LEAR CORP
Form 10-K
February 27, 2007

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

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006.

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission file number: 1-11311

LEAR CORPORATION
(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**13-3386776** *(I.R.S. Employer Identification No.)*
21557 Telegraph Road, Southfield, MI *(Address of principal executive offices)*	**48033** *(Zip code)*

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

As of June 30, 2006, the aggregate market value of the registrant s Common Stock, par value $0.01 per share, held by non-affiliates of the registrant was $1,491,485,965. The closing price of the Common Stock on June 30, 2006, as reported on the New York Stock Exchange, was $22.21 per share.

As of February 16, 2007, the number of shares outstanding of the registrant s Common Stock was 76,387,448 shares.

DOCUMENTS INCORPORATED BY REFERENCE

None.

LEAR CORPORATION AND SUBSIDIARIES

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Employment Agreement
Fifth Amendment to Long-Term Stock Incentive Plan
First Amendment to Outside Directors Compensation Plan
Second Amendment to Executive Supplemental Savings Plan
2007 Management Stock Purchase Plan (US)
2007 Management Stock Purchase Plan (Non-US)
2006 Restricted Stock Unit Terms & Conditions
2006 Stock Appreciation Rights Terms & Conditions

First Amendment to Pension Equalizatin Program
Form of Amended & Restated Indemnity Agreement
Computation of Net Income Per Share
Computation of Ratios of Earnings to Fixed Charges
List of Subsidiaries
Consent of Ernst & Young LLP
Rule 13A-14(A)/15D-14(A) Certification of Principal Executive Officer
Rule 13A-14(A)/15D-14(A) Certification of Principal Financial Officer
Section 906 Certification of Chief Executive Officer
Section 906 Certification of Chief Financial Officer

PART I

ITEM 1 *BUSINESS*

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

BUSINESS OF THE COMPANY

General

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

Today, we have operations in 33 countries and rank #127 among the Fortune 500 list of publicly traded U.S. companies. We are a leading global automotive supplier with 2006 net sales of $17.8 billion. Our business is focused on providing complete seat and electrical distribution systems and select electronic products, and we supply every major automotive manufacturer in the world. In seat systems, we believe we hold a #2 position globally based on seat units sold, in a market we estimate at $45 to $50 billion. In electrical distribution systems, we believe we hold a #3 position in North America and a #4 position in Europe based on units sold, in a global market we estimate at $15 to $20 billion.

We have pursued a global strategy, aggressively expanding our operations in Europe, Central America, Africa and Asia. Since 2001, we have realized an 11% compound annual growth rate in net sales outside of North America, with 45% of our 2006 sales coming from outside of North America. Our Asian-related sales (on an aggregate basis, including both consolidated and unconsolidated sales) have grown from $800 million in 2002 to $2.6 billion in 2006. We expect additional Asian-related sales growth in 2007, led by expanding relationships with Hyundai, Nissan and Toyota.

In 2006, our sales were comprised of the following vehicle categories: 55% cars, including 22% mid-size, 16% compact, 13% luxury/sport and 4% full-size, and 45% light truck, including 26% sport utility and 19% pickup and other light truck. We have expertise in all platform segments of the automotive market and expect to continue to win new business in line with market trends. As an example, in North America, our revenues in the fast growing crossover segment, as a percentage of our total revenues, are in-line with the crossovers total share of the market.

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

The negative impact of the recent industry environment has been more pronounced in our interior business. This business, which includes instrument panels and cockpit systems, headliners and overhead systems, door panels, flooring and acoustic systems and interior trim, represented $3.2 billion of net sales in 2006. The interior segment is more capital intensive and sensitive to fluctuations in commodity prices, particularly resins. It is also characterized by overcapacity and a relatively fragmented supplier base. Further consolidation and restructuring is required to return this market segment to an appropriate profit level. When our major customers indicated an intent to focus on interior component purchases rather than total interior integration, we decided to exit this segment of the interior market and focus on the product lines for which we can provide more value. In October 2006, we completed the contribution of substantially all of our European interior business to International Automotive Components Group, LLC (IAC Europe), a joint venture with WL Ross & Co. LLC (WL Ross) and Franklin Mutual Advisers, LLC (Franklin), in exchange for a one-third equity interest in IAC Europe. In addition, on November 30, 2006, we entered into an Asset Purchase Agreement with International Automotive Components Group North America, Inc. and International Automotive Components Group North America, LLC (together, IAC North America), WL Ross and Franklin under which we agreed to transfer substantially all of the assets of our North American interior business segment (as well as our interests in two China joint ventures) and $25 million of cash to IAC North America. Under the terms of the agreement, we will receive a 25% equity interest in the IAC North America joint venture and warrants to purchase an additional 7% equity interest. We expect this transaction to close in the first quarter of 2007. We believe that with a strong presence in major markets, IAC Europe and IAC North America will be well positioned to participate in a consolidation of this market segment and become a strong global interior supplier.

Within our core product segments, seating and electronic and electrical, we believe we can provide more value for our customers and that there is significant opportunity for continued growth. We are pursuing a more product line focused strategy, investing in consumer driven products and selective vertical integration. In 2005, we initiated a comprehensive restructuring strategy to align capacity with our customers as they rationalize their operations and to more aggressively expand our low cost country manufacturing and purchasing initiatives to improve our overall cost structure. We believe our commitment to customer service and quality will result in a global leadership position in each of our core product segments. We are targeting 5% annual growth in global sales, while growing our annual sales in Asia and with Asian customers by 25%. We believe these recent business improvements and initiatives, coupled with our strong platform for growth in our core seating and electronic and electrical businesses, will drive our profit margins back to historical levels.

In 2006, we increased our financial flexibility by completing a new primary credit facility and refinancing our near-term debt maturities. As a result of these financing transactions, we have no significant debt maturities until 2010.

Merger Agreement

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

Pursuant to the Merger Agreement, as of the effective time of the merger, each issued and outstanding share of common stock of Lear, other than shares (i) owned by Parent, Merger Sub or any subsidiary of Parent and (ii) owned by any shareholders who are entitled to and who properly exercise appraisal rights under Delaware law, will be canceled and automatically converted into the right to receive $36.00 in cash, without interest.

The Merger Agreement contains provisions pursuant to which we may solicit alternative acquisition proposals for forty-five days after the date of the Merger Agreement (the Solicitation Period) and receive unsolicited proposals thereafter. We may terminate the Merger Agreement under certain circumstances, including if our board of directors determines in good faith that it has received a Superior Proposal (as defined in the Merger Agreement) and otherwise complies with certain terms of the Merger Agreement. In connection with such termination, and in certain other limited circumstances, we would be required to pay a fee of $85 million to Parent plus up to $15 million of Parent s out-of-pocket expenses (including fees and expenses of financing sources, counsel, accountants, investment bankers, experts and consultants) relating to the Merger Agreement. If such termination is to accept a Superior Proposal prior to the end of the Solicitation Period, we would be required to pay a fee of $74 million to Parent plus up to $6 million of Parent s out-of-pocket expenses.

Parent has obtained debt financing commitments for the transaction contemplated by the Merger Agreement. Consummation of the merger is not subject to a financing condition, but is subject to other conditions, including receipt of the affirmative vote of the holders of a majority of the outstanding shares of Lear, antitrust approvals and other customary closing conditions.

In connection with the execution of the Merger Agreement, we entered into a voting agreement with Icahn Partners LP, Icahn Partners Master Fund LP, Koala Holding LLC and High River Limited Partnership. In the aggregate, such holders beneficially own approximately 15% of Lear s outstanding common stock. Pursuant to the voting agreement, such holders agreed to vote in favor of the merger and, subject to certain exceptions, not to dispose of any shares of common stock prior to consummation of the merger. Such holders have also agreed to vote in favor of a Superior Proposal under certain circumstances. In addition, American Real Estate Partners, L.P. has provided a limited guaranty in favor of Lear with respect to the performance by Parent and Merger Sub of certain payment obligations under the Merger Agreement.

For further information regarding the Merger Agreement, please refer to the Merger Agreement and certain related documents which are incorporated by reference as exhibits to this Report.

Strategy

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

Specific elements of our strategy include:

Leverage Core Product Lines. In response to the recent industry trend away from total interior integration, we are taking a more product-focused approach to managing our business. We have taken steps to exit the more commodity-like components segment of the interior business and focus on the seating and electronic and electrical segments where we can provide greater value to our customers. The opportunity to strengthen our global leadership position in these segments exists as we develop new products, continue to expand our relationships with global automakers and grow with our customers as they enter new markets globally. In addition, we see an opportunity to offer increased value to our customers and improve our product line profitability through selective vertical integration. In our seating segment, we are focused on increasing our capabilities in structural components and selected trim and foam products. In our electronic and electrical segment, we believe that building upon our junction box and terminals and connectors capabilities will allow us to provide electrical distribution systems at a lower cost.

Invest in New Technology. Automotive manufacturers view the vehicle interior as a major selling point and are increasingly responding to the consumer demands for more interior features. Our Core Dimension Strategy focuses our research and development efforts on innovative product solutions for the seven attributes our research indicates that consumers most value: safety, comfort and convenience, environmental, craftsmanship, commonization, infotainment and flexibility. Within seating, we provide industry-leading safety features such as ProTec™ PLuS, our second generation of self-aligning head restraints that significantly reduce whiplash injuries, and we offer numerous flexible seating configurations that meet a wide range of customer requirements. Within our electronic and electrical segment, our proprietary electrical distribution and Radio Frequency (RF) technology provides several opportunities to provide value. We participate in the wireless control systems market with products such as our Car2UTM two-way keyless fobs that embed features such as remote-controlled engine start, door locks, climate controls, vehicle status and location. We also offer the Intellitire® Tire Pressure Monitoring System, an industry leading safety feature, and infotainment features such as integrated family entertainment systems. To further these efforts, we maintain five advanced technology centers and several customer-focused product engineering centers where we design, develop and test new products and analyze consumer responses to automotive interior styling and innovations.

Enhance Strong Customer Relationships. We believe that the long-standing and strong relationships we have built with our customers allow us to act as partners in identifying business opportunities and anticipating the needs of our customers in the early stages of vehicle design. Quality continues to be a differentiating factor in the eyes of the consumer and a competitive cost factor for our customers. We are dedicated to providing superior customer service and maintaining an excellent reputation for providing world-class quality at competitive prices. According to the 2006 J.D. Power and Associates Seat Quality Report^{tm}, we have ranked as the highest-quality major seat manufacturer in the United States for the last six years. In recognition of our efforts, our facilities continue to receive awards from our customers. Recently, Toyota honored us for Superior Supplier Diversity and Excellence in Quality for 2006, and GM awarded us the Best-In Class Launch Execution award for the GMT900 program. We intend to maintain and improve the quality of our products and services through our ongoing Quality First initiatives.

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

Restructuring Program: We initiated a $250 million restructuring program in 2005 intended to (1) better align our manufacturing capacity with the changing needs of our customers, (2) eliminate excess capacity and lower our operating costs and (3) streamline our organization structure and reposition our business for improved long- term profitability. Since undertaking the restructuring program, we have initiated the closure of 14 manufacturing facilities and six administrative/engineering facilities, with a cumulative headcount reduction of approximately 6,000 employees. In light of the continuation of challenging industry conditions, we have recently expanded the restructuring program to include additional facility actions and census reductions. We expect the full cost of the restructuring program to be $300 million through 2007.

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

Low-Cost Country Footprint: Our low-cost country strategy is designed to increase our global competitiveness from both a manufacturing and sourcing standpoint. We currently support our global operations through more than 80 manufacturing and engineering facilities located in 20 low-cost countries. We plan to continue to aggressively pursue this strategy by establishing expanded vertical integration capabilities in Mexico, Central America, Eastern Europe, Africa and Asia and leveraging our low-cost engineering capabilities with engineering centers in China, India and the Philippines. Excluding our interior business, approximately 30% of our components currently come from low-cost countries, and our target is to increase this percentage to 45% by 2010.

Expand in Asia and with Asian Automotive Manufacturers Worldwide. We believe that it is important to have a manufacturing footprint that aligns with our customers global presence. The Asian markets present significant growth opportunities, as all major global automotive manufacturers are expanding production in this region to meet increasing demand. We believe we are well-positioned to take advantage of China s emerging growth as we have an extensive network of high-quality manufacturing facilities across China providing seating and electronic and electrical products to a variety of global customers for local production. We also have operations in Korea, India, Thailand and the Philippines, where we also see opportunities for significant growth. This growth has been accomplished, in part, through a series of joint ventures with our customers and/or local suppliers. We currently have 16 joint ventures throughout Asia. Additionally, we plan

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to continue to support the Asian automotive manufacturers as they invest and expand beyond Asia, into North America and Europe. We have recently increased our Asian related business in the United States through seating and electrical business with Hyundai and seating and flooring business with Nissan. We have also entered into strategic alliances to support future programs with both Nissan and Hyundai globally. We intend to continue pursuing joint ventures and other alliances in order to expand our geographic and customer diversity.

Products

We currently conduct our business in two core product operating segments: seating and electronic and electrical. The seating segment includes seat systems and the components thereof. The electronic and electrical segment includes electronic products and electrical distribution systems, primarily wire harnesses and junction boxes; interior control and entertainment systems; and wireless systems. In the second half of 2006, we entered into two transactions to transfer substantially all of the assets of our European and North American interior business to separate joint ventures. The interior segment, a third product operating segment in which we historically operated, includes instrument panels and cockpit systems, headliners and overhead systems, door panels, flooring and acoustic systems and other interior products. Net sales by product segment as a percentage of total net sales is shown below:

For the Year Ended December 31,	2006	2005	2004
Seating	65%	65%	67%
Electronic and electrical	17	17	16
Interior	18	18	17

For further information related to our reportable operating segments, see Note 13, Segment Reporting, to the consolidated financial statements included in this Report.

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

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

Electronic and Electrical. The migration from conventional electrical distribution systems to electronic products and electrical distribution systems is facilitating the integration of wiring and electronic products within the overall electrical architecture of a vehicle. This migration can reduce the overall system cost and weight and improve reliability and packaging by optimizing the overall system architecture and eliminating a portion of the terminals, connectors and wires normally required for a conventional electrical distribution system. Our umbrella technology, Intertronics®, reflects our ability to integrate electronic products with automotive interior systems. This technology is already having an impact on a number of new and next generation products. For example, our integrated seat adjuster module has two dozen fewer cut circuits and five fewer connectors, weighs a half of a pound less and costs twenty percent less than a traditional separated electronic control unit and seat wiring system. In addition, our smart junction box expands the traditional junction box functionality by utilizing printed circuit board technologies.

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

Electrical Distribution Systems. Wire harness assemblies are a collection of terminals, connectors and wires that connect all of the various electronic/electrical devices in the vehicle to each other and/or to a power source. Terminals and connectors are components of wire harnesses and other electronic/electrical devices that connect wire harnesses and electronic/electrical devices. Fuse boxes are centrally located boxes in the vehicle that contain fuses and/or relays for circuit and device protection, as well as power distribution. Junction boxes serve as a connection point for multiple wire harnesses. They may also contain fuses and relays for circuit and device protection. Smart junction boxes are junction boxes with integrated electronic functions, which eliminate interconnections and increase overall system reliability. Certain vehicles may have two or three smart junction boxes linked as a multiplexed buss line.

Interior Control and Entertainment Systems. The instrument panel center console module provides a control panel for the entertainment system, accessory switch functions, heating, ventilation and air conditioning. The integrated seat adjuster module combines seat adjustment, power lumbar support, memory function and seat heating into one package. The integrated door module consolidates the controls for window lift, door lock, power mirror and seat heating and ventilation. Our Mechatronic™ lighting control module integrates electronic control logic and diagnostics with the headlamp switch. Entertainment products include sound systems, television modules and the floor-, seat- or center console-mounted MediaConsole with a flip-up screen that provides DVD and video game viewing for back-seat passengers.

