects of emergence and fresh-start accounting did not have a material impact on the comparability of our results of operations between these periods, except as discussed below. Accordingly, references to 2009 results

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of operations combine the two periods in order to enhance the comparability of such information to both 2010 and 2008. A summary of our operating results in millions of dollars and as a percentage of net sales is shown below:

	Successor				Predecessor			
	Year Ended December 31, 2010		Two Month Period Ended December 31, 2009		Ten Month Period Ended November 7, 2009		Year Ended December 31, 2008	
Net sales								
Seating	\$ 9,395.3	78.6%	\$ 1,251.1	79.1%	\$ 6,561.8	80.4%	\$ 10,726.9	79.0%
Electrical power management systems	2,559.3	21.4	329.8	20.9	1,596.9	19.6	2,843.6	21.0
Net sales	11,954.6	100.0	1,580.9	100.0	8,158.7	100.0	13,570.5	100.0
Gross profit	1,018.3	8.5	72.8	4.6	287.4	3.5	747.6	5.5
Selling, general and administrative expenses	452.7	3.8	71.2	4.5	376.7	4.6	511.5	3.8
Amortization of intangible assets	27.2	0.2	4.5	0.3	4.1		5.3	
Goodwill impairment charges					319.0	3.9	530.0	3.9
Interest expense	55.4	0.4	11.1	0.7	151.4	1.9	190.3	1.4
Other (income) expense, net	34.2	0.3	19.8	1.2	(16.6)	(0.2)	51.9	0.4
Reorganization items and fresh-start accounting adjustments, net					(1,474.8)	(18.1)		
Provision (benefit) for income taxes	24.6	0.2	(24.2)	(1.5)	29.2	0.4	85.8	0.6
Equity in net (income) loss of affiliates	(37.2)	(0.3)	(1.9)	(0.1)	64.0	0.8	37.2	0.3
Net income (loss) attributable to noncontrolling interests	23.1	0.2	(3.9)	(0.3)	16.2	0.2	25.5	0.2
Net income (loss) attributable to Lear	438.3	3.7	(3.8)	(0.2)	818.2	10.0	(689.9)	(5.1)

Year Ended December 31, 2010, Compared With Year Ended December 31, 2009

Net sales for the year ended December 31, 2010 were \$12.0 billion, as compared to \$9.7 billion for the year ended December 31, 2009, an increase of \$2.2 billion or 23%. Improved global vehicle production volumes positively impacted net sales by \$1.9 billion. The impact of new business was largely offset by the impact of selling price reductions.

Gross profit and gross margin were \$1.0 billion and 8.5% in 2010, as compared to \$360 million and 3.7% in 2009. Improved global vehicle production volumes, as well as favorable operating performance and the benefit of operational restructuring actions, positively impacted gross profit by \$727 million. Gross profit also benefited from the impact of new business. These increases were partially offset by the impact of selling price reductions. In addition, gross profit includes operational restructuring costs of \$62 million in 2010, as compared to \$149 million in 2009. Gross profit in the 2009 Successor Period was negatively impacted by the adoption of fresh-start accounting, which requires inventory to be recorded at fair value upon emergence. An inventory adjustment of \$9 million was recognized in cost of sales in the 2009 Successor Period as the inventory was sold. The impact of other fresh start accounting adjustments on gross margin was limited to changes in depreciation expense which were not material.

Selling, general and administrative expenses, including engineering and development expenses, were \$453 million for the year ended December 31, 2010, as compared to \$448 million for the year ended December 31, 2009. An increase in compensation-related costs in 2010 was partially offset by fees and expenses related to our

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capital restructuring incurred in the 2009 Predecessor Period. In addition, selling, general and administrative expenses include operational restructuring costs of \$7 million in 2010, as compared to \$15 million in 2009. As a percentage of net sales, selling, general and administrative expenses declined to 3.8% for the year ended December 31, 2010, as compared to 4.6% for the year ended December 31, 2009, due to the increase in net sales.

Engineering and development costs incurred in connection with the development of new products and manufacturing methods more than one year prior to launch, to the extent not recoverable from the customer, are charged to selling, general and administrative expenses as incurred. Such costs totaled \$81 million in 2010 and \$83 million in 2009. In certain situations, the reimbursement of pre-production engineering and design costs is contractually guaranteed by, and fully recoverable from, our customers and, therefore, is capitalized. For the years ended December 31, 2010 and 2009, we capitalized \$133 million and \$117 million, respectively, of such costs.

Amortization of intangible assets was \$27 million in 2010, as compared to \$5 million in the 2009 Successor Period and \$4 million in the 2009 Predecessor Period, as a result of intangible assets recognized in connection with the adoption of fresh start accounting in 2009.

In the 2009 Predecessor Period, we recorded goodwill impairment charges of \$319 million, related to our EPMS segment. Our goodwill impairment analysis was based on our distributable value, which was approved by the Bankruptcy Court.

Interest expense was \$55 million in 2010, as compared to \$163 million in 2009. Interest expense in 2010 reflects lower borrowing levels, as well as lower overall borrowing costs, related to our new capital structure and the results of our March 2010 refinancing. Interest expense in the 2009 Predecessor Period properly excludes \$70 million of contractual interest for certain of our pre-petition debt obligations subsequent to filing for bankruptcy protection under Chapter 11, in accordance with GAAP. The benefit of this exclusion was partially offset by interest and fees associated with our debtor-in-possession financing, as well as fees associated with our pre-petition primary credit facility amendments and waivers, in the 2009 Predecessor Period, and interest and fees associated with our first and second lien credit agreements in the 2009 Successor Period.

Other (income) expense, net, which includes non-income related taxes, foreign exchange gains and losses, discounts and expenses associated with our factoring facilities, gains and losses related to certain derivative instruments and hedging activities, gains and losses on the extinguishment of debt, gains and losses on the sales of fixed assets and other miscellaneous income and expense, was \$34 million in 2010, as compared to \$3 million in 2009. The increase in other expense was largely the result of unfavorable foreign exchange in 2010. In addition, we recognized a loss on the extinguishment of debt of \$12 million, resulting from the write-off of unamortized debt issuance costs in the first quarter of 2010. In the 2009 Successor Period and 2009 Predecessor Period, we recognized losses of \$2 million and \$10 million, respectively, related to a transaction with an affiliate.

In the 2009 Predecessor Period, we recognized a gain of approximately \$2.0 billion for reorganization items as a result of the bankruptcy proceedings. This gain reflects the cancellation of our pre-petition equity, debt and certain of our other obligations, partially offset by the recognition of certain of our new equity and debt obligations, as well as professional fees incurred as a direct result of the bankruptcy proceedings. In addition, we recognized a charge of approximately \$526 million related to the valuation of our net assets upon emergence from Chapter 11 bankruptcy proceedings pursuant to the provisions of fresh-start accounting.

In 2010, the provision for income taxes was \$25 million, representing an effective tax rate of 5.5% on a pretax income of \$449 million. In the 2009 Successor Period, the benefit for income taxes was \$24 million, representing an effective tax rate of 71.6% on a pretax loss of \$34 million. In the 2009 Predecessor Period, the provision for income taxes was \$29 million, representing an effective tax rate of 3.1% on pretax income of \$928 million. The provision for income

taxes in 2010 was impacted by the mix of earnings among tax jurisdictions, as well as a portion of our restructuring charges and other expenses, 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. Additionally, the provision was impacted by tax benefits of \$33 million, including interest and penalties, related to reductions in recorded tax reserves, as well as net tax benefits of \$19 million related to restructuring, a tax law change in Mexico, the reduction of a valuation allowance in a foreign subsidiary and various other items. The provision for income taxes in 2009 primarily relates to profitable foreign operations, as well as withholding taxes on

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royalties and dividends paid by our foreign subsidiaries. In addition, we incurred losses in several countries that provided no tax benefits due to valuation allowances on our deferred tax assets in those countries. The provision was also impacted by a portion of our restructuring charges, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. Additionally, the benefit in the 2009 Successor Period was impacted by a tax benefit of \$28 million primarily related to the settlement of a tax matter in a foreign jurisdiction. The provision in the 2009 Predecessor Period was impacted by a tax benefit of \$23 million related to reorganization items and fresh-start accounting adjustments, as well as \$319 million of goodwill impairment charges, which were not deductible. Excluding these items, the effective tax rate in 2010 and 2009 approximated the U.S. federal statutory income tax rate of 35% adjusted for income taxes on foreign earnings, losses and remittances, foreign and U.S. valuation allowances, tax credits, income tax incentives and other permanent 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 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 allowances are 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 \$37 million for the year ended December 31, 2010, as compared to equity in net loss of affiliates of \$62 million for the year ended December 31, 2009, reflecting the improved operating performance of our equity affiliates. In addition, we recognized impairment charges of \$42 million related to our investments in two equity affiliates in the 2009 Predecessor Period.

Net income (loss) attributable to Lear was \$438 million in 2010, as compared to a net loss of \$4 million in the 2009 Successor Period and net income of \$818 million in the 2009 Predecessor Period, for the reasons discussed above.

Reportable Operating Segments

We have two reportable operating segments: seating, which includes seat systems and related components, such as seat frames, recliner mechanisms, seat tracks, seat trim covers, headrests and seat foam, and EPMS, which includes wiring, connectors, junction boxes and various other components of electrical distribution systems for traditional powertrain vehicles, as well as a new generation of hybrid and electric vehicles. The financial information presented below is for our two 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, interest expense, other (income) expense, reorganization items and fresh-start accounting adjustments, provision (benefit) for income taxes and equity in net (income) loss of affiliates (segment earnings) and segment earnings divided by net sales (margin) are not measures of performance under 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) attributable to Lear, net cash provided by (used in) operating activities or other statement of operations 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 (benefit) for income taxes and equity in net (income) loss of affiliates, see Note 14, Segment Reporting, to the consolidated financial statements included in this Report.

Table of Contents**Seating**

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

	Year Ended December 31, 2010	Successor Two Month Period Ended December 31, 2009	Predecessor Ten Month Period Ended November 7, 2009
Net sales	\$ 9,395.3	\$ 1,251.1	\$ 6,561.8
Segment earnings ⁽¹⁾	655.0	52.4	184.9
Margin	7.0%	4.2%	2.8%

(1) See definition above.

Seating net sales were \$9.4 billion for the year ended December 31, 2010, as compared to \$7.8 billion for the year ended December 31, 2009, an increase of \$1.6 billion or 20%. Improved global vehicle production volumes positively impacted net sales by \$1.5 billion. Segment earnings, including restructuring costs, and the related margin on net sales were \$655 million and 7.0% in 2010, as compared to \$237 million and 3.0% in 2009. Improved global vehicle production volumes and the benefit of our restructuring and other operating performance actions positively impacted segment earnings by \$549 million collectively. These increases were partially offset by the impact of selling price reductions and an increase in amortization expense as a result of intangible assets recognized in connection with the adoption of fresh-start accounting in 2009. In 2010, we incurred costs of \$48 million related to our restructuring actions in the seating segment, as compared to \$79 million in 2009. Segment earnings were negatively impacted in the 2009 Predecessor Period by fees and expenses of \$3 million related to our capital restructuring and in the 2009 Successor Period by the adoption of fresh-start accounting, which requires inventory to be recorded at fair value upon emergence. An inventory adjustment of \$3 million was recognized in cost of sales in the 2009 Successor Period as the inventory was sold. The impact of other fresh start accounting adjustments on segment earnings was limited to changes in depreciation expense which were not material.

EPMS

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

	Year Ended December 31, 2010	Successor Two Month Period Ended December 31, 2009	Predecessor Ten Month Period Ended November 7, 2009
Net sales	\$ 2,559.3	\$ 329.8	\$ 1,596.9
Segment earnings ⁽¹⁾	100.5	(24.5)	(131.3)
Margin	3.9%	(7.4)%	(8.2)%

(1) See definition above.

EPMS net sales were \$2.6 billion for the year ended December 31, 2010, as compared to \$1.9 billion for the year ended December 31, 2009, an increase of \$633 million or 33%. Improved global vehicle production volumes and the impact of new business positively impacted net sales by \$393 million and \$276 million, respectively. Segment earnings, including restructuring costs, and the related margin on net sales were \$101 million and 3.9% in 2010, as compared to (\$156) million and (8.1)% in 2009. Improved global vehicle production volumes, the benefit of our restructuring and other operating performance actions and the impact of new business positively impacted segment earnings by \$242 million collectively. These increases were partially offset by the impact of selling price reductions. In 2010, we incurred costs of \$19 million related to our restructuring actions in the EPMS segment, as compared to \$79 million in 2009. Segment earnings were negatively impacted in the 2009 Successor Period by the adoption of fresh-start accounting, which requires inventory to be recorded at fair value upon emergence. An inventory adjustment of \$6 million was recognized in cost of sales in the 2009 Successor Period as the inventory was

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sold. The impact of other fresh start accounting adjustments on segment earnings was limited to changes in depreciation and amortization expense which were not material.

Other

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

	Year Ended December 31, 2010	Successor Two Month Period Ended December 31, 2009	Predecessor Ten Month Period Ended November 7, 2009
Net sales	\$	\$	\$
Segment earnings ⁽¹⁾	(217.1)	(30.8)	(147.0)
Margin	N/A	N/A	N/A

(1) See definition above.

Our other category includes unallocated corporate and geographic headquarters costs, as well as the elimination of intercompany activity. Corporate and geographic headquarters costs include various support functions, such as information technology, purchasing, corporate finance, legal, executive administration and human resources. Segment earnings related to our other category were (\$217) million in 2010, as compared to (\$178) million in 2009, primarily due to an increase in compensation-related costs in 2010. In 2010, we incurred costs of \$2 million related to our restructuring actions, as compared to \$6 million in 2009. Segment earnings were negatively impacted in the 2009 Predecessor Period by fees and expenses of \$21 million related to our capital restructuring.

Year Ended December 31, 2009, Compared With Year Ended December 31, 2008

Net sales for the year ended December 31, 2009 were \$9.7 billion, as compared to \$13.6 billion for the year ended December 31, 2008, a decrease of \$3.8 billion or 28.2%. Lower industry production volumes in North America and Europe, as well as the impact of net foreign exchange rate fluctuations, negatively impacted net sales by \$3.1 billion and \$405 million, respectively.

Gross profit and gross margin were \$360 million and 3.7% in 2009, as compared to \$748 million and 5.5% in 2008. Lower industry production volumes in North America and Europe reduced gross profit by \$699 million. Gross profit was also negatively impacted by net selling price reductions. The benefit of our productivity and restructuring actions partially offset these decreases in gross profit. Gross profit was negatively impacted in the 2009 Successor Period by the adoption of fresh-start accounting, which requires inventory to be recorded at fair value upon emergence. This inventory adjustment of \$9 million was recognized in cost of sales in the 2009 Successor Period as the inventory was sold. The impact of other fresh start accounting adjustments on gross margin was limited to changes in depreciation expense which were not material.