Wireless systems. Wireless products send and receive signals using radio frequency technology. Our wireless systems include passive entry systems, dual range/dual function remote keyless entry systems and tire pressure monitoring systems. Passive entry systems allow the vehicle operator to unlock the door without using a key or physically activating a remote keyless fob. Dual range/dual function remote keyless entry systems allow a single transmitter to perform multiple functions. For example, our Car2U™ remote keyless entry system can control and display the status of the vehicle, such as starting the engine, locking and unlocking the doors, opening the trunk and setting the cabin temperature. In addition, dual range/dual function remote keyless entry systems combine remote keyless operations with vehicle immobilizer capability. Our tire pressure monitoring system, known as the Lear Intellitire® Tire Pressure Monitoring System, alerts drivers when a tire has low pressure. We have received production awards for Intellitire® from Ford for many of their North American vehicles and from Hyundai for several models beginning in 2005. Automotive manufacturers are required to have tire pressure monitoring systems on a portion of new vehicles sold in the United States beginning with model year 2006 and on all new vehicles sold in the United States by model year 2008.

Interior. The interior segment consists of the manufacture, assembly and supply of interior systems and components. Interior products are designed to provide a harmonious and comfortable interior for vehicle occupants, as well as a variety of functional and safety features. Set forth below is a description of our principal interior products:

Instrument Panels and Cockpit Systems. The instrument panel is a complex system of coverings and foam, as well as plastic and metal sub-structure designed to house various components and to act as a safety device for the vehicle occupant. The cockpit system consists of, among other things, the instrument panel trim/pad, structural subsystem, electrical distribution system, climate control, driver control pedals, steering controls and driver and passenger safety systems. Specific components of the cockpit system include the instrument cluster/gauges, cross car structure, electronic and electrical components, wire harness, audio system, heating, ventilation and air conditioning module, air distribution ducts, air vents, steering column and wheel and glove compartment assemblies. Airbag technologies also continue to be an

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important component of cockpit systems. As a result of our research and development efforts, we have introduced cost-effective, integrated, seamless airbag covers, which provide greater styling flexibility for the automotive manufacturer. We believe that future trends in instrument panels and cockpit systems will focus on safety-related features. We have also developed Spray PUR™, a seamless polyurethane coating for instrument panels, which eliminates visual seams. This process is currently being used on several vehicle models, including the Cadillac DTS and Buick Lucerne.

Headliners and Overhead Systems. Overhead systems consist of a headliner, lighting, visors, consoles, wiring and electronics, as well as all other products located in the interior of the vehicle roof. Headliners consist of a substrate, as well as a finished interior layer made of a variety of fabrics and materials. While headliners are an important contributor to interior aesthetics, they also provide insulation from road noise and can serve as carriers for a variety of other components, such as visors, overhead consoles, grab handles, coat hooks, electrical wiring, speakers, lighting and other electronic and electrical products. As the amount of electronic and electrical content available in vehicles has increased, headliners have emerged as an important carrier of technology since electronic features ranging from garage door openers to lighting systems are often optimally situated in the headliner. In addition, headliners provide an important safety function by mitigating the effects of head impact. We have developed a system that molds the protective foam directly onto the back of the headliner. This system is being used on several vehicle models that were launched in 2006.

Door Panels. Door panels consist of several component parts, which are attached to a substrate by various methods. Specific components include vinyl or cloth-covered appliqués, armrests, radio speaker grilles, map pocket compartments, carpet and sound-reducing insulation. In addition, door systems often incorporate electronic products and electrical distribution systems, including lock and latch, window glass, window regulators and audio systems, as well as wire harnesses for the control of power seats, windows, mirrors and door locks. We have recently introduced a two-shot molding process that allows a door panel with multiple materials to be produced in a single injection molding machine. This technology, which results in improved craftsmanship and lower costs, is being used on several vehicle models that were launched in 2006.

Flooring and Acoustic Systems. We have an extensive and comprehensive portfolio of SonoTec® acoustic products, including flooring systems and dash insulators. These acoustic products provide noise, vibration and harshness resistance. Carpet flooring systems generally consist of tufted or non-woven carpet with a thermoplastic backcoating, which when heated, allows the carpet to be fitted precisely to the interior or trunk compartment of the vehicle. Non-carpeted flooring systems, used primarily in commercial and fleet vehicles, offer improved wear and maintenance characteristics. The dash insulator, mounted onto the firewall, separates the passenger compartment from the engine compartment and is the primary component for preventing engine noise from entering the passenger compartment.

On October 16, 2006, we completed the contribution of substantially all of our European interior business to IAC Europe, our joint venture with WL Ross and Franklin, in exchange for a one-third equity interest in IAC Europe. In connection with the transaction, we entered into various ancillary agreements providing us with customary minority shareholder rights and registration rights with respect to our equity interest in IAC Europe. Our European interior business included substantially all of our interior components business in Europe (other than Italy and one facility in France), consisting of nine manufacturing facilities in five countries supplying door panels, overhead systems, instrument panels, cockpits and interior trim to various original equipment manufacturers. IAC Europe also owns the European interior business formerly held by Collins & Aikman Corporation. In connection with the transaction, we recognized a pretax loss of approximately $29 million in the third quarter of 2006. For pro forma unaudited condensed consolidated financial statements which take into account the effect of this transaction, among other things, please see our Current Report on Form 8-K filed with the Securities and Exchange Commission (the SEC) on December 8, 2006.

On November 30, 2006, we entered into an Asset Purchase Agreement with IAC North America, WL Ross and Franklin under which we agreed to transfer substantially all of the assets of our North American interior business segment (as well as our interests in two China joint ventures) and $25 million of cash to IAC North America. Under the terms of the agreement, we will receive a 25% equity interest in the IAC North America joint venture and warrants to purchase an additional 7% equity interest. WL Ross and Franklin will make aggregate cash contributions of $75 million to the joint venture in exchange for the remaining equity and extend a $50 million term loan to IAC North America. IAC North America will assume the ordinary course liabilities of our North American interior business and we will retain certain pre-closing liabilities, including pension and post-retirement healthcare liabilities incurred through the closing date of the transaction. After closing, we will account for our investment in IAC North America under the equity method of accounting. In the event that IAC North America does not meet certain financial targets in 2007, we will fund up to an additional $40 million, and WL Ross and Franklin will contribute up to an additional $45 million. In connection with the transaction, we have entered into various ancillary agreements providing for customary minority shareholder rights and registration rights with respect to our equity interest in the joint venture.

The closing of the transaction for our North American interior business is subject to various conditions, including the receipt of required third-party consents, as well as other closing conditions customary for transactions of this type. In connection with the transaction, we recognized a pretax loss of approximately $607 million in the fourth quarter of 2006. We expect the transaction to close in the first quarter of 2007, and certain additional losses will be recognized at that time. No assurances can be given that the IAC North America transaction will be consummated on the terms contemplated or at all. For pro forma unaudited condensed consolidated financial statements which take into account the effect of this transaction, among other things, please see our Current Report on Form 8-K filed with the SEC on December 8, 2006.

Manufacturing

A description of the manufacturing processes for each of our two core operating segments, as well as our interior segment, is set forth below.

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

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

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

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Electronic control modules are assembled using high-speed surface mount placement equipment in both North America and Europe.

Interior. Our interior systems process capabilities include injection molding, low-pressure injection molding, blow molding, compression molding, rotational molding, urethane foaming and vacuum forming, as well as various trimming and finishing methods. Raw materials, including resin and chemical products, and finished components are assembled into end products and are obtained from multiple suppliers, under supply agreements which typically last for up to one year. In addition, we produce carpet at one North American plant.

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

Customers

We serve the worldwide automotive and light truck market, which produced over 65 million vehicles in 2006. We have automotive interior content on over 300 vehicle nameplates worldwide, and our major automotive manufacturing customers (including customers of our non-consolidated joint ventures) currently include:

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

During the year ended December 31, 2006, General Motors and Ford, two of the largest automotive and light truck manufacturers in the world, together accounted for approximately 47% of our net sales, excluding net sales to Saab, Volvo, Jaguar and Land Rover, which are affiliates of General Motors or Ford. Inclusive of their respective affiliates, General Motors and Ford accounted for approximately 32% and 23%, respectively, of our net sales in 2006. In addition, DaimlerChrysler accounted for approximately 10% of our net sales in 2006. For further information related to our customers and domestic and foreign sales and operations, see Note 13, Segment Reporting, to the consolidated financial statements included in this Report.

We receive blanket purchase orders from our customers. These purchase orders generally provide for the supply of a customer s annual requirements for a particular vehicle model, rather than for the purchase of a specified quantity of products. Although purchase orders may be terminated at any time by our customers, such terminations have been minimal and have not had a material impact on our operating results. Our primary risks are that an automotive manufacturer will produce fewer units of a vehicle model than anticipated or that an automotive manufacturer will not award us a replacement program following the life of a vehicle model. In order to reduce our reliance on any one vehicle model, we produce automotive interior systems and components for a broad cross-section of both new and established models. However, larger passenger cars and light trucks typically have more interior content and therefore, tend to have a more significant impact on our operating performance. Our net sales for the year ended December 31, 2006, were comprised of the following vehicle categories: 55% cars, including 22% mid-size, 16% compact, 13% luxury/sport and 4% full-size, and 45% light truck, including 26% sport utility and 19% pickup and other light truck.

Our agreements with our major customers generally provide for an annual productivity cost reduction. Historically, cost reductions through product design changes, increased productivity and similar programs with our suppliers have generally offset these customer-imposed productivity cost reduction requirements. However, in the latter part of 2004 and in 2005, unprecedented increases in certain raw material and commodity costs (principally steel, resins and other oil-based commodities), as well as increases in energy costs had a material adverse impact on our operating results. Raw material, energy and commodity costs have remained high and continued to have an adverse impact on our operating results throughout 2006. While we have been able to offset a portion of the adverse impact through aggressive cost reduction actions, relatively high raw material, energy and commodity costs are expected to continue, and no assurances can be given that we will be able to achieve such customer cost reduction targets in the future.

Technology

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

We also have state-of-the-art acoustic testing and instrumentation and data analysis capabilities. We own an industry-leading validation test center featuring acoustic and sound quality testing, including a dual-surface, four-wheel chassis dynamometer acoustical chamber and reverberant sound room, capable of precision acoustic testing of front, rear and four-wheel drive vehicles. Together with computer-controlled data acquisition and analysis capabilities, the reverberant sound room provides precisely controlled laboratory conditions for sophisticated interior and exterior noise, vibration and harshness testing of parts, materials and systems, including powertrain, exhaust and suspension components. We also maintain electromagnetic compatibility labs at several of our electronic and electrical facilities, where we develop and test electronic products for compliance with governmental requirements and customer specifications.

We have developed a number of designs for innovative interior features focused on increasing value to our customers. Our umbrella technology, Intertronics®, reflects our ability to integrate electronic products with automotive interior systems. Intertronics products and technologies are grouped into three categories: integrated electronic control units; interior control and entertainment systems, which include sound systems and family entertainment systems, as well as switches; and wireless systems, which include remote keyless entry. In addition, we incorporate many convenience, comfort and safety features into our interior designs, including advanced whiplash concepts, lifestyle vehicle interior storage systems, overhead integrated modules, integrated restraint seat systems (3-point and 4-point belt systems integrated into seats), side impact airbags, integrated child restraint seats and integrated instrument panel airbag systems. We also invest in our computer-aided engineering design and computer-aided manufacturing systems. Recent enhancements to these systems include advanced acoustic modeling and analysis capabilities and the enhancement of our research and design website. Our research and design website is a tool used for global customer telecommunications, technology communications, collaboration and direct exchange of digital assets.

We continue to develop new products and technologies, including solid state smart junction boxes and new radio-frequency products like our Car2U™ Home Automation System. We have created certain brand identities, which identify products for our customers. The ProTec™ brand products are optimized for interior safety; the SonoTec® brand products are optimized for interior acoustics; and the EnviroTec™ brand products are environmentally friendly.

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

We have numerous registered trademarks in the United States and in many foreign countries. The most important of these marks include LEAR CORPORATION (including a stylized version thereof) and LEAR.

These marks are widely used in connection with our product lines and services. The trademarks and service marks ADVANCE RELENTLESSLY, CAR2U, INTELLITIRE, PROTEC, PROTEC PLUS and others are used in connection with certain of our product lines and services.

We have dedicated, and will continue to dedicate, resources to research and development. Research and development costs incurred in connection with the development of new products and manufacturing methods, to the extent not recoverable from our customers, are charged to selling, general and administrative expenses as incurred. These costs amounted to approximately $170 million, $174 million and $198 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Joint Ventures and Minority Interests

We form joint ventures in order to gain entry into new markets, facilitate the exchange of technical information, expand our product offerings and broaden our customer base. In particular, we believe that certain joint ventures have provided us, and will continue to provide us, with the opportunity to expand our business relationships with Asian automotive manufacturers. In 2006, our joint ventures continued to be awarded new business with Asian automotive manufacturers both in Asia (including seating business with Chang an Ford, Beijing Hyundai Motor Co. and BMW Brilliance Automotive Co. in China, seating business with General Motors/Daewoo in Korea and seating business with Nissan in China, India and Thailand) and elsewhere (including seating and flooring business with Nissan in the United States and flooring and interior trim business with Toyota in the United States). In addition, we have a joint venture that produces flooring and carpet products for Honda in the United States.

We recently entered into agreements to transfer the assets of our European and North American interior businesses to separate joint ventures. On October 16, 2006, we completed the contribution of substantially all of our European interior business to IAC Europe, our joint venture with WL Ross and Franklin, in exchange for a one-third equity interest in IAC Europe. Our European interior business included substantially all of our interior components business in Europe (other than Italy and one facility in France), consisting of nine manufacturing facilities in five countries supplying door panels, overhead systems, instrument panels, cockpits and interior trim to various original equipment manufacturers. In addition, on November 30, 2006, we entered into an Asset Purchase Agreement with IAC North America, WL Ross and Franklin under which we agreed to transfer substantially all of the assets of our North American interior business segment (as well as our interests in two China joint ventures) and $25 million of cash to IAC North America. The closing of the transaction for our North American interior business is subject to various conditions, including the receipt of required third-party consents and other closing conditions customary for transactions of this type. We expect the transaction to close in the first quarter of 2007, although no assurances can be given that the IAC North America transaction will be consummated on the terms contemplated or at all.

We currently have thirty-three strategic joint ventures located in sixteen countries. Of these joint ventures, eighteen are consolidated and fifteen are accounted for using the equity method of accounting; sixteen operate in Asia, thirteen operate in North America (including eight that are dedicated to serving Asian automotive manufacturers) and four operate in Europe and Africa. Net sales of our consolidated joint ventures accounted for less than 5% of our consolidated net sales for the year ended December 31, 2006. As of December 31, 2006, our investments in non-consolidated joint ventures totaled $141 million and support nineteen customers. For further information related to our joint ventures, see Note 6, Investments in Affiliates and Other Related Party Transactions, to the consolidated financial statements included in this Report.

Competition

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

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

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

Interior. Our primary independent competitors in the flooring and acoustic systems market are Collins & Aikman and Rieter Automotive. Our major independent competitors in the remaining interior markets include Johnson Controls, Magna, Faurecia, Collins & Aikman, Visteon, Delphi and a large number of smaller operations.