Selling, general and administrative expenses, including engineering and development expenses, were \$448 million for the year ended December 31, 2009, as compared to \$512 million for the year ended December 31, 2008. As a percentage of net sales, selling, general and administrative expenses were 4.6% and 3.8% in 2009 and 2008,

respectively. The decrease in selling, general and administrative expenses was primarily due to favorable cost performance in 2009, including lower compensation-related expenses, as well as reduced engineering and development expenses and the impact of net foreign exchange rate fluctuations. These decreases were partially offset by fees and expenses of \$24 million related to our capital restructuring incurred in the 2009 Predecessor Period.

Engineering and development costs incurred in connection with the development of new products and manufacturing methods more than one year prior to launch, to the extent not recoverable from the customer, are charged to selling, general and administrative expenses as incurred. Such costs totaled \$83 million in 2009 and \$113 million in 2008. In certain situations, the reimbursement of pre-production engineering and design costs is contractually guaranteed by, and fully recoverable from, our customers and, therefore, is capitalized. For the years ended December 31, 2009 and 2008, we capitalized \$116 million and \$137 million, respectively, of such costs.

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In the 2009 Predecessor Period, we recorded goodwill impairment charges of \$319 million, related to our EPMS segment. Our goodwill impairment analysis was based on our distributable value, which was approved by the Bankruptcy Court. In 2008, we recorded goodwill impairment charges of \$530 million, related to our EPMS segment, primarily as a result of significant declines in estimated production volumes.

Interest expense was \$163 million in 2009, as compared to \$190 million in 2008. Interest expense in the 2009 Predecessor Period properly excludes \$70 million of contractual interest for certain of our pre-petition debt obligations subsequent to filing for bankruptcy protection under Chapter 11, in accordance with GAAP. The benefit of this exclusion was partially offset by interest and fees associated with our debtor-in-possession financing, as well as fees associated with our pre-petition primary credit facility amendments and waivers, in the 2009 Predecessor Period, and interest and fees associated with our first and second lien credit agreements in the 2009 Successor Period.

Other (income) expense, net, which includes non-income related taxes, foreign exchange gains and losses, discounts and expenses associated with our asset-backed securitization and factoring facilities, gains and losses related to certain derivative instruments and hedging activities, gains and losses on the extinguishment of debt, gains and losses on the sales of fixed assets and other miscellaneous income and expense, was \$3 million in 2009, as compared to \$52 million in 2008. In the 2009 Successor Period and 2009 Predecessor Period, we recognized losses of \$2 million and \$10 million, respectively, related to a transaction with an affiliate. The impact of this transaction was more than offset by an increase in foreign exchange gains. In 2008, we recognized gains of \$22 million related to the sales of our interests in two affiliates, as well as a gain of \$8 million on the extinguishment of debt.

In the 2009 Predecessor Period, we recognized a gain of approximately \$2.0 billion for reorganization items as a result of the bankruptcy proceedings. This gain reflects the cancellation of our pre-petition equity, debt and certain of our other obligations, partially offset by the recognition of certain of our new equity and debt obligations, as well as professional fees incurred as a direct result of the bankruptcy proceedings. In addition, we recognized a charge of approximately \$526 million related to the valuation of our net assets upon emergence from Chapter 11 bankruptcy proceedings pursuant to the provisions of fresh-start accounting.

In the 2009 Successor Period, the benefit for income taxes was \$24 million, representing an effective tax rate of 71.6% on a pretax loss of \$34 million. In the 2009 Predecessor Period, the provision for income taxes was \$29 million, representing an effective tax rate of 3.1% on pretax income of \$928 million. In 2008, the provision for income taxes was \$86 million, representing an effective tax rate of negative 15.8% on a pretax loss of \$541 million. The provision for income taxes in 2009 primarily relates to profitable foreign operations, as well as withholding taxes on royalties and dividends paid by our foreign subsidiaries. In addition, we incurred losses in several countries that provided no tax benefits due to valuation allowances on our deferred tax assets in those countries. The provision was also impacted by a portion of our restructuring charges, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. Additionally, the benefit in the 2009 Successor Period was impacted by a tax benefit of \$28 million primarily related to the settlement of a tax matter in a foreign jurisdiction. The provision in the 2009 Predecessor Period was impacted by a tax benefit of \$23 million related to reorganization items and fresh-start accounting adjustments, as well as \$319 million of goodwill impairment charges, which were not deductible. The 2008 provision for income taxes was impacted by \$530 million of goodwill impairment charges, a substantial portion of which were not deductible. The provision was also impacted by a portion of our restructuring charges, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. The provision was also impacted by a tax benefit of \$9 million, including interest, related to a reduction in recorded tax reserves, a tax benefit of \$19 million related to the reversal of a valuation allowance in a European subsidiary and tax expense of \$19 million related to the establishment of a valuation allowance in another European subsidiary. Excluding these items, the effective tax rate in 2009 and 2008 approximated the U.S. federal statutory income tax rate of 35% adjusted for income taxes on foreign earnings, losses

and remittances, foreign and U.S. valuation allowances, tax credits, income tax incentives and other permanent 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 income taxes will include no tax benefit with respect to losses incurred and no tax expense with respect to

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income generated in these countries until the respective valuation allowances are eliminated. Accordingly, income taxes are impacted by the U.S. and foreign valuation allowances and the mix of earnings among jurisdictions.

Equity in net loss of affiliates was \$62 million for the year ended December 31, 2009, as compared to equity in net loss of affiliates of \$37 million for the year ended December 31, 2008. In the 2009 Predecessor Period, we recognized impairment charges of \$42 million related to our investments in two equity affiliates. In 2008, we recognized an impairment charge of \$34 million related to our investment in an affiliate.

Net income (loss) attributable to Lear was (\$4) million in the 2009 Successor Period and \$818 million in the 2009 Predecessor Period, as compared to (\$690) million in 2008, for the reasons discussed above.

Reportable Operating Segments

For a description of our reportable operating segments, see Year Ended December 31, 2010, Compared With Year Ended December 31, 2009 Reportable Operating Segments above.

Seating

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

	Successor Two Month Period Ended December 31, 2009	Predecessor Ten Month Period Ended November 7, 2009	Year Ended December 31, 2008
Net sales	\$ 1,251.1	\$ 6,561.8	\$ 10,726.9
Segment earnings ⁽¹⁾	52.4	184.9	386.7
Margin	4.2%	2.8%	3.6%

(1) See definition above.

Seating net sales were \$7.8 billion for the year ended December 31, 2009, as compared to \$10.7 billion for the year ended December 31, 2008, a decrease of \$2.9 billion or 27.2%. Lower industry production volumes in North America and Europe, as well as the impact of net foreign exchange rate fluctuations, negatively impacted net sales by \$2.5 billion and \$355 million, respectively. Segment earnings, including restructuring costs, and the related margin on net sales were \$237 million and 3.0% in 2009, as compared to \$387 million and 3.6% in 2008. Lower industry production volumes in North America and Europe reduced segment earnings by \$499 million. Segment earnings were also negatively impacted by net selling price reductions. The benefit of our productivity and restructuring actions partially offset these decreases in segment earnings. Segment earnings were negatively impacted in the 2009 Predecessor Period by fees and expenses of \$3 million related to our capital restructuring and in the 2009 Successor Period by the adoption of fresh-start accounting, which requires inventory to be recorded at fair value upon emergence. An inventory adjustment of \$3 million was recognized in cost of sales in the 2009 Successor Period as the inventory was sold. In addition, we incurred costs of \$79 million in 2009 related to our restructuring actions in the seating segment, as compared to \$133 million in 2008.

EPMS

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

	Successor	Predecessor	
	Two Month	Ten Month	
	Period	Period	Year Ended
	Ended	Ended	December 31,
	December 31,	November 7,	2008
	2009	2009	
Net sales	\$ 329.8	\$ 1,596.9	\$ 2,843.6
Segment earnings ⁽¹⁾	(24.5)	(131.3)	44.7
Margin	(7.4)%	(8.2)%	1.6%

(1) See definition above.

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EPMS net sales were \$1.9 billion for the year ended December 31, 2009, as compared to \$2.8 billion for the year ended December 31, 2008, a decrease of \$917 million or 32.2%. Lower industry production volumes in North America and Europe, as well as the impact of net foreign exchange rate fluctuations, negatively impacted net sales by \$687 million and \$50 million, respectively. Segment earnings, including restructuring costs, and the related margin on net sales were (\$156) million and (8.1)% in 2009, as compared to \$45 million and 1.6% in 2008. Lower industry production volumes in North America and Europe reduced segment earnings by \$200 million. Segment earnings were also negatively impacted by net selling price reductions. The benefit of our productivity and restructuring actions partially offset these decreases in segment earnings. Segment earnings were negatively impacted in the 2009 Successor Period by the adoption of fresh-start accounting, which requires inventory to be recorded at fair value upon emergence. An inventory adjustment of \$6 million was recognized in cost of sales in the 2009 Successor Period as the inventory was sold. In addition, we incurred costs of \$79 million in 2009 related to our restructuring actions in the EPMS segment, as compared to \$31 million in 2008.

Other

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

	Successor Two Month Period Ended December 31, 2009	Predecessor Ten Month Period Ended November 7, 2009	Year Ended December 31, 2008
Net sales	\$	\$	\$
Segment earnings ⁽¹⁾	(30.8)	(147.0)	(200.6)
Margin	N/A	N/A	N/A

(1) See definition above.

Our other category includes unallocated corporate and geographic headquarters costs, as well as the elimination of intercompany activity. Corporate and geographic headquarters costs include various support functions, such as information technology, purchasing, corporate finance, legal, executive administration and human resources. Segment earnings related to our other category were (\$178) million in 2009, as compared to (\$201) million in 2008, primarily due to savings from our restructuring and other cost improvement actions. These savings were partially offset by fees and expenses of \$21 million related to our capital restructuring incurred in the 2009 Predecessor Period. In addition, we incurred costs of \$6 million in 2009 related to our restructuring actions, as compared to \$24 million in 2008.

Liquidity and Financial Condition

Our primary liquidity needs are to fund general business requirements, including working capital requirements, capital expenditures, operational restructuring actions and debt service requirements. Our principal sources of liquidity are cash flows from operating activities and our existing cash balance. 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, royalties, intercompany loan repayments and other distributions and advances from our subsidiaries to provide the funds necessary to meet our obligations. There are no significant restrictions on the ability of our

subsidiaries to pay dividends or make other distributions to Lear. For further information regarding potential dividends from our non-U.S. subsidiaries, see Note 9, *Income Taxes*, to the consolidated financial statements included in this Report.

Cash Flows

Net cash provided by operating activities was \$622 million in 2010, as compared to net cash used in operating activities of \$175 million in 2009. The increase primarily reflects higher earnings before the impact of reorganization items and fresh-start accounting adjustments and goodwill impairment charges recorded in 2009. The net change in sold accounts receivable, which reflects the termination of our European accounts receivable factoring

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facility in 2009, and the net change in working capital benefited operating cash flow between years by \$139 million and \$54 million, respectively. This benefit was partially offset by the net change in recoverable customer engineering, development and tooling, which resulted in a decrease in operating cash flow between years of \$42 million. In the year ended December 31, 2010, increases in accounts receivable and accounts payable resulted in a use of cash of \$291 million and a source of cash of \$318 million, respectively, primarily reflecting the impact of increased production volumes. The impact of increases in inventories, other current assets and accrued liabilities were largely offsetting.

Net cash used in investing activities was \$192 million in 2010, as compared to \$92 million in 2009, reflecting an increase in capital expenditures of \$75 million between years. Capital spending in 2011 is estimated at approximately \$250 million.

Net cash used in financing activities was \$321 million in 2010, as compared to net cash provided by financing activities of \$195 million in 2009. In 2010, the repayment of \$925 million of term loans under our first and second lien credit agreements and \$43 million of other debt outstanding was largely offset by \$680 million of net proceeds related to the issuance of our senior unsecured notes. In 2009, we borrowed \$375 million under the first lien credit agreement and prepaid \$50 million under the second lien credit agreement. In addition, we paid \$71 million in debt issuance costs related to our pre-petition primary credit facility, our debtor-in-possession financing and our first and second lien credit agreements. We also prepaid \$50 million of Series A preferred stock. For further information regarding our 2010 and 2009 financing transactions, see **Capitalization** below.

Capitalization

In addition to cash provided by operating activities, we utilize uncommitted lines of credit to fund our capital expenditures and working capital requirements at certain of our foreign subsidiaries. As of December 31, 2010 and 2009, our outstanding short-term debt balance was \$4 million and \$37 million, respectively. The weighted average short-term interest rate on our short-term debt balances, excluding rates under our prior year primary credit facility and senior notes, was 2.6% and 3.8% for the years ended December 31, 2010 and 2009, respectively. The availability of uncommitted lines of credit may be affected by our financial performance, credit ratings and other factors.

Senior Notes

On March 26, 2010, we issued \$350 million in aggregate principal amount at maturity of senior unsecured notes due 2018 at a stated coupon rate of 7.875% (the 2018 Notes) and \$350 million in aggregate principal amount at maturity of senior unsecured notes due 2020 at a stated coupon rate of 8.125% (the 2020 Notes and together with the 2018 Notes, the Notes). The 2018 Notes were priced at 99.276% of par, resulting in a yield to maturity of 8.00%, and the 2020 Notes were priced at 99.164% of par, resulting in a yield to maturity of 8.25%. The net proceeds from the issuance of the Notes, together with existing cash on hand, were used to repay in full an aggregate amount of \$925 million of term loans provided under our first and second lien credit agreements (described below).

Interest is payable on the Notes on March 15 and September 15 of each year, beginning September 15, 2010. The 2018 Notes mature on March 15, 2018, and the 2020 Notes mature on March 15, 2020. As of December 31, 2010, we had \$695 million of Notes outstanding. The indenture governing the Notes contain certain restrictive covenants and customary events of default. As of December 31, 2010, we were in compliance with all covenants under the indenture governing the Notes.

The Notes are senior unsecured obligations. Our obligations under the Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by certain domestic subsidiaries, which are directly or indirectly 100% owned by Lear.

For further information related to the Notes, including information on early redemption, covenants and events of default, see Note 8, Long-Term Debt, to the consolidated financial statements included in this Report and the indenture (as amended and supplemented) governing the Notes, which has been incorporated by reference as an exhibit to this Report.

Table of Contents**First and Second Lien Credit Agreements and Revolving Credit Facility**

In connection with our emergence from Chapter 11 bankruptcy proceedings, we entered into a first lien credit agreement (as amended, restated or otherwise modified, the first lien credit agreement) and a second lien credit agreement in the fourth quarter of 2009. The first lien credit agreement provided for the issuance of \$375 million of term loans, and the second lien credit agreement provided for the issuance of \$550 million of term loans. As described above, in March 2010, we repaid in full amounts outstanding under the first and second lien credit agreements.

Effective March 19, 2010, we entered into an amendment and restatement of the first lien credit agreement, which provides for a \$110 million revolving credit facility (the Revolving Credit Facility). The Revolving Credit Facility permits borrowings for general corporate and working capital purposes and the issuance of letters of credit. The commitments under the Revolving Credit Facility expire on March 18, 2013. As of December 31, 2010, there were no borrowings outstanding under the Revolving Credit Facility, and we were in compliance with all covenants under the agreement governing the Revolving Credit Facility.