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

Seasonality

Our principal operations are directly related to the automotive industry. Consequently, we may experience seasonal fluctuations to the extent automotive vehicle production slows, such as in the summer months when plants close for model year changeovers and vacations or during periods of high vehicle inventory. Historically, our sales and operating profit have been the strongest in the second and fourth calendar quarters. See Note 15, Quarterly Financial Data, to the consolidated financial statements included in this Report.

Employees

As of December 31, 2006, Lear employed approximately 104,000 people worldwide, including approximately 26,000 people in the United States and Canada, approximately 34,000 in Mexico and Central America, approximately 30,000 in Europe and approximately 14,000 in other regions of the world. A substantial number of our employees are members of unions. We have collective bargaining agreements with several unions, including: the United Auto Workers; the Canadian Auto Workers; UNITE; the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America; and the International Association of Machinists and Aerospace Workers. Virtually all of our unionized facilities in the United States and Canada have a separate agreement with the union that represents the workers at such facilities, with each such agreement having an expiration date that is independent of other collective bargaining agreements. The majority of our European and Mexican employees are members of industrial trade union organizations and confederations within their respective countries. Many of these organizations and confederations operate under national contracts, which are not specific to any one employer. We have occasionally experienced labor disputes at our plants. We have been able to resolve all such labor disputes and believe our relations with our employees are generally good.

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

Available Information on our Website

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

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

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that contains reports, proxy and information statements and other information related to issuers that file electronically with the SEC.

ITEM 1A *RISK FACTORS*

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

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

Demand for our products is directly related to the automotive vehicle production of our major customers. Automotive sales and production can be affected by general economic or industry conditions, labor relations issues, regulatory requirements, trade agreements and other factors. Automotive industry conditions in North America and Europe continue to be challenging. In North America, the industry is characterized by significant overcapacity, fierce competition and significant pension and healthcare liabilities for the domestic automakers. In Europe, the market structure is more fragmented with significant overcapacity, and several of our key platforms have experienced production declines.

General Motors and Ford, our two largest customers, together accounted for approximately 47% of our net sales in 2006, excluding net sales to Saab, Volvo, Jaguar and Land Rover, which are affiliates of General Motors and Ford. Inclusive of their respective affiliates, General Motors and Ford accounted for approximately 32% and 23%, respectively, of our net sales in 2006. Automotive production by General Motors and Ford declined between 2000 and 2006. North American production also declined in 2006 for DaimlerChrysler. The automotive operations of General Motors, Ford and DaimlerChrysler have recently experienced significant operating losses, and these automakers are continuing to restructure their North American operations, which could have a material adverse impact on our future operating results. While we have been aggressively seeking to expand our business in the Asian market and with Asian automotive manufacturers worldwide to offset these declines, no assurances can be given as to how successful we will be in doing so. As a result, any decline in the automotive production levels of our major customers, particularly with respect to models for which we are a significant supplier, could materially reduce our sales and harm our profitability, thereby making it more difficult for us to make payments under our indebtedness or resulting in a decline in the value of our common stock.

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

During 2006, General Motors, Ford and Daimler Chrysler continued to lower production levels on several of our key platforms, particularly light truck platforms, in an effort to reduce inventory levels. In addition, these customers have experienced declining market shares in North America and are continuing to restructure their North American operations in an effort to improve profitability. The domestic automotive manufacturers are also burdened with substantial structural costs, such as pension and healthcare costs, that have impacted their profitability and labor relations. Several other global automotive manufacturers are also experiencing operating and profitability issues as well as labor concerns. In this environment, it is difficult to forecast future customer production schedules, the potential for labor disputes or the success or sustainability of any strategies undertaken by any of our major customers in response to the current industry environment. This environment may also put additional pricing pressure on their suppliers, like us, to reduce the cost of our products, which would reduce our margins. In addition, cuts in production schedules are also sometimes announced by our customers with little advance notice, making it difficult for us to respond with corresponding cost reductions. Our supply base has also been adversely affected by industry conditions.

Lower production levels for our key customers and increases in certain raw material, commodity and energy costs have resulted in severe financial distress among many companies within the automotive supply base. Several large suppliers have filed for bankruptcy protection or ceased operations. Unfavorable industry conditions have also resulted in financial distress within our supply base and an increase in commercial disputes and the risk of supply disruption. In addition, the adverse industry environment has required us to provide financial support to distressed suppliers or take other measures to ensure uninterrupted production. While we have taken certain actions to mitigate these factors, we have offset only a portion of their overall impact on our operating results. The continuation or worsening of these industry conditions would adversely affect our profitability, operating results and cash flow.

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

Although we have purchase orders from many of our customers, these purchase orders generally provide for the supply of a customer s annual requirements for a particular model and assembly plant, renewable on a year-to-year basis, rather than for the purchase of a specific quantity of products. Therefore, the discontinuation of, the loss of business with respect to or a lack of commercial success of a particular vehicle model for which we are a significant supplier could reduce our sales and harm our profitability, thereby making it more difficult for us to make payments under our indebtedness or resulting in a decline in the value of our common stock.

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

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

exposure to local economic conditions;

expropriation and nationalization;

foreign exchange rate fluctuations and currency controls;

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

investment restrictions or requirements;

export and import restrictions; and

increases in working capital requirements related to long supply chains.

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

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

Increases in costs of certain raw materials, principally steel, resins, copper and certain chemicals, as well as higher energy costs, had a significant adverse impact on our operating results in 2006. While we have developed and implemented strategies to mitigate or partially offset the impact of higher raw material, energy and commodity costs, these strategies, together with commercial negotiations with our customers and suppliers, offset only a portion of the adverse impact. In addition, no assurances can be given that the magnitude and duration of these cost increases or any future cost increases will not have a larger adverse impact on our profitability and consolidated financial position than currently anticipated.

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

Most of our employees and a substantial number of the employees of our largest customers and suppliers are members of industrial trade unions and are employed under the terms of collective bargaining agreements. Virtually all of our unionized facilities in the United States and Canada have a separate agreement with the union that represents the workers at such facilities, with each such agreement having an expiration date that is independent of other collective bargaining agreements. We have collective bargaining agreements covering approximately 81,500 employees globally. Within the United States and Canada, contracts covering approximately 20% of the unionized workforce are scheduled to expire during 2007. In addition, the collective bargaining agreements for our three largest customers in the United States expire in 2007. A labor dispute involving us or any of our customers or suppliers or that could otherwise affect our operations could reduce our sales and harm our profitability, thereby making it more difficult for us to make payments under our indebtedness or resulting in a decline in the value of our common stock. A labor dispute involving another supplier to our customers that results in a slowdown or closure of our customers assembly plants where our products are included in assembled vehicles could also have a material adverse effect on our business. In addition, the inability by us or any of our suppliers, our customers or our customers other suppliers to negotiate an extension of a collective bargaining agreement upon its expiration could reduce our sales and harm our profitability. Significant increases in labor costs as a result of the renegotiation of collective bargaining agreements could also be harmful to our business and our profitability.

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

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

Our financial position may be adversely affected if our merger with AREP Car Acquisition Corp. is not completed.

On February 9, 2007, we entered into an Agreement and Plan of Merger (the Merger Agreement) with AREP Car Holdings Corp. (Parent) and AREP Car Acquisition Corp., affiliates of Carl C. Icahn. Completion of the merger is subject to conditions, including the receipt of the affirmative vote of the holders of a majority of the outstanding shares of Lear, antitrust approvals and other customary closing conditions. The merger is expected to close at the end of the second quarter of 2007. However, no assurances can be given that the transaction contemplated by the Merger Agreement will be consummated or, if not consummated, that Lear will enter into a comparable or superior transaction with another party. If the Merger Agreement is terminated, we may be obligated under certain circumstances to pay a termination fee to Parent of up to $85 million plus up to $15 million of Parent s out-of-pocket expenses relating to the Merger Agreement. For further information regarding the Merger Agreement, please refer to the Merger Agreement and certain related documents which are incorporated by reference as exhibits to this Report

The inability to complete the divestiture of our North American interior business could adversely affect our business strategy and financial position.

Our interior business segment has been unprofitable since 2005, which we believe is a result of industry overcapacity, high raw material costs and insufficient pricing, and we have decided to exit the segment. In October 2006, we contributed substantially all of our European interior business to IAC Europe, a joint venture with WL Ross and Franklin, in exchange for an approximate one-third equity interest in IAC Europe. On November 30, 2006, we entered into an Asset Purchase Agreement with IAC North America, WL Ross and Franklin under which we agreed to transfer substantially all of the assets of our North American interior business segment (as well as our interests in two China joint ventures) and $25 million of cash to IAC North America. Under the terms of the agreement, we will receive a 25% equity interest in the IAC North America joint venture and warrants to purchase an additional 7% equity interest. In connection with the transaction, we recognized a pre-tax loss on the transaction of approximately $607 million in the fourth quarter of 2006. We expect to incur additional losses on the transaction through the closing date. The total pretax loss is expected to be in the range of $650 million to $675 million. The closing of the transaction is subject to various conditions, including the receipt of required third-party consents, as well as other closing conditions customary for transactions of this type. No assurance can be given that this or any other transaction involving the North American interior business will be consummated or with regard to the timing of the closing. If we are unable to complete the transaction on terms substantially similar to those described above or at all, our operating results will be negatively affected.

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

In the event that our products fail to perform as expected and such failure results in, or is alleged to result in, bodily injury and/or property damage or other losses, we may be subject to product liability lawsuits and other claims. In addition, we are a party to warranty-sharing and other agreements with our customers related to our products. These customers may seek contribution or indemnification from us for all or a portion of the costs associated with product liability and warranty claims, recalls or other corrective actions involving our products. These types of claims could significantly harm our profitability, thereby making it more difficult for us to make payments under our indebtedness or resulting in a decline in the value of our common stock.

We are involved from time to time in legal proceedings and commercial or contractual disputes, which could have an adverse impact on our profitability and consolidated financial position.

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

ITEM 1B *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2 *PROPERTIES*

As of December 31, 2006, our operations were conducted through 265 facilities, some of which are used for multiple purposes, including 172 production/manufacturing facilities, 41 administrative/technical support facilities, 43 assembly sites, five advanced technology centers and four distribution centers, in 33 countries. We also have warehouse facilities in the regions in which we operate. Our corporate headquarters is located in Southfield, Michigan. Our facilities range in size up to 1,148,000 square feet.

Of our 265 total facilities, which include facilities owned or leased by our consolidated subsidiaries, 126 are owned and 139 are leased with expiration dates ranging from 2007 through 2034. We believe that substantially all of our property and equipment is in good condition and that we have sufficient capacity to meet our current and expected manufacturing and distribution needs. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Financial Condition.

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

Argentina
Escobar, BA (S)
Pacheco, BA (E)
Austria
Graz (S)
Koeflach (S)
Belgium
Genk (S)
Brazil
Betim (S)
Cacapava (S)
Camacari (S)
Gravatai (S)
Sao Paulo (S)
Canada
Ajax, ON (S)
Concord, ON (I)
Kitchener, ON (S)
Mississauga, ON (I)
St. Thomas, ON (S)
Whitby, ON (S)
Windsor, ON (S)
China
Changchun (S)
Chongqing (S)
Shanghai (I)
Shenyang (I)
Wuhan (E)
Czech Republic
Kolin (S)
Vyskov (E)
France
Cergy (S)
Feignies (S)
Guipry (S)
Lagny-Le-Sec (S)
Offranville(I)
Rueil-Malmaison (A/T)
Velizy-Villacoublay (A/T)

Germany
Allershausen-Leonhardsbuch (S)
Bersenbruck (E)
Besigheim (S)
Boeblingen (S)
Bremen (S)
Eisenach (S)
Garching-Hochbruck (S)
Ginsheim-Gustavsburg (M)
Kranzberg (A/T)
Kronach (E)
Munich (S)
Quakenbruck (S)
Remscheid (E)
Rietberg (S)
Saarlouis (E)
Wackersdorf (S)
Wismar (E)
Wolfsburg (A/T)
Wuppertal (E)
Honduras
Naco, SB (E)
San Pedro Sula, CA (E)
Hungary
Godollo (E)
Gyongyos (E)
Gyor (S)
Mor (S)
India
Halol (S)
Nasik (S)
New Delhi (S)
Thane (A/T)
Italy
Caivano, NA (S)
Cassino, FR (M)
Grugliasco, TO (S)
Melfi, PZ (M)
Montelabate, PS (I)
Pianfei, CN (I)
Pozzo d Adda, MI (S)

Mexico
Chihuahua, CH (E)
Cuautlancingo, PU (S)
Hermosillo, SO (S)
Juarez, CH (M)
Mexico City, DF (I)
Piedras Negras, CO (S)
Ramos Arizpe, CO (S)
Saltillo, CO (S)
Santa Catarina, NL (I)
Silao, GO (S)
Toluca, MX (I)
Morocco
Tangier (E)
Netherlands
Weesp (A/T)
Philippines
LapuLapu City, CE (E)
Poland
Jaroslaw (S)
Mielec (E)
Tychy (S)
Portugal
Palmela, SL (S)
Povoa de Lanhoso, BR (E)
Valongo, PO (E)
Romania
Pitesti (E)
Russia
Nizhny Novgorod (S)
Singapore
Wisma Atria

Spain
Almussafes (E)
Avila (E)
Epila (S)
Logrono (S)
Roquetes (E)
Valdemoro (S)
Valls (E)
Sweden
Gothenburg (M)
Trollhattan (S)
Thailand
Bangkok (S)
Muang Nakornratchasima (S)
Rayong (S)
Tunisia
Bir El Bey (E)
Turkey
Bostanci-Istanbul (E)
Bursa (S)
Gemlik (S)
United Kingdom
Coventry, CV (S)
Coventry, WM (S)
Nottingham, NG (S)
Sunderland, SU (S)
United States
Alma, MI (I)
Arlington, TX (S)
Bridgeton, MO (S)
Canton, MS (I)
Carlisle, PA (I)
Chicago, IL (I)
Columbia City, IN (S)
Columbus, OH (E)
Covington, VA (I)
Dayton, TN (I)
Dearborn, MI (M)
Detroit, MI (S)
Duncan, SC (S)

United States (Continued)
Hazelwood, MO (S)
Hebron, OH (S)
Huron, OH (I)
Indianapolis, IN (I)
Iowa City, IA (I)
Janesville, WI (S)
Lebanon, OH (I)
Lebanon, VA (I)
Liberty, MO (S)
Lordstown, OH (S)
Louisville, KY (S)
Madisonville, KY (I)
Manteca, CA (I)
Marshall, MI (I)
Mason, MI (S)
Mendon, MI (I)
Montgomery, AL (S)
Morristown, TN (S)
Newark, DE (M)
Northwood, OH (I)
Plymouth, IN (E)
Plymouth, MI

(1) **Legend**
S Seating
I – Interior
E Electronic and electrical
M Multiple segments
A/T Administrative/ technical
Certain administrative/ technical facilities are included within the operating segments.