For further information related to the Revolving Credit Facility, including information on pricing, covenants and events of default, see Note 8, Long-Term Debt, to the consolidated financial statements included in this Report and the amended and restated first lien credit agreement, which has been incorporated by reference as an exhibit to this Report.

Also on March 19, 2010, we amended the first lien credit agreement to facilitate the issuance of the Notes and the repayment of amounts outstanding under the second lien credit agreement. The amendment also provides for the repurchase of certain amounts of the Notes and for a limited amount of cash dividend payments or repurchases of our common stock, when certain terms and conditions are met.

Contractual Obligations

Our scheduled maturities of long-term debt, our scheduled interest payments on the Notes and our lease commitments under non-cancelable operating leases as of December 31, 2010, are shown below (in millions):

	2011	2012	2013	2014	2015	Thereafter	Total
Long-term debt maturities	\$	\$	\$	\$	\$	\$ 694.9	\$ 694.9
Scheduled interest payments	56.0	56.0	56.0	56.0	56.0	196.9	476.9
Lease commitments	68.8	48.6	39.0	28.9	21.0	33.8	240.1
Total	\$ 124.8	\$ 104.6	\$ 95.0	\$ 84.9	\$ 77.0	\$ 925.6	\$ 1,411.9

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 cycle. Although such agreements do not provide for a specified quantity of products, once we enter into such agreements, we are generally required to fulfill our customers' purchasing requirements for the production life of the vehicle. Prior to being formally awarded a program, we typically work closely with our customers in the early stages of the design and engineering of 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 have a material adverse impact on 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, which do not provide for minimum purchases, or are requirements-based contracts.

We may be required to make significant cash outlays related to our unrecognized tax benefits, including interest and penalties. 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, including interest and penalties and excluding federal tax benefit where applicable, of \$45 million as of December 31, 2010, have been excluded from the contractual obligations table above. For further information related to our unrecognized tax benefits, see Note 9, Income Taxes, to the consolidated financial statements included in this Report.

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We also have minimum funding requirements with respect to our pension obligation. Based on these minimum funding requirements, we expect required contributions to be approximately \$5 to \$10 million to our domestic and foreign pension plans in 2011. We may elect to make contributions in excess of the minimum funding requirements in response to investment performance or changes in interest rates or when we believe that it is financially advantageous to do so and based on our other cash requirements. Our minimum funding requirements after 2011 will depend on several factors, including investment performance and interest rates. Our minimum funding requirements may also be affected by changes in applicable legal requirements. We also have payments due with respect to our postretirement benefit obligation. We do not fund our postretirement benefit obligation. Rather, payments are made as costs are incurred by covered retirees. We expect payments related to our postretirement benefit obligation to be approximately \$11 million in 2011.

We also have a defined contribution retirement program for our salaried employees. Contributions to this program are determined as a percentage of each covered employee's eligible compensation and are expected to be approximately \$14 million in 2011. In addition, we expect distributions to participants in certain of our non-qualified defined benefit plans to be approximately \$7 million in 2011.

For further information related to our pension and other postretirement benefit plans, see **Other Matters** Pension and Other Postretirement Benefit Plans and Note 10, Pension and Other Postretirement Benefit Plans, to the consolidated financial statements included in this Report.

Off-Balance Sheet Arrangements

Guarantees and Commitments We guarantee 49% of certain of the debt of Tacle Seating USA, LLC. As of December 31, 2010, the aggregate amount of debt guaranteed was approximately \$2 million.

Dividends

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

Adequacy of Liquidity Sources

As of December 31, 2010, we had approximately \$1.7 billion of cash and cash equivalents on hand, which we believe will enable us to meet our liquidity needs to satisfy ordinary course business obligations. However, our ability to continue to meet such liquidity needs is subject to, and will be affected by, cash flows from operations, including the impact of restructuring activities, automotive industry conditions, the financial condition of our customers and suppliers and other related factors. Additionally, an economic downturn or reduction in production levels could negatively impact our financial condition. Furthermore, our future financial results will be affected by cash flows from operations, including the impact of restructuring activities, and will also be subject to certain factors outside of our control, including those described above. See Part I Item 1A, Risk Factors, Executive Overview above and Forward-Looking Statements below for further discussion of the risks and uncertainties affecting our cash flows from operations and overall liquidity.

Market Risk Sensitivity

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

Foreign Exchange

Operating results may be impacted by our buying, selling and financing in currencies other than the functional currency of our operating companies (transactional exposure). We may mitigate a portion of 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

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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, various European currencies, the Chinese renminbi, the Canadian dollar and the Japanese yen. We have performed a quantitative analysis of our overall currency rate exposure as of December 31, 2010. The potential earnings benefit related to net transactional exposures from a hypothetical 10% strengthening of the U.S. dollar relative to all other currencies to which it is exposed for a twelve-month period is approximately \$22 million. The potential earnings benefit related to net transactional exposures from a similar strengthening of the Euro relative to all other currencies to which it is exposed for a twelve-month period is approximately \$15 million.

As of December 31, 2010, foreign exchange contracts representing \$315 million of notional amount were outstanding with maturities of less than 12 months. As of December 31, 2010, the fair value of these contracts was approximately (\$1) million. A 10% change in the value of the U.S. dollar relative to all other currencies to which it is exposed would result in a \$7 million change in the aggregate fair value of these contracts. A 10% change in the value of the Euro relative to all other currencies to which it is exposed would result in a \$4 million change in the aggregate fair value of these contracts. As of December 31, 2009, there were no foreign exchange contracts outstanding.

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 (translational exposure). In 2010, net sales outside of the United States accounted for 82% of our consolidated net sales, although certain non-U.S. sales are U.S. dollar denominated. We do not enter into foreign exchange contracts to mitigate our translational exposure.

Interest Rates

Historically, we have used interest rate swap and other derivative contracts to manage our exposure to variable interest rates on outstanding variable rate debt instruments indexed to U.S. or European Monetary Union short-term money market rates. As of December 31, 2010 and 2009, there were no interest rate contracts outstanding. We will continue to evaluate, and may use, derivative financial instruments, including forwards, futures, options, swaps and other derivative contracts to manage our exposures to fluctuations in interest rates in the future.

Commodity Prices

Raw material, energy and commodity costs have been extremely volatile over the past several years. We have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, which include cost reduction actions, such as the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments and the selective expansion of low-cost country sourcing and engineering, as well as value engineering and product benchmarking. However, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. These costs remain volatile and could have an adverse impact on our operating results in the foreseeable future. See Part I Item 1A, Risk Factors Increases in the costs and restrictions on the availability of raw materials, energy, commodities and product components could adversely affect our financial performance, and Forward-Looking Statements.

We have commodity price risk with respect to purchases of certain raw materials, including steel, leather, resins, chemicals, copper and diesel fuel. Our main cost exposures relate to steel and copper. The majority of the steel used in our products is comprised of components that are integrated into a seat system, such as seat frames, recliner mechanisms, seat tracks and mechanical components. Therefore, our exposure to steel prices is primarily indirect, through these purchased components. Approximately 80% of our copper purchases are subject to price index agreements with our customers.

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In certain periods, we have used derivative instruments to reduce our exposure to fluctuations in certain commodity prices, including copper. As of December 31, 2010 and 2009, there were no commodity swap contracts outstanding. We will continue to evaluate, and may use, derivative financial instruments, including forwards, futures, options, swaps and other derivative contracts to manage our exposures to commodity prices in the future.

For further information related to the financial instruments described above, see 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 various legal proceedings and claims, including, without limitation, commercial and contractual disputes, product liability claims and environmental and other matters. As of December 31, 2010, we had recorded reserves for pending legal disputes, including commercial disputes and other matters, of \$23 million. In addition, as of December 31, 2010, we had recorded reserves for product liability claims and environmental matters of \$44 million and \$3 million, respectively. Although these reserves were determined in accordance with GAAP, the ultimate outcomes of these matters are inherently uncertain, and actual results may differ significantly from current estimates. For a description of risks related to various legal proceedings and claims, see Part I Item 1A, *Risk Factors*. For a more complete description of our outstanding material legal proceedings, see Note 13, *Commitments and Contingencies*, to the consolidated financial statements included in this Report.

Significant Accounting Policies and Critical Accounting Estimates

Our significant accounting policies are more fully described in Note 4, *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, these estimates and assumptions 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 and development (E&D) and tooling costs related to the products produced for our customers under long-term supply agreements. We expense all pre-production E&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 we do not have a non-cancelable right to use the tooling.

A change in the commercial arrangements affecting any of our significant programs that would require us to expense E&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, 2010 and 2009, we had recorded goodwill of \$615 million and \$621 million, respectively. Goodwill recorded as of December 31, 2010 and 2009, reflects the adoption of fresh-start accounting (see Note 3, Fresh-Start Accounting, to the consolidated financial statements included in this Report). Goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than

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annually if an event or circumstance indicates that an impairment is more likely than not to 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 net book value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. We conduct our annual impairment testing as of the first day of the fourth quarter.

We utilize an income approach to estimate the fair value of each of our reporting units and a market valuation approach to further support this analysis. The income approach is based on projected debt-free cash flow which is discounted to the present value using discount factors that consider the timing and risk of cash flows. 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. The discount rate used is the value-weighted average of our estimated cost of equity and of debt (cost of capital) derived using both known and estimated customary market metrics. Our weighted average cost of capital is adjusted by reporting unit to reflect a risk factor, if necessary. Other significant assumptions include terminal value growth rates, terminal value margin rates, future capital expenditures and changes in future working capital requirements. While there are inherent uncertainties related to the assumptions used and to management's application of these assumptions to this analysis, we believe that the income approach provides a reasonable estimate of the fair value of our reporting units. The market valuation approach is used to further support our analysis and is based on recent transactions involving comparable companies.

Our 2010 annual goodwill impairment analysis, completed as of the first day of the fourth quarter, resulted in no impairment. We do not believe that any of our reporting units is at risk for impairment.

In the 2009 Predecessor Period, our annual goodwill impairment analysis, completed as of the first day of the fourth quarter, was based on our distributable value, which was approved by the Bankruptcy Court, and resulted in impairment charges of \$319 million related to our EPMS segment. For further information on our distributable value, see Note 3, *Fresh-Start Accounting* to the consolidated financial statements included in this Report.

Our 2008 annual goodwill impairment analysis indicated a significant decline in the fair value of our EPMS segment, as well as an impairment of the related goodwill. The decline in fair value resulted from unfavorable operating results, primarily as a result of the significant decline in estimated industry production volumes. We evaluated the net book value of goodwill within our EPMS segment by comparing the fair value of each reporting unit to the related net book value. As a result, we recorded total goodwill impairment charges of \$530 million.

Impairment of Long-Lived Assets

We monitor our long-lived assets for impairment indicators on an ongoing basis in accordance with GAAP. If impairment indicators exist, we perform the required impairment analysis by comparing the undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. If the net book value exceeds the undiscounted cash flows, an impairment loss is measured and recognized. An impairment loss is measured as the difference between the net book value and the fair value of the long-lived assets. Fair value is estimated based upon either discounted cash flow analyses or estimated salvage values. Cash flows are estimated using internal budgets based on recent sales data, independent automotive production volume estimates and customer commitments, as well as assumptions related to discount rates. Changes in economic or operating conditions impacting these estimates and assumptions could result in the impairment of our long-lived assets.

In the year ended December 31, 2010, the 2009 Predecessor Period and the year ended December 31, 2008, we recognized fixed asset impairment charges of \$4 million, \$6 million and \$18 million, respectively, in conjunction with

our restructuring actions, as well as an additional \$3 million of fixed asset impairment charges in 2010. See Note 5, Restructuring, to the consolidated financial statements included in this Report.

Impairment of Investments in Affiliates

As of December 31, 2010 and 2009, we had aggregate investments in affiliates of \$173 million and \$139 million, respectively. We monitor our investments in affiliates for indicators of other-than-temporary declines

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in value on an ongoing basis in accordance with GAAP. If we determine that an other-than-temporary decline in value has occurred, we recognize an impairment loss, which is measured as the difference between the recorded book value and the fair value of the investment. Fair value is generally determined using an income approach based on discounted cash flows or negotiated transaction values. A deterioration in industry conditions and decline in the operating results of our non-consolidated affiliates could result in the impairment of our investments.

In the 2009 Predecessor Period, we recorded impairment charges of \$42 million related to certain of our investments in affiliates. In the year ended December 31, 2008, we recorded an impairment charge of \$34 million related to an investment in an affiliate.

Restructuring

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

Legal and Other Contingencies

We are involved from time to time in various legal proceedings and claims, including commercial or contractual disputes, product liability claims and environmental and other matters, that arise in the normal course of business. We routinely assess the likelihood of any adverse judgments or outcomes related 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 GAAP for those matters where we believe that the likelihood that a loss has occurred is probable and the amount of the 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 amount of such 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 health 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 GAAP, the effects of the modifications are recorded currently or are amortized over future periods.

Approximately 12% of our active workforce is covered by defined benefit pension plans. Approximately 2% 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 and liquidity considerations and local practices. We do not fund our postretirement benefit obligation.

As of December 31, 2010, our projected benefit obligations related to our pension and other postretirement benefit plans were \$920 million and \$178 million, respectively, and our unfunded pension and other postretirement benefit obligations were \$138 million and \$178 million, respectively. These benefit obligations were valued using a

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weighted average discount rate of 5.45% and 5.00% for domestic pension and other postretirement benefit plans, respectively, and 5.20% 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 100 basis points would have increased the projected benefit obligations and unfunded status of our pension and other postretirement benefit plans by approximately \$130 million and \$20 million, respectively.

For the year ended December 31, 2010, net periodic pension benefit cost was \$7 million and net periodic other postretirement benefit cost was \$10 million. In 2010, net periodic pension benefit cost was calculated using a variety of assumptions, including a weighted average discount rate of 5.96% for domestic and 5.88% for foreign plans and an expected return on plan assets of 8.00% for domestic and 6.92% 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. In 2010, net periodic other postretirement benefit cost was calculated using a discount rate of 5.5% for domestic and 6.6% for foreign plans.

Aggregate net periodic pension and other postretirement benefit cost is forecasted to be approximately \$12 million in 2011. This estimate is based on a weighted average discount rate of 5.5% and 5.3% for domestic and foreign pension plans, respectively, and 5.0% and 5.6% 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. Adjustments to our actuarial assumptions could have a material adverse impact on our operating results. Decreasing the discount rate by 100 basis points would increase net periodic pension and other postretirement benefit cost each by approximately \$1 million for the year ended December 31, 2011. Decreasing the expected return on plan assets by 100 basis points would increase net periodic pension benefit cost by approximately \$8 million for the year ended December 31, 2011.