Termini Imerese, PA (S)
Japan
Atsugi-shi (A/T)
Hiroshima (A/T)
Tokyo (E)
Toyota City (A/T)
Utsunomiya (A/T)

(S)
South Africa
East London (S)
Port Elizabeth (S)
Rosslyn (S)
South Korea
Gyeongju (S)
Seoul (A/T)

Edinburgh, IN (I)
El Paso, TX (E)
Elsie, MI (S)
Farwell, MI (S)
Fenton, MI (S)
Frankfort, IN (S)
Fremont, OH (I)
Greencastle, IN (I)
Hammond, IN (S)

(S)
Port Huron, MI (I)
Rochester Hills, MI (S)
Romulus, MI (S)
Roscommon, MI (S)
Saline, MI (S)
San Antonio, TX (I)
Selma, AL (S)
Sheboygan, WI (I)
Sidney, OH (I)
Southfield, MI (A/T)
Strasburg, VA (I)
Tampa, FL (E)
Taylor, MI (E)
Traverse City, MI (E)
Troy, MI (A/T)
Walker, MI (S)
Warren, MI (I)
Wauseon, OH (I)
Wentzville, MO (S)
Zanesville, OH (E)
Venezuela
Valencia (S)

ITEM 3 *LEGAL PROCEEDINGS*

Legal and Environmental Matters

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

On January 29, 2002, Seton Company (Seton), one of our leather suppliers, filed a suit alleging that we had breached a purported agreement to purchase leather from Seton for seats for the life of the General Motors GMT 800 program. Seton filed the lawsuit in the U.S. District Court for the Eastern District of Michigan seeking compensatory and exemplary damages totaling approximately $97 million, plus interest, on breach of contract and promissory estoppel claims. In May 2005, this case proceeded to trial, and the jury returned a $30 million verdict against us. On September 27, 2005, the Court denied our post-trial motions challenging the judgment and granted Seton s motion to award prejudgment interest in the amount of approximately $5 million. On October 4, 2006, the Sixth Circuit Court of Appeals affirmed the judgment of the trial court. On October 18, 2006, we filed a Petition for Rehearing with the court which was denied on November 16, 2006. On December 7, 2006, the Court of Appeals issued a mandate indicating that the order affirming the judgment was final. In December 2006, we paid the principal and all remaining interest on the judgment.

On January 26, 2004, we filed a patent infringement lawsuit against Johnson Controls Inc. and Johnson Controls Interiors LLC (together, JCI) in the U.S. District Court for the Eastern District of Michigan alleging that JCI s garage door opener products infringed certain of our radio frequency transmitter patents. JCI counterclaimed seeking a declaratory judgment that the subject patents are invalid and unenforceable, and that JCI is not infringing these patents. JCI also has filed motions for summary judgment asserting that its garage door opener products do not infringe our patents and that one of our patents is invalid and unenforceable. We are vigorously pursuing our claims against JCI. A trial date has not been scheduled.

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

On June 13, 2005, The Chamberlain Group (Chamberlain) filed a lawsuit against us and Ford Motor Company (Ford) in the Northern District of Illinois alleging patent infringement. Two counts were asserted against us and Ford based upon two Chamberlain rolling-code garage door opener system patents. Two additional counts were asserted against Ford only (not us) based upon different Chamberlain patents. The Chamberlain lawsuit was filed in connection with the marketing of our universal garage door opener system, which competes with a product offered by JCI. JCI obtained technology from Chamberlain to operate its product. In October 2005, JCI joined the lawsuit as a plaintiff along with Chamberlain. In October 2006, Ford was dismissed from the suit. JCI and Chamberlain have filed a motion for a preliminary injunction, and we are vigorously defending the claims asserted in this lawsuit. A trial date has not yet been scheduled.

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

We have been named as a potentially responsible party at several third-party landfill sites and are engaged in the cleanup of hazardous waste at certain sites owned, leased or operated by us, including several properties acquired in our 1999 acquisition of UT Automotive, Inc. (UT Automotive). Certain present and former properties of UT Automotive are subject to environmental liabilities which may be significant. We obtained agreements and indemnities with respect to certain environmental liabilities from United Technologies Corporation (UTC) in connection with our acquisition of UT Automotive. UTC manages and directly funds these environmental liabilities pursuant to its agreements and indemnities with us.

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

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

All of the plaintiffs subsequently dismissed their claims for health effects and personal injury damages and the cases proceeded with approximately 280 plaintiffs alleging property damage claims only. In March 2005, the venue for these lawsuits was transferred from Lowndes County, Mississippi, to Lafayette County, Mississippi. In April 2005, certain plaintiffs filed an amended complaint alleging negligence, nuisance, intentional tort and conspiracy claims and seeking compensatory and punitive damages.

In the first quarter of 2006, co-defendant UTC entered into a settlement agreement with the plaintiffs. During the third quarter of 2006, we and co-defendant Johnson Electric entered into a settlement memorandum with the plaintiffs counsel outlining the terms of a global settlement, including establishing the requisite percentage of executed settlement agreements and releases that were required to be obtained from the individual plaintiffs for a final settlement to proceed. Since November 2006, we have reached a final settlement with respect to approximately 85% of the plaintiffs involving an aggregate payment of $875,000 and are in the process of attempting to resolve the remaining claims.

UTC, the former owner of UT Automotive, and Johnson Electric have each sought indemnification for losses associated with the Mississippi claims from us under the respective acquisition agreements, and we have claimed indemnification from them under the same agreements. In the first quarter of 2006, UTC filed a lawsuit against us in the State of Connecticut Superior Court, District of Hartford, seeking declaratory relief and indemnification from us for the settlement amount, attorney fees, costs and expenses UTC paid in settling and defending the Columbus, Mississippi lawsuits. In the second quarter of 2006, we filed a motion to dismiss this matter and filed a separate action against UTC and Johnson Electric in the State of Michigan, Circuit Court for the County of Oakland, seeking declaratory relief and indemnification from UTC or Johnson Electric for the settlement amount, attorney fees, costs and expenses we have paid, or will pay, in settling and defending the Columbus, Mississippi lawsuits. During the fourth quarter of 2006, UTC agreed to dismiss the lawsuit filed in the State of Connecticut Superior Court, District of Hartford and agreed to proceed with the lawsuit filed in the State of Michigan, Circuit Court for the County of Oakland. During the first quarter of 2007, Johnson Electric and UTC each filed counter-claims against us seeking declaratory relief and indemnification from us for the settlement amount, attorney fees, costs and expenses each has paid or will pay in settling and defending the Columbus, Mississippi lawsuits. To date, no company admits to, or has been found to have, an obligation to fully defend and indemnify any other. We intend to vigorously pursue our claims against UTC and Johnson Electric and believe that we are entitled to indemnification from either UTC or Johnson Electric for our losses. However, the ultimate outcome of these matters is unknown.

In April 2006, a former employee of ours filed a purported class action lawsuit in the U.S. District Court for the Eastern District of Michigan against us, members of our Board of Directors, members of our Employee Benefits Committee (the EBC) and certain members of our human resources personnel alleging violations of the Employment Retirement Income Security Act (ERISA) with respect to our retirement savings plans for salaried and hourly employees. In the second quarter of 2006, we were served with three additional purported class action

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ERISA lawsuits, each of which contained similar allegations against us, members of our Board of Directors, members of our EBC and certain members of our senior management and our human resources personnel. At the end of the second quarter of 2006, the court entered an order consolidating these four lawsuits. During the third quarter of 2006, plaintiffs filed their consolidated complaint, which alleges breaches of fiduciary duties substantially similar to those alleged in the four individually filed lawsuits. The consolidated complaint continues to name certain current and former members of the Board of Directors and the EBC and certain members of senior management and adds certain other current and former members of the EBC. The consolidated complaint generally alleges that the defendants breached their fiduciary duties to plan participants in connection with the administration of our retirement savings plans for salaried and hourly employees. The fiduciary duty claims are largely based on allegations of breaches of the fiduciary duties of prudence and loyalty and of over-concentration of plan assets in our common stock. The plaintiffs purport to bring these claims on behalf of the plans and all persons who were participants in or beneficiaries of the plans from October 21, 2004, to the present and seek to recover losses allegedly suffered by the plans. The complaints do not specify the amount of damages sought. During the fourth quarter of 2006, the defendants filed a motion to dismiss all defendants and all counts in the consolidated complaint. No determination has been made that a class action can be maintained, and there have been no decisions on the merits of the cases. We intend to vigorously defend the consolidated lawsuit.

Between February 9, 2007 and February 21, 2007, certain stockholders filed six purported class action lawsuits against us, certain members of our Board of Directors and American Real Estate Partners, L.P. and certain of its affiliates (collectively, AREP). Three of the lawsuits were filed in the Delaware Court of Chancery and have since been consolidated into a single action. Three of the lawsuits were filed in Michigan Circuit Court. The class action complaints, which are substantially similar, generally allege that the Agreement and Plan of Merger (Merger Agreement) unfairly limits the process of selling Lear and that certain members of our Board of Directors have breached their fiduciary duties in connection with the Merger Agreement and have acted with conflicts of interest in approving the Merger Agreement. The lawsuits seek to enjoin the merger, to invalidate the Merger Agreement and to enjoin the operation of certain provisions of the Merger Agreement, a declaration that certain members of our Board of Directors breached their fiduciary duties in approving the Merger Agreement and an award of unspecified damages or rescission in the event that the proposed merger with AREP is completed. On February 23, 2007, the plaintiffs in the consolidated Delaware action filed a consolidated amended complaint, a motion for expedited proceedings and a motion to preliminarily enjoin the merger contemplated by the Merger Agreement. We believe that the lawsuits are without merit and intend to defend against them vigorously.

Although we record reserves for legal, product warranty and environmental matters in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, the outcomes of these matters are inherently uncertain. Actual results may differ significantly from current estimates. See Item 1A, Risk Factors.

Product Liability Matters

In the event that use of our products results in, or is alleged to result in, bodily injury and/or property damage or other losses, we may be subject to product liability lawsuits and other claims. In addition, we are a party to warranty-sharing and other agreements with our customers relating to our products. These customers may pursue claims against us for contribution of all or a portion of the amounts sought in connection with product liability and warranty claims. We can provide no assurances that we will not experience material claims in the future or that we will not incur significant costs to defend such claims. In addition, if any of our products are, or are alleged to be, defective, we may be required or requested by our customers to participate in a recall or other corrective action involving such products. Certain of our customers have asserted claims against us for costs related to recalls or other corrective actions involving our products. In certain instances, the allegedly defective products were supplied by tier II suppliers against whom we have sought or will seek contribution. In this regard, in the first quarter of 2007, we received notice of a potential warranty claim concerning a component produced by a tier II supplier and incorporated into a product supplied by us.

The alleged non-conformity is not safety-related. We are continuing to work with the customer and the tier II supplier to evaluate the matter and determine the appropriate corrective action, if any. We have also placed our tier II supplier on notice of the potential claim and of our intention to seek full contribution and reimbursement for any loss. We carry insurance for certain legal matters, including product

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liability claims, but such coverage may be limited. We do not maintain insurance for product warranty or recall matters.

Other Matters

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

Prior to our acquisition of UT Automotive from UTC in May 1999, one of our subsidiaries purchased the stock of a UT Automotive subsidiary. In connection with the acquisition, we agreed to indemnify UTC for certain matters, including tax consequences if the Internal Revenue Service (the IRS) overturned UTC s tax treatment of the transaction. On June 28, 2006, this matter was settled with the Appeals Office of the IRS. As a result of the IRS settlement in the second quarter of 2006, we were required to make an indemnity payment to UTC of $21 million. The payment has been recorded as an adjustment to the original purchase price and allocated to goodwill in a manner consistent with the original purchase price allocation. The amount allocated to the Interiors Americas unit of $3 million was immediately written off as this unit s goodwill is fully impaired. On September 1, 2006, we entered into a Payment Agreement and Limited Release with UTC in order to settle our indemnity obligation related to this issue. In connection with this agreement, we made a payment to UTC in the amount of $21 million, including interest up to the date of the agreement.

We are involved in certain other legal actions and claims arising in the ordinary course of business, including, without limitation, commercial disputes, intellectual property matters, personal injury claims, tax claims and employment matters. Although the outcome of any legal matter cannot be predicted with certainty, we do not believe that any of these other legal proceedings or matters in which we are currently involved, either individually or in the aggregate, will have a material adverse effect on our business, consolidated financial position or results of operations. See Item 1A, Risk Factors We are involved from time to time in legal proceedings and commercial or contractual disputes, which could have an adverse impact on our profitability and consolidated financial position, and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Other Matters.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2006.

SUPPLEMENTARY ITEM EXECUTIVE OFFICERS OF THE COMPANY

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

Name	Age	Position
James M. Brackenbury	48	Senior Vice President and President, European Operations
Shari L. Burgess	48	Vice President and Treasurer
Douglas G. DelGrosso	45	President and Chief Operating Officer
Roger A. Jackson	60	Senior Vice President, Human Resources
James L. Murawski	55	Vice President and Corporate Controller
Daniel A. Ninivaggi	42	Executive Vice President, Secretary and General Counsel
Robert E. Rossiter	61	Chairman and Chief Executive Officer
Raymond E. Scott	41	Senior Vice President and President, North American Seating Systems Group
Matthew J. Simoncini	46	Senior Vice President, Finance and Chief Accounting Officer
James H. Vandenberghe	57	Vice Chairman and Chief Financial Officer

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

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

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

Douglas G. DelGrosso Mr. DelGrosso is our President and Chief Operating Officer, a position he has held since May 2005. Previously, he served as our President and Chief Operating Officer Americas since August 2004, our President and Chief Operating Officer Europe, Asia and Africa since August 2002, our Executive Vice President International since September 2001, our Senior Vice President Product Focus Group since October 2000 and our Senior Vice President and President North American and South American Operations since May 1999. Prior to this, Mr. DelGrosso held several senior operational positions and has been employed by Lear since 1984.

Roger A. Jackson	Mr. Jackson is our Senior Vice President, Human Resources, a position he has held since October 1995. Prior to joining Lear, he was employed as Vice President, Human Resources at Allen Bradley, a wholly owned subsidiary of Rockwell International, since 1991. Mr. Jackson was employed by Rockwell International or one of its subsidiaries from December 1977 until September 1995.

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James L. Murawski	Mr. Murawski is our Vice President and Corporate Controller, a position he has held since March 2005. Previously, he served as our Vice President of Internal Audit since June 2003. Prior to joining Lear, Mr. Murawski was employed in public accounting at Deloitte & Touche for fourteen years and in various financial positions at Collins & Aikman Corporation, TRW Automotive and LucasVarity.
Daniel A. Ninivaggi	Mr. Ninivaggi is our Executive Vice President, Secretary and General Counsel, a position he has held since August 2006. Mr. Ninivaggi also serves as our Chief Administrative Officer. Previously, he served as our Senior Vice President, Secretary and General Counsel since June 2004 and joined Lear as our Vice President, Secretary and General Counsel in July 2003. Prior to joining Lear, Mr. Ninivaggi was a partner since 1998 of Winston & Strawn LLP, specializing in corporate finance, securities law and mergers and acquisitions.
Robert E. Rossiter	Mr. Rossiter is our Chairman and Chief Executive Officer, a position he has held since January 2003. Mr. Rossiter has served as our Chief Executive Officer since October 2000, as our President from 1984 until December 2002 and as our Chief Operating Officer from 1988 until April 1997 and from November 1998 until October 2000. Mr. Rossiter also served as our Chief Operating Officer International Operations from April 1997 until November 1998. Mr. Rossiter has been a director of Lear since 1988.
Raymond E. Scott	Mr. Scott is our Senior Vice President and President, North American Seating Systems Group, a position he has held since August 2006. Previously, he served as our Senior Vice President and President, North American Customer Group since June 2005, our President, European Customer Focused Division since June 2004 and our President, General Motors Division since November 2000.
Matthew J. Simoncini	Mr. Simoncini is our Senior Vice President, Finance and Chief Accounting Officer, a position he has held since August 2006. Previously, he served as our Vice President, Global Finance since February 2006, our Vice President of Operational Finance since June 2004, our Vice President of Finance Europe since 2001 and prior to 2001, in various senior financial positions for both Lear and United Technologies Automotive, which was acquired by Lear in 1999.
James H. Vandenberghe	Mr. Vandenberghe is our Vice Chairman, a position he has held since November 1998, and has served as our Chief Financial Officer since March 2006. Mr. Vandenberghe also served as our President and Chief Operating Officer North American Operations from April 1997 until November 1998, our Chief Financial Officer from 1988 until April 1997 and as our Executive Vice President from 1993 until April 1997. Mr. Vandenberghe has been a director of Lear since 1995.

PART II

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

Lear s common stock is listed on the New York Stock Exchange under the symbol LEA. The Transfer Agent and Registrar for Lear s common stock is The Bank of New York, located in New York, New York. On February 16, 2007, there were 1,328 holders of record of Lear s common stock.

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

The high and low sales prices per share of our common stock, as reported on the New York Stock Exchange, and the amount of our dividend declarations for 2006 and 2005 are shown below:

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

For the Year Ended December 31, 2005:	**Price Range of Common Stock**		**Cash Dividend per Share**
	High	**Low**	
4th Quarter	$ 33.50	$ 27.09	$ 0.25
3rd Quarter	$ 42.77	$ 32.43	$ 0.25
2nd Quarter	$ 44.29	$ 33.89	$ 0.25
1st Quarter	$ 60.05	$ 43.96	$ 0.25

We initiated a quarterly cash dividend program in January 2004. On March 9, 2006, our quarterly cash dividend program was suspended indefinitely. The payment of cash dividends in the future is dependent upon our financial condition, results of operations, capital requirements, alternative uses of capital and other factors. Also, we are subject to the restrictions on the payment of dividends contained in the agreement governing our primary credit facility.

As discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Financial Condition Capitalization Common Stock Repurchase Program, in November 2004, our Board of Directors approved a common stock repurchase program covering the discretionary repurchase of up to 5,000,000 shares of our common stock through November 15, 2006. As of December 31, 2006, we had repurchased 490,900 shares of our outstanding common stock under this program prior to its expiration. There were no shares repurchased under this program during the quarter ended December 31, 2006, and the program was not extended beyond November 15, 2006.

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Performance Graph

The following graph compares the cumulative total stockholder return from December 31, 2001 through December 31, 2006 for Lear common stock, the S&P 500 Index and peer groups(1) of companies we have selected for purposes of this comparison. We have assumed that dividends have been reinvested and the returns of each company in the S&P 500 Index and the peer groups have been weighted to reflect relative stock market capitalization. The graph assumes that $100 was invested on December 31, 2001 in each of Lear s common stock, the stocks comprising the S&P 500 Index and the stocks comprising each of the peer groups.

	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
LEAR CORPORATION	$ 100.00	$ 87.26	$ 161.33	$ 162.59	$ 78.51	$ 82.15
S&P 500	$ 100.00	$ 78.03	$ 100.16	$ 110.92	$ 116.28	$ 134.43
PEER GROUP(1)	$ 100.00	$ 99.44	$ 148.12	$ 169.02	$ 172.52	$ 196.70
PREVIOUS PEER GROUP(2)	$ 100.00	$ 92.03	$ 135.02	$ 149.18	$ 149.42	$ 250.78

(1) We do not believe that there is a single published industry or line of business index that is appropriate for comparing stockholder returns. The current Peer Group, as referenced in the graph above, that we have selected is comprised of representative independent automobile suppliers of comparable products whose common stock is publicly-traded. The current Peer Group consists of ArvinMeritor, Inc., BorgWarner Automotive, Inc., Eaton Corp., Gentex Corp., Johnson Controls, Inc., Magna International, Inc., Superior Industries International and Visteon Corporation. Our previous Peer Group, as referenced in the graph above, consisted of each of the entities in the current Peer Group, plus Collins & Aikman Corporation, Dana Corporation, Delphi Corporation (f/k/a Delphi Automotive Systems Corporation) and Tower Automotive. These four companies are each currently in bankruptcy proceedings and, as a result, were removed from the current Peer Group as no longer being representative of our business and competitors.

For purposes of the graph above, we have retained, for this year, the Previous Peer Group line pursuant to SEC rules but will remove it in following years.

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ITEM 6 *SELECTED FINANCIAL DATA*

The following statement of operations, balance sheet and cash flow statement data were derived from our consolidated financial statements. Our consolidated financial statements for the years ended December 31, 2006, 2005, 2004, 2003 and 2002, have been audited by Ernst & Young LLP. The selected financial data below should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements and the notes thereto included in this Report.

For the Year Ended December 31,	2006(1)	2005(2)	2004 (In millions(3))	2003	2002
Statement of Operations Data:					
Net sales	$ 17,838.9	$ 17,089.2	$ 16,960.0	$ 15,746.7	$ 14,424.6
Gross profit	927.7	736.0	1,402.1	1,346.4	1,260.3
Selling, general and administrative expenses	646.7	630.6	633.7	573.6	517.2
Goodwill impairment charges	2.9	1,012.8			
Loss on divestiture of Interior business	636.0				
Interest expense	209.8	183.2	165.5	186.6	210.5
Other expense, net(4)	85.7	38.0	38.6	51.8	52.1
Income (loss) before provision for income taxes, minority interests in consolidated subsidiaries, equity in net (income) loss of affiliates and cumulative effect of a change in accounting principle	(653.4)	(1,128.6)	564.3	534.4	480.5
Provision for income taxes	54.9	194.3	128.0	153.7	157.0
Minority interests in consolidated subsidiaries	18.3	7.2	16.7	8.8	13.3
Equity in net (income) loss of affiliates	(16.2)	51.4	(2.6)	(8.6)	(1.3)
Income (loss) before cumulative effect of a change in accounting principle	(710.4)	(1,381.5)	422.2	380.5	311.5
Cumulative effect of a change in accounting principle, net of tax(5)	2.9				(298.5)
Net income (loss)	$ (707.5)	$ (1,381.5)	$ 422.2	$ 380.5	$ 13.0
Basic net income (loss) per share	$ (10.31)	$ (20.57)	$ 6.18	$ 5.71	$ 0.20
Diluted net income (loss) per share(6)	$ (10.31)	$ (20.57)	$ 5.77	$ 5.31	$ 0.29
Weighted average shares outstanding basic	68,607,262	67,166,668	68,278,858	66,689,757	65,365,218

Weighted average shares outstanding diluted(6)		68,607,262		67,166,668		74,727,263		73,346,568		71,289,991
Dividends per share	$	0.25	$	1.00	$	0.80	$	0.20	$	
Balance Sheet Data:										
Current assets	$	3,890.3	$	3,846.4	$	4,372.0	$	3,375.4	$	2,507.7
Total assets		7,850.5		8,288.4		9,944.4		8,571.0		7,483.0
Current liabilities		3,887.3		4,106.7		4,647.9		3,582.1		3,045.2
Long-term debt		2,434.5		2,243.1		1,866.9		2,057.2		2,132.8
Stockholders equity		602.0		1,111.0		2,730.1		2,257.5		1,662.3
Statement of Cash Flows Data:										
Cash flows from operating activities	$	285.3	$	560.8	$	675.9	$	586.3	$	545.1
Cash flows from investing activities		(312.2)		(541.6)		(472.5)		(346.8)		(259.3)
Cash flows from financing activities		277.4		(347.0)		166.1		(158.6)		(295.8)
Capital expenditures		347.6		568.4		429.0		375.6		272.6
Other Data (unaudited):										
Ratio of earnings to fixed charges(7)						3.7x		3.4x		3.0x
Employees as of year end		104,276		115,113		110,083		111,022		114,694
North American content per vehicle(8)	$	646	$	586	$	588	$	593	$	579
North American vehicle production(9)		15.2		15.8		15.7		15.9		16.4
European content per vehicle(10)	$	335	$	345	$	351	$	310	$	247
European vehicle production(11)		19.2		18.9		18.9		18.2		18.1

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(1) Results include $636.0 million of charges related to the divestiture of the 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.

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

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

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

(5) The cumulative effect of a change in accounting principle in 2006 resulted from the adoption of Statement of Financial Accounting Standards No. 123(R), Share Based Payment. The cumulative effect of a change in accounting principle in 2002 resulted from goodwill impairment charges recorded in conjunction with the adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

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

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

(8) 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 2005 has been updated to reflect actual production levels.

(9) 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 2005 has been updated to reflect actual production levels.

(10) 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 2005 has been updated to reflect actual production levels.

(11) European vehicle production includes car and light truck production in Austria, Belgium, Bosnia, Czech Republic, Finland, France, Germany, Hungary, Italy, Kazakhstan, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Turkey, Ukraine and United Kingdom as provided by J.D. Power and Associates. Production data for 2005 has been updated to reflect actual production levels.

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

Overview

We were incorporated in Delaware in 1987 and are one of the world s largest automotive interior systems suppliers based on net sales. Our net sales have grown from $14.4 billion for the year ended December 31, 2002, to $17.8 billion for the year ended December 31, 2006. We supply every major automotive manufacturer in the world, including General Motors, Ford, DaimlerChrysler, BMW, Fiat, PSA, Volkswagen, Hyundai, Renault-Nissan, Mazda, Toyota, Porsche and Honda.

We supply automotive manufacturers with complete automotive seat and electrical distribution systems and select electronic products. Historically, we have also supplied automotive interior components and systems, including instrument panels and cockpit systems, headliners and overhead systems, door panels and flooring and acoustic systems.

Merger Agreement

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

Pursuant to the Merger Agreement, as of the effective time of the merger, each issued and outstanding share of common stock of Lear, other than shares (i) owned by Parent, Merger Sub or any subsidiary of Parent and (ii) owned by any shareholders who are entitled to and who properly exercise appraisal rights under Delaware law, will be canceled and automatically converted into the right to receive $36.00 in cash, without interest.

The Merger Agreement contains provisions pursuant to which we may solicit alternative acquisition proposals for forty-five days after the date of the Merger Agreement (the Solicitation Period) and receive unsolicited proposals thereafter. We may terminate the Merger Agreement under certain circumstances, including if our board of directors determines in good faith that it has received a Superior Proposal (as defined in the Merger Agreement) and otherwise complies with certain terms of the Merger Agreement. In connection with such termination, and in certain other limited circumstances, we would be required to pay a fee of $85 million to Parent plus up to $15 million of Parent s out-of-pocket expenses (including fees and expenses of financing sources, counsel, accountants, investment bankers, experts and consultants) relating to the Merger Agreement. If such termination is to accept a Superior Proposal prior to the end of the Solicitation Period, we would be required to pay a fee of $74 million to Parent plus up to $6 million of Parent s out-of-pocket expenses.

Parent has obtained debt financing commitments for the transaction contemplated by the Merger Agreement. Consummation of the merger is not subject to a financing condition, but is subject to other conditions, including receipt of the affirmative vote of the holders of a majority of the outstanding shares of our common stock, antitrust approvals and other customary closing conditions.

In connection with the execution of the Merger Agreement, we entered into a voting agreement with Icahn Partners LP, Icahn Partners Master Fund LP, Koala Holding LLC and High River Limited Partnership. In the aggregate, such holders beneficially own approximately 15% of Lear s outstanding common stock. Pursuant to the voting agreement, such holders agreed to vote in favor of the merger and, subject to certain exceptions, not to dispose of any shares of common stock prior to consummation of the merger. Such holders have also agreed to vote in favor of a Superior Proposal under certain circumstances. In addition, American Real Estate Partners, L.P. has provided a limited guaranty in favor of Lear with respect to the performance by Parent and Merger Sub of certain payment obligations under the Merger Agreement.

For further information regarding the Merger Agreement, please refer to the Merger Agreement and certain related documents which are incorporated by reference as exhibits to this Report.

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Interior Segment

In recent years, the level of profitability and the return on investment of our interior segment has been significantly below that of our seating and electronic and electrical segments. In 2005, as a result of unfavorable operating results due to higher raw material costs, lower production volumes on key platforms, industry overcapacity, insufficient customer pricing and changes in certain customer s sourcing strategies, we evaluated the carrying value of goodwill within our interior segment for potential impairment and recorded goodwill impairment charges of approximately $1.0 billion. We also concluded that certain fixed assets within our interior segment were materially impaired and recorded fixed asset impairment charges of $82 million. In 2006, we recorded additional goodwill and fixed asset impairment charges related to our interior segment of $13 million.

In light of its unfavorable operating performance, we have evaluated strategic alternatives with respect to our interior segment. On October 16, 2006, we completed the contribution of substantially all of our European interior business to International Automotive Components Group, LLC (IAC Europe), a joint venture with WL Ross & Co. LLC (WL Ross) and Franklin Mutual Advisers, LLC (Franklin), in exchange for a one-third equity interest. In connection with the transaction, we entered into various ancillary agreements providing us with customary minority shareholder rights and registration rights with respect to our equity interest in IAC Europe. Our European interior business included substantially all of our interior components business in Europe (other than Italy and one facility in France), consisting of nine manufacturing facilities in five countries supplying door panels, overhead systems, instrument panels, cockpits and interior trim to various original equipment manufacturers. IAC Europe also owns the European interior business formerly held by Collins & Aikman Corporation. In connection with the transaction, we recognized a pretax loss of approximately $29 million in the third quarter of 2006.

On November 30, 2006, we entered into an Asset Purchase Agreement with International Automotive Components Group North America, Inc. and International Automotive Components Group North America, LLC (together, IAC North America), WL Ross and Franklin, under which we agreed to transfer substantially all of the assets of our North American interior business, as well as our interests in two China joint ventures and $25 million of cash, to IAC North America. Under the terms of the agreement, we will receive a 25% equity interest in IAC North America and warrants to purchase an additional 7% equity interest. The closing of the transaction contemplated by the agreement is subject to various conditions, including the receipt of required third-party consents, as well as other closing conditions customary for transactions of this type. The transaction is expected to close in the first quarter of 2007. In connection with the transaction, we recognized a pretax loss of approximately $607 million in the fourth quarter of 2006. We expect to incur additional losses on the transaction through the closing date. The total pretax loss on the transaction is expected to be in the range of $650 million to $675 million. The closing of the transaction is subject to various conditions, and no assurances can be given regarding when the transaction will close or that it will be consummated on the terms contemplated or at all.

For further information related to the divestiture of our interior business, please refer to Note 3, Divestiture of Interior Business, to the consolidated financial statements included in this Report and the Asset Purchase Agreement with IAC North America and related documents which are incorporated by reference as exhibits to this Report.

Industry Overview

Demand for our products is directly related to automotive vehicle production. Automotive sales and production can be affected by general economic or industry conditions, labor relations issues, fuel prices, regulatory requirements, trade agreements and other factors. Our operating results are also significantly impacted by what is referred to in this section as vehicle platform mix ; that is, the overall commercial success of the vehicle platforms for which we supply particular products, as well as our relative profitability on these platforms. A significant loss of business with respect to any vehicle model for which we are a significant supplier, or a decrease in the production levels of any such models, could have a material adverse impact on our future operating results. Lower production volumes on certain of our largest platforms have had an adverse effect on our operating results in 2006. In addition, our two largest customers, General Motors and Ford, accounted for approximately 47% of our net sales in 2006, excluding net sales to Saab, Volvo, Jaguar and Land Rover, which are affiliates of General Motors or Ford. The automotive operations of both General Motors and Ford have experienced significant operating losses throughout 2006, and both automakers are continuing to restructure their North American operations, which could have a material impact on our future operating results.

Automotive industry conditions in North America and Europe continue to be challenging. In North America, the industry is characterized by significant overcapacity, fierce competition and significant pension and healthcare liabilities for the domestic automakers. In Europe, the market structure is more fragmented with significant overcapacity. We expect these challenging industry conditions to continue in the foreseeable future. During 2006, North American production levels declined by approximately 3% as compared to a year ago, and production levels on several of our key platforms have declined more significantly. In addition, production declines on certain of our key platforms are expected to continue in 2007. Historically, the majority of our sales have been derived from the U.S.-based automotive manufacturers in North America and, to a lesser extent, automotive manufacturers in Western Europe. These customers have experienced declines in market share in their traditional markets. As discussed below, our ability to increase sales in the future will depend, in part, on our ability to increase our penetration of Asian automotive manufacturers worldwide and leverage our existing North American and European customer base across all product lines. See Item 1A, Risk Factors.