For further information related to our pension and other postretirement benefit plans, see [Liquidity and Financial Condition](#), [Capitalization](#), [Contractual Obligations](#) above and Note 10, [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 cycle. Although such agreements do not provide for a specified quantity of products, once we enter into such agreements, we are generally required to fulfill our customers' purchasing requirements for the production life of the vehicle. These agreements generally may be terminated by our customers 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 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 productivity price 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.

Income Taxes

We account for income taxes in accordance with GAAP. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts of

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existing assets and liabilities and their respective tax bases and operating loss and tax loss and credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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 GAAP, 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.

We continue to maintain a valuation allowance related to our net deferred tax assets in the United States and several foreign jurisdictions. As of December 31, 2010, we had valuation allowances of \$1.4 billion related to tax loss and credit carryforwards and other deferred tax assets in the United States and several 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 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, and changes in, 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 differ significantly from our estimated liabilities.

For further information related to income taxes, see Note 9, *Income Taxes*, to the consolidated financial statements included in this Report.

Fair Value Measurements

We measure certain assets and liabilities at fair value on a non-recurring basis using unobservable inputs (Level 3 input based on the GAAP fair value hierarchy). For further information on these fair value measurements, see

Impairment of Goodwill, *Impairment of Long-Lived Assets*, *Restructuring* and *Impairment of Investments in Affiliates* above and *Adoption of Fresh-Start Accounting* below.

Adoption of Fresh-Start Accounting

Fresh-start accounting results in a new basis of accounting and reflects the allocation of our estimated fair value to our underlying assets and liabilities. Our estimates of fair value are inherently subject to significant uncertainties and contingencies beyond our reasonable control. Accordingly, there can be no assurance that the estimates, assumptions, valuations, appraisals and financial projections will be realized, and actual results could vary materially.

Our reorganization value was allocated to our assets in conformity with the procedures specified by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, *Business Combinations*. The excess of reorganization value over the fair value of tangible and identifiable intangible assets was recorded as goodwill. Liabilities existing as of the date of our emergence from Chapter 11 bankruptcy proceedings, other than deferred taxes, were recorded at the present value of amounts expected to be paid using appropriate risk adjusted interest rates. Deferred taxes were determined in conformity with applicable income tax accounting standards.

Predecessor accumulated depreciation, accumulated amortization, retained deficit, common stock and accumulated other comprehensive loss were eliminated.

For further information on fresh-start accounting, see Note 3, Fresh-Start Accounting, to the consolidated financial statements included in this Report.

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Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. During 2010, there were no material changes in the methods or policies used to establish estimates and assumptions. The adoption of fresh-start accounting required significant estimation and judgment. See Note 3, *Fresh-Start Accounting*, to the consolidated financial statements included in this Report. Other matters subject to estimation and judgment include amounts related to accounts receivable realization, inventory obsolescence, asset impairments, useful lives of fixed and intangible assets, 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 significantly from our estimates.

Recently Issued Accounting Pronouncements

Consolidation of Variable Interest Entities

The FASB amended ASC 810, *Consolidations*, with ASU 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. This update significantly changes the model for determining whether an entity is the primary beneficiary and should thus consolidate a variable interest entity. In addition, this update requires additional disclosures and an ongoing assessment of whether a variable interest entity should be consolidated. The provisions of this update are effective for annual reporting periods beginning after November 15, 2009. We have ownership interests in consolidated and non-consolidated variable interest entities. The effects of adoption were not significant.

Revenue Recognition

The FASB amended ASC 605, *Revenue Recognition*, with ASU 2009-13, *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements*. If a revenue arrangement has multiple deliverables, this update requires the allocation of revenue to the separate deliverables based on relative selling prices. In addition, this update requires additional ongoing disclosures about an entity's multiple-element revenue arrangements. The provisions of this update are effective no later than January 1, 2011. We do not expect the effects of adoption to be significant.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. The words *will*, *may*, *designed to*, *outlook*, *believes*, *should*, *anticipates*, *plans*, *expects*, *estimates*, *forecasts* and similar expressions identify certain of these forward-looking statements. We also may provide forward-looking statements in oral statements or other written materials released to the public. All such forward-looking statements contained or incorporated in this Report or in any other public statements which address operating performance, events or developments that we expect or anticipate may occur in the future, including, without limitation, statements related to business opportunities, awarded sales contracts, sales backlog and ongoing commercial arrangements, or statements expressing views about future operating results, are forward-looking statements. Actual results may differ materially from any or all forward-looking statements made by us. Important factors, risks and uncertainties that may cause actual results to differ materially from anticipated results 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 and restructuring actions of our customers and suppliers;

changes in actual industry vehicle production levels from our current estimates;

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fluctuations in the production of vehicles or 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;

the outcome of customer negotiations and the impact of customer-imposed price reductions;

the impact and timing of program launch costs and our management of new program launches;

the costs, timing and success of restructuring actions;

increases in our warranty, product liability or recall costs;

risks associated with conducting business in foreign countries;

competitive conditions impacting us and our key customers and suppliers;

the cost and availability of raw materials, energy, commodities and product components and our ability to mitigate such costs;

the outcome of legal or regulatory proceedings to which we are or may become a party;

the impact of pending legislation and regulations or changes in existing federal, state, local or foreign laws or regulations;

unanticipated changes in cash flow, including our ability to align our vendor payment terms with those of our customers;

limitations imposed by our existing indebtedness and our ability to access capital markets on commercially reasonable terms;

impairment charges initiated by adverse industry or market developments;

our ability to execute our strategic objectives;

changes in discount rates and the actual return on pension assets;

costs associated with compliance with environmental laws and regulations;

developments or assertions by or against us relating to intellectual property rights;

our ability to utilize our net operating loss, capital loss and tax credit carryforwards; and

other risks, described in Part I Item 1A, Risk Factors, and from time to time in our other Securities and Exchange Commission filings.

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

ITEM 8 CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Lear Corporation

We have audited the accompanying consolidated balance sheets of Lear Corporation and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, equity and cash flows for the year ended December 31, 2010, the period from November 8, 2009 to December 31, 2009 (Successor), the period from January 1, 2009 to November 7, 2009, and the year ended December 31, 2008 (Predecessor). Our audits also included the financial statement schedule included in Item 8. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lear Corporation and subsidiaries as of December 31, 2010 and 2009, and the consolidated results of their operations and cash flows for the year ended December 31, 2010, the period from November 8, 2009 to December 31, 2009 (Successor), the period from January 1, 2009 to November 7, 2009, and the year ended December 31, 2008 (Predecessor), in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, on November 5, 2009, the United States Bankruptcy Court for the Southern District of New York entered an order confirming the Plan of Reorganization, which became effective on November 9, 2009. Accordingly, the accompanying consolidated financial statements have been prepared in conformity with FASB Accounting Standards Codificationtm 852, Reorganizations, for the Successor as a new entity with assets, liabilities and a capital structure having carrying values that are not comparable to prior periods.

As discussed in Note 10 to the consolidated financial statements, in 2008, the Predecessor changed its method of accounting for pension and other postretirement benefit plans.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lear Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 10, 2011, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Detroit, Michigan
February 10, 2011

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Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Shareholders of Lear Corporation

We have audited Lear Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Lear Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management's Annual Report on Internal Control Over Financial Reporting included in Item 9A(b). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Lear Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2010 consolidated financial statements of Lear Corporation and subsidiaries, and our report dated February 10, 2011, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Detroit, Michigan
February 10, 2011

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

December 31,	Successor	
	2010	2009
	(In millions, except share data)	
ASSETS		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 1,654.1	\$ 1,554.0
Accounts receivable	1,758.4	1,479.9
Inventories	554.2	447.4
Other	418.8	305.7
Total current assets	4,385.5	3,787.0
<i>Long-Term Assets:</i>		
Property, plant and equipment, net	994.7	1,050.9
Goodwill	614.6	621.4
Other	626.3	614.0
Total long-term assets	2,235.6	2,286.3
	\$ 6,621.1	\$ 6,073.3
LIABILITIES AND EQUITY		
<i>Current Liabilities:</i>		
Short-term borrowings	\$ 4.1	\$ 37.1
Accounts payable and drafts	1,838.4	1,547.5
Accrued liabilities	976.0	808.1
Current portion of long-term debt		8.1
Total current liabilities	2,818.5	2,400.8
<i>Long-Term Liabilities:</i>		
Long-term debt	694.9	927.1
Other	538.9	563.6
Total long-term liabilities	1,233.8	1,490.7
<i>Equity:</i>		
Series A convertible preferred stock, 100,000,000 shares authorized; 10,896,250 shares issued as of December 31, 2010 and 2009; 9,881,303 shares outstanding as of December 31, 2009		408.1

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Common stock, \$0.01 par value, 300,000,000 shares authorized; 52,749,440 and 36,954,733 shares issued as of December 31, 2010 and 2009, respectively	0.5	0.4
Additional paid-in capital, including warrants to purchase common stock	2,116.6	1,685.7
Common stock held in treasury, 161,065 shares as of December 31, 2010, at cost	(13.4)	
Retained earnings (deficit)	434.5	(3.8)
Accumulated other comprehensive loss	(78.0)	(1.3)
Lear Corporation stockholders' equity	2,460.2	2,089.1
Noncontrolling interests	108.6	92.7
Equity	2,568.8	2,181.8
	\$ 6,621.1	\$ 6,073.3

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

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LEAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Successor		Predecessor	
	Year	Two Month	Ten	
	Ended	Period	Month	Year Ended
	December 31,	December 31,	Period	December 31,
	2010	2009	Ended	2008
	(In millions, except per share data)			
Net sales	\$ 11,954.6	\$ 1,580.9	\$ 8,158.7	\$ 13,570.5
Cost of sales	10,936.3	1,508.1	7,871.3	12,822.9
Selling, general and administrative expenses	452.7	71.2	376.7	511.5
Amortization of intangible assets	27.2	4.5	4.1	5.3
Goodwill impairment charges			319.0	530.0
Interest expense (\$221.1 million of contractual interest for the ten month period ended November 7, 2009)	55.4	11.1	151.4	190.3
Other (income) expense, net	34.2	19.8	(16.6)	51.9
Reorganization items and fresh-start accounting adjustments, net			(1,474.8)	
Consolidated income (loss) before provision (benefit) for income taxes and equity in net (income) loss of affiliates	448.8	(33.8)	927.6	(541.4)
Provision (benefit) for income taxes	24.6	(24.2)	29.2	85.8
Equity in net (income) loss of affiliates	(37.2)	(1.9)	64.0	37.2
Consolidated net income (loss)	461.4	(7.7)	834.4	(664.4)
Less: Net income (loss) attributable to noncontrolling interests	23.1	(3.9)	16.2	25.5
Net income (loss) attributable to Lear	\$ 438.3	\$ (3.8)	\$ 818.2	\$ (689.9)
Basic net income (loss) per share attributable to Lear	\$ 8.60	\$ (0.11)	\$ 10.56	\$ (8.93)
Diluted net income (loss) per share attributable to Lear	\$ 8.11	\$ (0.11)	\$ 10.55	\$ (8.93)

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

Table of Contents**LEAR CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Successor		Predecessor	
	Year	Two Month	Ten	
	Ended	Period	Month	Year Ended
	December 31,	December 31,	Period	December 31,
	2010	2009	Ended	2008
			November 7,	
			2009	
	(In millions)			
Cash Flows from Operating Activities:				
Consolidated net income (loss)	\$ 461.4	\$ (7.7)	\$ 834.4	\$ (664.4)
Adjustments to reconcile consolidated net income (loss) to net cash provided by (used in) operating activities				
Reorganization items and fresh start accounting adjustments, net			(1,474.8)	
Goodwill impairment charges			319.0	530.0
Equity in net (income) loss of affiliates	(37.2)	(1.9)	64.0	37.2
(Gain) loss on extinguishment of debt	11.8			(7.5)
Fixed asset impairment charges	7.2		5.6	17.5
Deferred tax provision (benefit)	(10.9)	(2.4)	32.2	30.4
Depreciation and amortization	235.9	39.8	223.9	299.3
Stock-based compensation	22.9	8.0	7.3	19.2
Net change in recoverable customer engineering, development and tooling	(40.7)	11.0	(9.6)	45.0
Net change in working capital items	48.3	291.2	(297.0)	(196.9)
Net change in sold accounts receivable			(138.5)	47.2
Changes in other long-term liabilities	(53.4)	(35.9)	(75.0)	(23.0)
Changes in other long-term assets	(26.9)	(1.7)	(4.6)	0.2
Other, net	3.5	23.6	13.9	29.4
Net cash provided by (used in) operating activities	621.9	324.0	(499.2)	163.6
Cash Flows from Investing Activities:				
Additions to property, plant and equipment	(193.3)	(41.3)	(77.5)	(167.7)
Cost of acquisitions, net of cash acquired	(12.3)		(4.4)	(27.9)
Net proceeds from disposition of businesses and other assets	18.6	4.0	29.7	51.9
Other, net	(5.1)	(2.2)	(0.5)	(0.7)
Net cash used in investing activities	(192.1)	(39.5)	(52.7)	(144.4)
Cash Flows from Financing Activities:				

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Proceeds from the issuance of successor senior notes	694.5				
Debtor-in-possession term loan borrowings			500.0		
Debtor-in-possession term loan repayments			(500.0)		
First lien credit agreement borrowings (repayments)	(375.0)		375.0		
Second lien credit agreement repayments	(550.0)		(50.0)		
Payment of debt issuance and other financing costs	(17.6)		(70.6)		(17.6)
Predecessor primary credit facility borrowings					1,186.0
Repayment/repurchase of predecessor senior notes					(133.5)
Other long-term debt repayments, net	(9.3)	(1.9)	(0.5)		(5.3)
Short-term borrowings (repayments), net	(34.0)	6.6	(11.4)		12.6
Prepayment of Series A preferred stock in connection with emergence from Chapter 11			(50.0)		
Dividends paid to noncontrolling interests	(16.2)	(7.0)	(16.8)		(19.4)
Other, net	(13.1)	32.5	(10.7)		(35.5)
Net cash provided by (used in) financing activities	(320.7)	30.2	165.0		987.3
Effect of foreign currency translation	(9.0)	(15.1)	49.2		(15.7)
Net Change in Cash and Cash Equivalents	100.1	299.6	(337.7)		990.8
Cash and Cash Equivalents at Beginning of Period	1,554.0	1,254.4	1,592.1		601.3
Cash and Cash Equivalents at End of Period	\$ 1,654.1	\$ 1,554.0	\$ 1,254.4	\$	1,592.1
Changes in Working Capital:					
Accounts receivable	\$ (291.3)	\$ 337.0	\$ (426.0)	\$	867.6
Inventories	(106.8)	27.2	66.0		55.6
Accounts payable	318.4	10.2	50.3		(779.2)
Accrued liabilities and other	128.0	(83.2)	12.7		(340.9)
Net change in working capital items	\$ 48.3	\$ 291.2	\$ (297.0)	\$	(196.9)
Supplementary Disclosure:					
Cash paid for interest	\$ 57.0	\$ 0.5	\$ 78.9	\$	195.9

Cash paid for income taxes, net of refunds received of \$25.3 in 2010, \$26.9 in the ten month per