Our customers require us to reduce costs and, at the same time, assume significant responsibility for the design, development and engineering of our products. Our profitability is largely dependent on our ability to achieve product cost reductions through manufacturing efficiencies, product design enhancement and supply chain management. We also seek to enhance our profitability by investing in technology, design capabilities and new product initiatives that respond to the needs of our customers and consumers. We continually evaluate operational and strategic alternatives to align our business with the changing needs of our customers, improve our business structure and lower the operating costs of our Company.

Our material cost as a percentage of net sales increased to 68.8% in 2006 from 68.3% in 2005 and 65.6% in 2004. A substantial portion of this increase was the result of increases in certain raw material, energy and commodity costs and net selling price reductions, as well as less favorable vehicle platform mix. Raw material, energy and commodity costs (principally steel, copper, resins and other oil-based commodities) remained high and continued to have an adverse impact on our operating results in 2006. Resins, copper and crude oil, in particular, experienced significant price increases in 2006. Unfavorable industry conditions have also resulted in financial distress within our supply base and an increase in commercial disputes and the risk of supply disruption. We have developed and implemented strategies to mitigate or partially offset the impact of higher raw material, energy and commodity costs, which include aggressive cost reduction actions, the utilization of our cost technology optimization process, the selective in-sourcing of components where we have available capacity, the continued consolidation of our supply base, longer-term purchase commitments and the acceleration of low-cost country sourcing and engineering. However, due to the magnitude and duration of the increased raw material, energy and commodity costs, these strategies, together with commercial negotiations with our customers and suppliers, offset only a portion of the adverse impact. In addition, higher crude oil prices can indirectly impact our operating results by adversely affecting demand for certain of our key light truck platforms. We expect that high raw material, energy and commodity costs will continue to have a material adverse impact on our operating results in the foreseeable future. See Item 1A, Risk Factors High raw material costs may continue to have a significant adverse impact on our profitability.

Outlook

In evaluating our financial condition and operating performance, we focus primarily on profitable sales growth and cash flows, as well as return on investment on a consolidated basis. In addition to maintaining and expanding our business with our existing customers in our more established markets, we have increased our emphasis on expanding our business in the Asian market (including sourcing activity in Asia) and with Asian automotive manufacturers worldwide. The Asian market presents growth opportunities, as automotive manufacturers expand production in this market to meet increasing demand. We currently have twelve joint ventures in China and several other joint ventures dedicated to serving Asian automotive manufacturers. We will continue to seek ways to expand our business in the Asian market and with Asian automotive manufacturers worldwide. In addition, we have improved our low-cost country manufacturing capabilities through expansion in Asia, Eastern Europe and Central America.

Our success in generating cash flow will depend, in part, on our ability to efficiently manage working capital. Working capital can be significantly impacted by the timing of cash flows from sales and purchases. Historically, we have generally been successful in aligning our vendor payment terms with our customer payment terms. However, our ability to continue to do so may be adversely impacted by the unfavorable financial results of our suppliers and adverse industry conditions, as well as our financial results. In addition, our cash flow is also dependent on our ability to efficiently manage our capital spending. We utilize return on investment as a measure of the efficiency with which assets are deployed to increase earnings. Improvements in our return on investment will depend on our ability to maintain an appropriate asset base for our business and to increase productivity and operating efficiency.

Restructuring

In the second quarter of 2005, we began to implement consolidation and census actions in order to address unfavorable industry conditions. These actions continued throughout 2005 and 2006 and are part of a comprehensive restructuring strategy intended to (i) better align our manufacturing capacity with the changing needs of our customers, (ii) eliminate excess capacity and lower our operating costs and (iii) streamline our organizational structure and reposition our business for improved long-term profitability. In connection with the restructuring actions, we expect to incur pretax costs of approximately $300 million through 2007, although all aspects of the restructuring actions have not been finalized. Restructuring and related manufacturing inefficiency charges were $100 million in 2006 and $104 million in 2005. The remainder of the restructuring costs are expected to be incurred in 2007.

Financing Transactions

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

On November 8, 2006, we completed the sale of 8,695,653 shares of our common stock in a private placement to affiliates of and funds managed by Carl C. Icahn for a purchase price of $23 per share. The proceeds of this offering will be used for general corporate purposes, including strategic investments in our core businesses.

Other Matters

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

In the fourth quarter of 2005, we concluded that it was no longer more likely than not that we would realize our U.S. deferred tax assets. As a result, we recorded a tax charge of $300 million comprised of (i) a full valuation allowance in the amount of $255 million with respect to our net U.S. deferred tax assets and (ii) an increase in related tax reserves of $45 million. During 2006, we continued to incur losses in the United States for which no tax benefit was recorded. These losses include the U.S. portion of a number of special items such as the loss on divestiture of the interior business, the cost of restructuring actions, goodwill and fixed asset impairment charges and the loss on the extinguishment of debt, partially offset by the gain related to the sales of our interests in two U.S. affiliates. During

2006, our U.S. valuation allowance increased to $545 million primarily as a result of losses incurred in the United States during the year. In addition, in 2006 we recorded a tax benefit of $20 million related to a number of items, including the expiration of the statute of limitations in a foreign taxing jurisdiction, a tax audit resolution, a favorable tax ruling and several other items. In the first quarter of 2005, we recorded a tax benefit of $18 million resulting from a tax law change in Poland.

As discussed above, our results for the years ended December 31, 2006, 2005 and 2004, reflect the following items (in millions):

For the Year Ended December 31,	2006	2005	2004
Goodwill impairment charges on interior business	$ 3	$ 1,013	$
Fixed asset impairment charges on interior business	10	82	
Loss on divestiture of interior business	636		
Costs of restructuring actions, including manufacturing inefficiencies of $7 million in 2006 and $15 million in 2005	100	104	48
Loss on the extinguishment of debt	48		
Sales and capital restructurings of equity affiliates	(27)	47	
Tax benefits	(20)	(18)	
Tax charge related to U.S. deferred tax asset valuation allowance		300	

For further information related to these items, see Restructuring and Note 2, Summary of Significant Accounting Policies Goodwill, and Long-Lived Assets, Note 3, Divestiture of Interior Business, Note 5, Restructuring, Note Investments in Affiliates and Other Related Party Transactions, and Note 9, Income Taxes, to the consolidated financial statements included in this Report.

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

Results of Operations

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

For the Year Ended December 31,	2006		2005		2004	
Net sales						
Seating	$ 11,624.8	65.2%	$ 11,035.0	64.6%	$ 11,314.6	66.7%
Electronic and electrical	2,996.9	16.8	2,956.6	17.3	2,680.4	15.8
Interior	3,217.2	18.0	3,097.6	18.1	2,965.0	17.5
Net sales	17,838.9	100.0	17,089.2	100.0	16,960.0	100.0
Gross profit	927.7	5.2	736.0	4.3	1,402.1	8.3
Selling, general and administrative expenses	646.7	3.6	630.6	3.7	633.7	3.7
Goodwill impairment charges on interior business	2.9		1,012.8	5.9		
Loss on divestiture of interior business	636.0	3.6				
Interest expense	209.8	1.2	183.2	1.1	165.5	1.0
Other expense, net	85.7	0.5	38.0	0.2	38.6	0.2
Provision for income taxes	54.9	0.3	194.3	1.1	128.0	0.8

Equity in net (income) loss of affiliates	(16.2)		51.4	0.3	(2.6)	
Net income (loss)	(707.5)	(4.0)	(1,381.5)	(8.1)	422.2	2.5

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

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

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

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

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

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

Other expense, which includes state and local non-income taxes, foreign exchange gains and losses, discounts and expenses associated with our asset-backed securitization and factoring facilities, losses on the extinguishment of debt, gains and losses on the sales of assets and other miscellaneous income and expense, was $86 million in 2006, as compared to $38 million in 2005. The increase was largely due to a loss on the extinguishment of debt of $49 million related to our repurchase of senior notes due 2008 and 2009. An increase of $18 million in foreign exchange losses was largely offset by a gain on the sale of an affiliate.

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

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

On January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment. As a result, we recognized a cumulative effect of a change in accounting principle of $3 million in the first quarter of 2006 related to a change in accounting for forfeitures. For further information, see Note 2, Summary of Significant Accounting Policies Stock-Based Compensation, to the consolidated financial statements included in this Report.

Net loss in 2006 was $708 million, or $10.31 per diluted share, as compared to net loss in 2005 of $1.4 billion, or $20.57 per diluted share, reflecting the loss on divestiture of our interior business of $636 million in 2006 and goodwill impairment charges of $1.0 billion in 2005 and for the reasons described above. For further information related to our 2006 loss on divestiture of our interior business and 2005 goodwill impairment charges, see Note 2, Summary of Significant Accounting Policies Goodwill, and Note 3, Divestiture of Interior Business, to the consolidated financial statements included in this Report.

Reportable Operating Segments

Historically, we have had three reportable operating segments: seating, which includes seat systems and the components thereof; electronic and electrical, which includes electronic products and electrical distribution systems, primarily wire harnesses and junction boxes, interior control and entertainment systems and wireless systems; and interior, which includes instrument panels and cockpit systems, headliners and overhead systems, door panels, flooring and acoustic systems and other interior products. For further information related to our interior business, see Note 3, Divestiture of Interior Business, to the consolidated financial statements included in this Report. The financial information presented below is for our three reportable operating segments and our other category for the periods presented. The other category includes unallocated costs related to corporate headquarters, geographic headquarters and the elimination of intercompany activities, none of which meets the requirements of being classified as an operating segment. Corporate and geographic headquarters costs include various support functions, such as information technology, purchasing, corporate finance, legal, executive administration and human resources. Financial measures regarding each segment s income (loss) before goodwill impairment charges, loss on divestiture of interior business, interest, other expense, provision for income taxes, minority interests in consolidated subsidiaries, equity in net (income) loss of affiliates and cumulative effect of a change in accounting principle (segment earnings) and segment earnings divided by net sales (margin) are not measures of performance under accounting principles generally accepted in the United States (GAAP). Segment earnings and the related margin are used by management to evaluate the performance of our reportable operating segments. Segment earnings should not be considered in isolation or as a substitute for net income (loss), net cash provided by operating activities or other income statement or cash flow statement data prepared in accordance with GAAP or as measures of profitability or liquidity. In addition, segment earnings, as we determine it, may not be comparable to related or similarly titled measures reported by other companies. For a reconciliation of consolidated segment earnings to consolidated income (loss) before provision for income taxes and cumulative effect of a change in accounting principle, see Note 13, Segment Reporting, to the consolidated financial statements included in this Report.

Seating

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

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

(1) See definition above.

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

Electronic and electrical

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

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

(1) See definition above.

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

Interior

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

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

(1) See definition above.

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

Other

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

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

(1) See definition above.

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Our other category includes unallocated corporate and geographic headquarter costs, as well as the elimination of intercompany activity. Corporate and geographic headquarter costs include various support functions, such as information technology, purchasing, corporate finance, legal, executive administration and human resources. Segment earnings related to our other category were ($242) million in 2006, as compared to ($207) million in 2005. The change was largely due to inflationary increases in compensation, facility maintenance and insurance expense, as well as costs related to the implementation of our interior segment strategy.

Year Ended December 31, 2005, Compared With Year Ended December 31, 2004

Net sales for the year ended December 31, 2005, were $17.1 billion as compared to $17.0 billion for the year ended December 31, 2004, an increase of 0.8%. The impact of new business, net foreign exchange rate fluctuations and the acquisition of Grote & Hartmann favorably impacted net sales by $1.6 billion, $151 million and $120 million, respectively. These increases were largely offset by less favorable vehicle platform mix, particularly in North America, which reduced net sales by $1.8 billion.

Gross profit and gross margin were $736 million and 4.3% in 2005, as compared to $1.4 billion and 8.3% in 2004. The declines in gross profit and gross margin were largely due to less favorable vehicle platform mix and net selling price reductions, which collectively reduced gross profit by $578 million. Gross profit also declined by $134 million as a result of fixed asset impairment charges and costs related to restructuring actions. The benefit from new business and our productivity initiatives and other efficiencies was largely offset by the net impact of higher raw material and commodity costs and inefficiencies associated with increased program launch activity.

Selling, general and administrative expenses, including research and development, were $631 million for the year ended December 31, 2005, as compared to $634 million for the year ended December 31, 2004. As a percentage of net sales, selling, general and administrative expenses were 3.7% in 2005 and 2004. The decrease in selling, general and administrative expenses during the period was primarily due to a decline in compensation-related expenses and our overall cost control initiatives, as well as a decrease in research and development expenses. These decreases were largely offset by increases in litigation-related charges.

Research and development costs incurred in connection with the development of new products and manufacturing methods, to the extent not recoverable from the customer, are charged to selling, general and administrative expenses as incurred. Such costs totaled $174 million in 2005 and $198 million in 2004. In certain situations, the reimbursement of pre-production engineering, research and design costs is contractually guaranteed by, and fully recoverable from, our customers and is therefore capitalized. For the years ended December 31, 2005 and 2004, we capitalized $227 million and $245 million, respectively, of such costs.

Interest expense was $183 million in 2005 as compared to $166 million in 2004, primarily due to an increase in short-term interest rates and the interest component of litigation-related charges, partially offset by the refinancing of our primary credit facility and a portion of our senior notes at lower interest rates and a decrease in interest expense related to our use of factoring and asset-backed securitization facilities.

Other expense, which includes state and local non-income related taxes, foreign exchange gains and losses, discounts and expenses associated with our asset-backed securitization and factoring facilities, gains and losses on the sales of fixed assets and other miscellaneous income and expense, was $38 million in 2005 as compared to $39 million in 2004.

Equity in net loss of affiliates was $51 million for the year ended December 31, 2005, as compared to equity in net income of affiliates of $3 million for the year ended December 31, 2004. In 2005, we divested an equity investment in a non-core business, recognizing a charge of $17 million. In December 2005, we also recognized a loss of $30 million related to two previously unconsolidated affiliates as a result of capital restructurings, changes in the investors and amendments to the related operating agreements.

The provision for income taxes was $194 million, representing an effective tax rate of negative 16.4%, for the year ended December 31, 2005, as compared to $128 million, representing an effective tax rate of 23.3%, for the year ended December 31, 2004. The decrease in the effective tax rate is primarily the result of the impact of the goodwill impairment charges for which no tax benefit was provided as this goodwill is nondeductible for tax purposes, as well as the tax charge related to our decision to provide a full valuation allowance with respect to our net U.S. deferred tax assets in the fourth quarter of 2005. No tax benefit was provided on the portion of the restructuring and litigation-related charges that 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. These items were partially offset by a one-time benefit of $18 million in the first quarter of 2005 resulting from a tax law change in Poland.

Net loss in 2005 was $1.4 billion, or $20.57 per diluted share, as compared to net income of $422 million, or $5.77 per diluted share, in 2004, reflecting the goodwill impairment charges of $1.0 billion and the other factors described above. For further information related to our goodwill impairment charges, see Note 2, Summary of Significant Account Policies, to the consolidated financial statements included in this Report.

Reportable Operating Segments

Historically, we have had three reportable operating segments: seating, which includes seat systems and the components thereof; electronic and electrical, which includes electronic products and electrical distribution systems, primarily wire harnesses and junction boxes, interior control and entertainment systems and wireless systems; and interior, which includes instrument panels and cockpit systems, headliners and overhead systems, door panels, flooring and acoustic systems and other interior products. For further information related to our interior business, see Note 3, Divestiture of Interior Business, to the consolidated financial statements included in this Report. The financial information presented below is for our three reportable operating segments and our other category for the periods presented. The other category includes unallocated costs related to corporate headquarters, geographic headquarters and the elimination of intercompany activities, none of which meets the requirements of being classified as an operating segment. Corporate and geographic headquarters costs include various support functions, such as information technology, purchasing, corporate finance, executive administration and human resources. Financial measures regarding each segment s income (loss) before goodwill impairment charges, interest, other expense, provision for income taxes, minority interests in consolidated subsidiaries, equity in net (income) loss of affiliates and cumulative effect of a change in accounting principle (segment earnings) and segment earnings divided by net sales (margin) are not measures of performance under accounting principles generally accepted in the United States (GAAP). Segment earnings and the related margin are used by management to evaluate the performance of our reportable operating segments. Segment earnings should not be considered in isolation or as a substitute for net income (loss), net cash provided by operating activities or other income statement or cash flow statement data prepared in accordance with GAAP or as measures of profitability or liquidity. In addition, segment earnings, as we determine it, may not be comparable to related or similarly titled measures reported by other companies. For a reconciliation of consolidated segment earnings to consolidated income (loss) before provision for income taxes and cumulative effect of a change in accounting principle, see Note 13, Segment Reporting, to the consolidated financial statements included in this Report.

Seating

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

For the Year Ended December 31,	**2005**	**2004**
Net sales	$ 11,035.0	$ 11,314.6
Segment earnings(1)	323.3	682.1
Margin	2.9%	6.0%

(1) See definition above.

Seating net sales were $11.0 billion for the year ended December 31, 2005, as compared to $11.3 billion for the year ended December 31, 2004, a decrease of $280 million or 2.5%. Less favorable vehicle platform mix and changes in production volumes, particularly in North America, reduced net sales by $1.4 billion. This decrease was partially offset by the impact of new business and net foreign exchange rate fluctuations, which improved net sales by $927 million and $145 million, respectively. Segment earnings and the related margin on net sales were $323 million and 2.9% in 2005 as compared to $682 million and 6.0% in 2004. The declines in segment earnings and the related margin were largely due to less favorable vehicle platform mix and changes in production volumes, which, collectively with the favorable impact of new business, negatively impacted segment earnings by

$246 million. Segment earnings and the related margin were also negatively affected by the gross impact of higher raw material and commodity costs. The benefit from our productivity initiatives and other efficiencies was partially offset by the effect of net selling price reductions, inefficiencies associated with increased program launch activity and increases in litigation-related charges. In 2005, we also incurred costs related to our restructuring actions of $33 million. In 2004, we incurred estimated costs related to facility closures and other similar actions in the seating segment of $32 million.

Electronic and Electrical

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

For the Year Ended December 31,	**2005**	**2004**
Net sales	$ 2,956.6	$ 2,680.4
Segment earnings(1)	180.0	210.9
Margin	6.1%	7.9%

(1) See definition above.

Electronic and electrical net sales were $3.0 billion for the year ended December 31, 2005, as compared to $2.7 billion for the year ended December 31, 2004, an increase of $276 million or 10.3%. The impact of new business, net of selling price reductions, and the acquisition of Grote & Hartmann improved net sales by $139 million and $120 million, respectively. Segment earnings and the related margin on net sales were $180 million and 6.1% in 2005 as compared to $211 million and 7.9% in 2004. In 2005, we incurred costs related to our restructuring actions of $39 million. In 2004, we incurred estimated costs related to facility closures and other similar actions in the electronic and electrical segment of $12 million. The effect of net selling price reductions and inefficiencies associated with increased program launch activity was largely offset by the benefit from our productivity initiatives and other efficiencies. The acquisition of Grote & Hartmann favorably impacted segment earnings by $8 million.

Interior

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

For the Year Ended December 31,	**2005**	**2004**
Net sales	$ 3,097.6	$ 2,965.0
Segment earnings(1)	(191.1)	85.1
Margin	(6.2)%	2.9%

(1) See definition above.

Interior net sales were $3.1 billion for the year ended December 31, 2005, as compared to $3.0 billion for the year ended December 31, 2004, an increase of $133 million or 4.5%. The impact of new business improved net sales by $448 million. This increase was partially offset by less favorable vehicle platform mix and changes in production volumes, particularly in North America, which reduced net sales by $292 million. Segment earnings and the related margin on net sales were ($191) million and (6.2)% in 2005 as compared to $85 million and 2.9% in 2004. The declines in segment earnings and the related margin were largely due to the gross impact of higher raw material and commodity costs of approximately $110 million, which was partially offset by the benefit of productivity and cost reduction initiatives. Less favorable vehicle platform mix and changes in production volumes, collectively with the favorable impact of new business, reduced segment earnings by $107 million. Segment earnings and the related margin were also negatively affected by inefficiencies associated with program launch activity. In 2005, we also incurred fixed asset impairment charges and costs related to our restructuring actions of $114 million. In 2004, we incurred estimated costs related to facility closures and other similar actions in the interior segment of $4 million.

Other

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

For the Year Ended December 31,	2005	2004
Net sales	$	$
Segment earnings(1)	(206.8)	(209.7)
Margin	N/A	N/A

(1) See definition above.

Our other category includes unallocated corporate and geographic headquarter costs, as well as the elimination of intercompany activity. Corporate and geographic headquarter costs include various support functions, such as information technology, purchasing, corporate finance, executive administration and human resources. Segment earnings related to our other category were ($207) million in 2005, as compared to ($210) million in 2004.

Restructuring

2006 and 2005

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

We currently expect to incur pretax costs of approximately $300 million in connection with the restructuring actions, although all aspects of the restructuring actions have not been finalized. Through 2006, approximately $204 million of restructuring costs has been incurred, and the remainder of the restructuring costs is expected to be incurred in 2007. Such costs include employee termination benefits, asset impairment charges and contract termination costs, as well as other incremental costs resulting from the restructuring actions. These incremental costs principally include equipment and personnel relocation costs. We also expect to incur incremental manufacturing inefficiency costs at the operating locations impacted by the restructuring actions during the related restructuring implementation period. Restructuring costs are recognized in our consolidated financial statements in accordance with accounting principles generally accepted in the United States. Generally, charges are recorded as elements of the restructuring strategy are finalized. Actual costs recorded in our consolidated financial statements may vary from current estimates.

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

In 2005, we recorded restructuring and related manufacturing inefficiency charges of $104 million. This consisted of $100 million recorded as cost of sales and $6 million recorded as selling, general and administrative expenses, offset by a gain on the sale of a facility, which is recorded as other expense, net. Cash expenditures related to our restructuring actions totaled $67 million 2005. The 2005 charges consist of employee termination benefits of $57 million, asset impairment charges of $15 million and contract termination costs of $13 million, as well as other net costs of $4 million. We also estimate that we incurred approximately $15 million in manufacturing inefficiency costs during this period as a result of the restructuring. Employee termination benefits were recorded based on existing union and employee contracts, statutory requirements and completed negotiations. Asset impairment charges relate to the disposal of buildings, leasehold improvements and machinery and equipment with carrying values of $15 million in excess of related estimated fair values. Contract termination costs include lease cancellation costs of $3 million, which are expected to be paid through 2006, the repayment of various government-sponsored grants of $5 million, the termination of joint venture, subcontractor and other relationships of $3 million and pension and other postretirement benefit plan curtailments of $2 million.

2004

In 2004, we recorded charges of $8 million for employee termination benefits and asset impairments at two of our U.S. seating facilities. In addition, we incurred $40 million in estimated costs related to additional facility consolidations and closures and census reductions.

Liquidity and Financial Condition

Our primary liquidity needs are to fund capital expenditures, service indebtedness and support working capital requirements. In addition, approximately 80% of the costs associated with our current restructuring strategy are expected to require cash expenditures. Our principal sources of liquidity are cash flows from operating activities and borrowings under available credit facilities. A substantial portion of our operating income is generated by our subsidiaries. As a result, we are dependent on the earnings and cash flows of and the combination of dividends, distributions and advances from our subsidiaries to provide the funds necessary to meet our obligations. There are no significant restrictions on the ability of our subsidiaries to pay dividends or make other distributions to Lear. For further information regarding potential dividends from our non-U.S. subsidiaries, see Note 9, Income Taxes, to the consolidated financial statements included in this Report.

Equity Offering

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

Cash Flows

Net cash provided by operating activities was $285 million in 2006, as compared to $561 million in 2005. The net change in sold accounts receivable resulted in a $589 million decrease in operating cash flows between periods. This decrease was partially offset by the net change in recoverable customer engineering and tooling, which resulted in a $307 million increase in operating cash flows between periods. Decreases in accounts receivable and accounts payable were a source of $153 million of cash and a use of $359 million of cash, respectively, in 2006, reflecting the timing of payments received from our customers and made to our suppliers.

Net cash used in investing activities was $312 million in 2006, as compared to $542 million in 2005, reflecting a $221 million decrease in capital spending between periods. In 2006, cash received of $35 million related to the sales of our interest in two affiliates was partially offset by a $21 million indemnity payment related to our 1999 acquisition of UT Automotive, Inc (UT Automotive). See Other Matters Certain Tax Matters UT Automotive. In 2007, capital spending is estimated at $250 million.

Financing activities were a source of $277 million of cash in 2006, as compared to a use of $347 million of cash in 2005. In 2006, financing activities include the incurrence of an additional $600 million of term loans due 2010 under our primary credit facility, the issuance of $900 million aggregate principal amount of senior notes due 2013 and 2016, the repurchase of $1.3 billion aggregate principal amount (or accreted value) of senior notes due 2008, 2009 and 2022 and the issuance of 8.7 million shares of our common stock in a private placement for a net purchase price of $199 million.

Capitalization

In addition to cash provided by operating activities, we utilize a combination of available credit facilities to fund our capital expenditures and working capital requirements. For the years ended December 31, 2006 and 2005, our average outstanding long-term debt balance, as of the end of each fiscal quarter, was $2.4 billion and $2.3 billion, respectively. The weighted average long-term interest rate, including rates under our committed credit facility and the effect of hedging activities, was 7.3% and 6.5% for the respective periods.

We utilize uncommitted lines of credit as needed for our short-term working capital fluctuations. For the years ended December 31, 2006 and 2005, our average outstanding unsecured short-term debt balance, as of the end of each fiscal quarter, was $20 million and $38 million, respectively. The weighted average interest rate, including the effect of hedging activities, was 4.4% and 3.7% for the respective periods. The availability of uncommitted lines of credit may be affected by our financial performance, credit ratings and other factors. Uncommitted lines of credit available from banks decreased by approximately $75 million from December 31, 2005 to December 31, 2006. See Off-Balance Sheet Arrangements and Accounts Receivable Factoring.

Primary Credit Facility

On April 25, 2006, we entered into a $2.7 billion amended and restated credit and guarantee agreement (the new credit agreement), which provides for maximum revolving borrowing commitments of $1.7 billion and a term loan facility of $1.0 billion. The new credit agreement replaced our prior primary credit facility. The $1.7 billion revolving credit facility matures on March 23, 2010, and the $1.0 billion term loan facility matures on April 25, 2012. The new credit agreement provides for multicurrency borrowings in a maximum aggregate amount of $750 million, Canadian borrowings in a maximum aggregate amount of $200 million and swing-line borrowings in a maximum aggregate amount of $300 million, the commitments for which are part of the aggregate revolving credit facility commitment. As of December 31, 2006, we had $997 million in borrowings outstanding under the new credit agreement, all of which were outstanding under the term loan facility.

Of the $1.0 billion proceeds under the term loan facility, $400 million was used to repay the term loan facility under our prior primary credit facility and $521 million was used to repurchase outstanding zero-coupon convertible senior notes with an accreted value of $303 million, Euro 13 million aggregate principal amount of our senior notes due 2008 and $207 million aggregate principal amount of our senior notes due 2009. In connection with these transactions, we recognized a net gain of less than $1 million on the extinguishment of debt, which is included in other expense, net in the consolidated statement of operations for the year ended December 31, 2006.

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

Subsidiary Guarantees

Our obligations under the new credit agreement are secured by a pledge of all or a portion of the capital stock of certain of our subsidiaries, including substantially all of our first-tier subsidiaries, and are partially secured by a security interest in our assets and the assets of certain of our domestic subsidiaries. In addition, our obligations under the new credit agreement are guaranteed, on a joint and several basis, by certain of our subsidiaries, which guarantee our obligations under our outstanding senior notes and all of which are directly or indirectly wholly owned by the Company.

Covenants

The new credit agreement contains certain affirmative and negative covenants, including (i) limitations on fundamental changes involving us or our subsidiaries, asset sales and restricted payments, (ii) a limitation on indebtedness with a maturity shorter than the term loan facility, (iii) a limitation on aggregate subsidiary indebtedness to an amount which is no more than 4% of consolidated total assets, (iv) a limitation on aggregate secured indebtedness to an amount which is no more than $100 million and (v) requirements that we maintain an initial leverage ratio of not more than 4.0 to 1, as of December 31, 2006, with decreases over time and an initial interest coverage ratio of not less than 2.50 to 1 with increases over time.

The leverage and interest coverage ratios, as well as the related components of their computation, are defined in the new credit agreement, which is incorporated by reference as an exhibit to this Report. The leverage ratio is calculated as the ratio of consolidated indebtedness to consolidated operating profit. For the purpose of the covenant calculation, (i) consolidated indebtedness is generally defined as reported debt, net of cash and excludes transactions related to our asset-backed securitization and factoring facilities and (ii) consolidated operating profit is generally defined as net income excluding income taxes, interest expense, depreciation and amortization expense, other income and expense, minority interests in income of subsidiaries in excess of net equity earnings in affiliates, certain restructuring and other non-recurring charges, extraordinary gains and losses and other specified non-cash items. Consolidated operating profit is a non-GAAP financial measure that is presented not as a measure of operating results, but rather as a measure used to determine covenant compliance under our primary credit facility. The interest coverage ratio is calculated as the ratio of consolidated operating profit to consolidated interest expense. For the purpose of the covenant calculation, consolidated interest expense is generally defined as interest expense plus any discounts or expenses related to our asset-backed securitization facility less amortization of deferred finance fees and interest income. As of December 31, 2006, we were in compliance with all covenants set forth in the new credit agreement. Our leverage and interest coverage ratios were 2.4 to 1 and 4.2 to 1, respectively. These ratios are calculated on a trailing four quarter basis. As a result, any decline in our future operating results will negatively impact our coverage ratios. Our failure to comply with these financial covenants could have a material adverse effect on our liquidity and operations.

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

		December 31, 2006
Consolidated indebtedness	$	1,996.7
Cash and cash equivalents		502.7
Reported debt	$	2,499.4

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		Year Ended December 31, 2006
Consolidated operating profit	$	835.9
Depreciation and amortization		(392.2)
Consolidated interest expense		(200.4)
Loss on divestiture of interior business		(636.0)
Other expense, net (excluding certain costs related to asset-backed securitization facility)		(77.7)
Restructuring charges		(105.5)
Impairment charges		(12.9)
Other non-cash items		(64.6)
Loss before provision for income taxes, minority interests in consolidated subsidiaries, equity in net income of affiliates and cumulative effect of a change in accounting principle	$	(653.4)
Consolidated interest expense	$	200.4
Certain costs related to asset-backed securitization facility		(8.0)
Amortization of deferred financing fees		8.7
Bank facility and other fees		8.7
Reported interest expense	$	209.8

The new credit agreement also contains customary events of default, including an event of default triggered by a change of control of Lear. For further information related to our new credit agreement described above, including the operating and financial covenants to which we are subject and related definitions, see Note 8, Long-Term Debt, to the consolidated financial statements included in this Report and the agreement governing our new credit agreement, which has been incorporated by reference as an exhibit to this Report.

Senior Notes

As of December 31, 2006, we had $1.4 billion of senior notes outstanding, consisting primarily of $300 million aggregate principal amount of senior notes due 2013, $600 million aggregate principal amount of senior notes due 2016, $399 million aggregate principal amount of senior notes due 2014, $4 million accreted value of zero-coupon convertible senior notes due 2022, Euro 56 million (approximately $73 million based on the exchange rate in effect as of December 31, 2006) aggregate principal amount of senior notes due 2008 and $41 million aggregate principal amount of senior notes due 2009.

In November 2006, we issued $300 million aggregate principal amount of unsecured 8.50% senior notes due 2013 and $600 million aggregate principal amount of unsecured 8.75% senior notes due 2016. The notes are unsecured and rank equally with our other unsecured senior indebtedness, including our other senior notes. The proceeds from this note offering were used to repurchase our senior notes due 2008 and 2009 in an aggregate principal amount of Euro 181 million and $552 million, respectively, for an aggregate purchase price of $836 million, including related fees. In connection with these transactions, we recognized a loss of $49 million on the extinguishment of debt, which is included in other expense, net in the consolidated statement of operations for the year ended December 31, 2006. In January 2007, we completed an exchange offer of the 2013 and 2016 senior notes for substantially identical notes registered under the Securities Act of 1933, as amended.

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

Zero-Coupon Convertible Senior Notes

In February 2002, we issued $640 million aggregate principal amount at maturity of zero-coupon convertible senior notes due 2022, yielding gross proceeds of $250 million. As discussed above, in 2006, we repurchased substantially all of the outstanding zero-coupon convertible notes with borrowings under our new credit agreement. As of December 31, 2006, notes with an accreted value of $4 million remain outstanding. See also Primary Credit Facility.

Subsidiary Guarantees

All of our senior notes are guaranteed by the same subsidiaries that guaranteed our prior primary credit facility and that now guarantee the new credit agreement. In the event that any such subsidiary ceases to be a guarantor under the new credit agreement, such subsidiary will be released as a guarantor of the senior notes. Our obligations under the senior notes are not secured by the pledge of the assets or capital stock of any of our subsidiaries.

Covenants

With the exception of our zero-coupon convertible senior notes, our senior notes contain covenants restricting our ability to incur liens and to enter into sale and leaseback transactions. With respect to the indenture governing our zero-coupon convertible senior notes, we received consents from a majority of the holders of the zero-coupon convertible senior notes allowing us to execute a supplemental indenture which eliminated the covenants and related provisions in the indenture that restricted our ability to incur liens and to enter into sale and leaseback transactions. As of December 31, 2006, we were in compliance with all covenants and other requirements set forth in our senior notes.

The senior notes due 2013 and 2016 (having an aggregate principal amount outstanding of $900 million as of December 31, 2006) provide holders of the notes the right to require us to repurchase all or any part of their notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest, upon a change of control (as defined in the indenture governing the notes). The transaction contemplated by the Merger Agreement with affiliates of American Real Estate Partners, L.P. would not constitute a change of control for these purposes. The indentures governing our other senior notes do not contain a change of control repurchase obligation.

For further information related to our senior notes described above, see Note 8, Long-Term Debt, to the consolidated financial statements included in this Report and the indentures governing our senior notes, which have been incorporated by reference as exhibits to this Report.

Contractual Obligations

Our scheduled maturities of long-term debt, including capital lease obligations, our scheduled interest payments on our outstanding debt and our lease commitments under non-cancelable operating leases as of December 31, 2006, are shown below (in millions):

	2007	2008	2009	2010	2011	Thereafter	Total
Long-term debt maturities	$ 25.6	$ 85.9	$ 53.1	$ 10.7	$ 8.6	$ 2,276.2	$ 2,460.1
Interest payments on our outstanding debt	196.3	184.8	179.7	177.6	177.1	407.7	1,323.2
Lease commitments	93.7	75.6	65.3	52.9	43.5	71.3	402.3

Total	$ 315.6	$ 346.3	$ 298.1	$ 241.2	$ 229.2	$ 2,755.2	$ 4,185.6

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

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

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

We also have minimum funding requirements with respect to our pension obligations. We expect to contribute approximately $60 million to our domestic and foreign pension plan asset portfolios in 2007 as compared to $67 million in 2006. Our minimum funding requirements after 2007 will depend on several factors, including the investment performance of our retirement plans and prevailing interest rates. Our funding obligations may also be affected by changes in applicable legal requirements. We also have payments due with respect to our postretirement benefit obligations. We do not fund our postretirement benefit obligations. Rather, payments are made as costs are incurred by covered retirees. We expect other postretirement benefit payments to be approximately $10 million in 2007 as compared to $9 million in 2006.

In 2006, we elected to freeze our U.S. salaried defined benefit pension plan effective December 31, 2006. In conjunction with this, we established a new defined contribution retirement plan for our salaried employees effective January 1, 2007. Our contributions to this plan will be determined as a percentage of each covered employee s salary and are expected to be in the range of $18 million to $25 million in 2007. 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

Asset-Backed Securitization Facility

We have in place an asset-backed securitization facility (the ABS facility), which provides for maximum purchases of adjusted accounts receivable of $150 million as of December 31, 2006. Although we utilized the ABS facility throughout 2006, as of December 31, 2006, there were no accounts receivable sold under this facility. The level of funding utilized under this facility is based on the credit ratings of our major customers, the level of aggregate accounts receivable in a specific month and our funding requirements. Should our major customers experience further reductions in their credit ratings, we may be unable or choose not to utilize the ABS facility in the future. Should this occur, we would utilize our new credit agreement to replace the funding currently provided by the ABS facility. In addition, the ABS facility providers can elect to discontinue the program in the event that our senior secured debt credit rating declines to below B- or B3 by Standard & Poor s Ratings Services or Moody s Investors Service, respectively. In October 2006, the ABS facility was amended to extend the termination date from October 2006 to October 2007. No assurances can be given that the ABS facility will be extended upon its maturity. For further information related to the ABS facility, see Note 14, Financial Instruments, to the consolidated financial statements included in this Report.

Guarantees and Commitments

We previously guaranteed the residual value of certain of our leased assets. In October 2006, the residual value guarantees were released in conjunction with the expiration of the related leases. We were not required to make any payments related to these residual value guarantees. In addition, we guarantee 39% of certain of the debt of Total Interior Systems America, LLC, 40% of certain of the debt of Beijing Lear Dymos Automotive Seating and Interior Co., Ltd. and 60% of certain of the debt of Honduras Electrical Distribution Systems S. de R.L. de C.V. The percentages of debt guaranteed of these entities are based on our ownership percentages. As of December 31, 2006, the aggregate amount of debt guaranteed was approximately $18 million.

Under the agreement relating to the divestiture of our North American interior business, we will be obligated to fund up to an additional $40 million to the IAC North America joint venture in the event that the joint venture does not meet certain financial targets in 2007. For further information regarding the divestiture, please refer to the Asset Purchase Agreement with IAC North America and related documents, which have been incorporated by reference as exhibits to this Report.

Accounts Receivable Factoring

Certain of our European and Asian subsidiaries periodically factor their accounts receivable with financial institutions. Such receivables are factored without recourse to us and are excluded from accounts receivable in our consolidated balance sheets. As of December 31, 2006 and 2005, the amount of factored receivables was $256 million. We cannot provide any assurances that these factoring facilities will be available or utilized in the future.

Credit Ratings

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

The credit ratings of our senior secured and unsecured debt as of the date of this Report are shown below. Following the announcement of the Merger Agreement with affiliates of American Real Estate Partners, L.P., Standard & Poor s Ratings Services lowered our corporate credit rating to B from B+ and the credit rating on our unsecured debt to CCC+ from B-. All three rating agencies put our ratings on watch in anticipation of a potential change in our capital structure following completion of the transaction.

For our senior secured debt, the rating of Fitch Ratings is two levels below investment grade, while the ratings of Standard & Poor s Ratings Services and Moody s Investors Service are four and five levels below investment grade, respectively. For our senior unsecured debt, the rating of Fitch Ratings is five levels below investment grade, while the ratings of Moody s Investors Service and Standard & Poor s Ratings Services are six and seven levels below investment grade, respectively.

	Standard & Poor s Ratings Services	**Moody s Investors Service**	**Fitch Ratings**
Credit rating of senior secured debt	B+	B2	BB
Corporate rating	B	B2	B
Credit rating of senior unsecured debt	CCC+	B3	B
Ratings outlook	Credit Watch/Negative	Review for possible downgrade	Rating Watch/Negative

Dividends

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

Common Stock Repurchase Program

In May 2002, our Board of Directors approved a common stock repurchase program which permitted the discretionary repurchase of up to 3.3 million shares of our outstanding common stock over an initial period of 24 months, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2003. In May 2004, the program was extended until May 2006, as disclosed in our Quarterly Report on Form 10-Q for the quarter ended April 3, 2004. In 2004, we repurchased 1,834,300 shares of our outstanding common stock at an average purchase price of $53.26 per share, excluding commissions of $0.03 to $0.04 per share, under this program.

In November 2004, our Board of Directors approved a new common stock repurchase program which permitted the discretionary repurchase of up to 5,000,000 shares of our common stock through November 15, 2006, as disclosed in our Current Report on Form 8-K dated November 11, 2004. This stock repurchase program replaced the program described above. Under this program, we repurchased 490,900 shares of our outstanding common stock at an average purchase price of $51.72 per share, excluding commissions of $0.03 per share, in 2005. There were no additional shares of our common stock repurchased under this program, and the program was not extended beyond November 15, 2006.

Adequacy of Liquidity Sources

We believe that cash flows from operations and available credit facilities will be sufficient to meet our liquidity needs, including capital expenditures and anticipated working capital requirements, for the foreseeable future. Our cash flows from operations, borrowing availability and overall liquidity are subject to risks and uncertainties. See Item 1A, Risk Factors, Executive Overview and Forward-Looking Statements.

Market Risk Sensitivity

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

Foreign Exchange

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

Our most significant foreign currency transactional exposures relate to the Mexican peso and the Canadian dollar, as well as the Euro and other European currencies. We have performed a quantitative analysis of our overall currency rate exposure as of December 31, 2006. The potential earnings benefit related to net transactional exposures from a hypothetical 10% strengthening of the U.S. dollar relative to all other currencies for 2007 is approximately $24 million. The potential adverse earnings impact related to net transactional exposures from a similar strengthening of the Euro relative to all other currencies for 2007 is approximately $7 million.

As of December 31, 2006, foreign exchange contracts representing $812 million of notional amount were outstanding with maturities of less than twelve months. As of December 31, 2006, the fair market value of these contracts was approximately $17 million. A 10% change in the value of the U.S. dollar relative to all other currencies would result in a $25 million change in the aggregate fair market value of these contracts. A 10% change in the value of the Euro relative to all other currencies would result in a $28 million change in the aggregate fair market value of these contracts.

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

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

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Interest Rates

We use a combination of fixed and variable rate debt and interest rate swap contracts to manage our exposure to interest rate movements. Our exposure to variable interest rates on outstanding variable rate debt instruments indexed to United States or European Monetary Union short-term money market rates is partially managed by the use of interest rate swap contracts to convert certain variable rate debt obligations to fixed rate, matching effective and maturity dates to specific debt instruments. We also utilize interest rate swap contracts to convert certain fixed rate debt obligations to variable rate, matching effective and maturity dates to specific debt instruments. All of our interest rate swap contracts are executed with banks that we believe are creditworthy and are denominated in currencies that match the underlying debt instrument. Net interest payments or receipts from interest rate swap contracts are included as adjustments to interest expense in our consolidated statements of operations on an accrual basis.

We have performed a quantitative analysis of our overall interest rate exposure as of December 31, 2006. This analysis assumes an instantaneous 100 basis point parallel shift in interest rates at all points of the yield curve. The potential adverse earnings impact from this hypothetical increase for 2007 is approximately $5 million.

As of December 31, 2006, interest rate swap contracts representing $800 million of notional amount were outstanding with maturity dates of August 2007 through September 2011. All of these contracts are designated as cash flow hedges and modify the variable rate characteristics of our variable rate debt instruments. The fair market value of all outstanding interest rate swap contracts is subject to changes in value due to changes in interest rates. As of December 31, 2006, the fair market value of these contracts was approximately negative $3 million. A 100 basis point parallel shift in interest rates would result in a $15 million change in the aggregate fair market value of these contracts.

Commodity Prices

We have commodity price risk with respect to purchases of certain raw materials, including steel, leather, resins, chemicals, copper and diesel fuel. In limited circumstances, we have used financial instruments to mitigate this risk. Increases in certain raw material and commodity costs (principally steel, copper, resins and other oil-based commodities) had a material adverse impact on our operating results in 2005 and 2006.

We have developed and implemented strategies to mitigate or partially offset the impact of higher raw material, energy and commodity costs, which include aggressive cost reduction actions, the utilization of our cost technology optimization process, the selective in-sourcing of components where we have available capacity, the continued consolidation of our supply base, longer-term purchase commitments and the acceleration of low-cost country sourcing and engineering. However, due to the magnitude and duration of the increased raw material, energy and commodity costs, these strategies, together with commercial negotiations with our customers and suppliers, offset only a portion of the adverse impact. In addition, higher crude oil prices can indirectly impact our operating results by adversely affecting demand for certain of our key light truck platforms. We expect that high raw material, energy and commodity costs will continue to have an adverse impact on our operating results in the foreseeable future. See Item 1A, Risk Factors High raw material costs may continue to have a significant adverse impact on our profitability, and Forward-Looking Statements.

For further information related to the financial instruments described above, see Note 8, Long-Term Debt, and Note 14, Financial Instruments, to the consolidated financial statements included in this Report.

Other Matters

Legal and Environmental Matters

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

On January 29, 2002, Seton Company (Seton), one of our leather suppliers, filed a suit alleging that we had breached a purported agreement to purchase leather from Seton for seats for the life of the General Motors

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GMT 800 program. Seton filed the lawsuit in the U.S. District Court for the Eastern District of Michigan seeking compensatory and exemplary damages totaling approximately $97 million, plus interest, on breach of contract and promissory estoppel claims. In May 2005, this case proceeded to trial, and the jury returned a $30 million verdict against us. On September 27, 2005, the Court denied our post-trial motions challenging the judgment and granted Seton s motion to award prejudgment interest in the amount of approximately $5 million. On October 4, 2006, the Sixth Circuit Court of Appeals affirmed the judgment of the trial court. On October 18, 2006, we filed a Petition for Rehearing with the court which was denied on November 16, 2006. On December 7, 2006, the Court of Appeals issued a mandate indicating that the order affirming the judgment was final. In December 2006, we paid the principal and all remaining interest on the judgment.

On January 26, 2004, we filed a patent infringement lawsuit against Johnson Controls Inc. and Johnson Controls Interiors LLC (together, JCI) in the U.S. District Court for the Eastern District of Michigan alleging that JCI s garage door opener products infringed certain of our radio frequency transmitter patents. JCI counterclaimed seeking a declaratory judgment that the subject patents are invalid and unenforceable, and that JCI is not infringing these patents. JCI also has filed motions for summary judgment asserting that its garage door opener products do not infringe our patents and that one of our patents is invalid and unenforceable. We are vigorously pursuing our claims against JCI. A trial date has not been scheduled.

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

On June 13, 2005, The Chamberlain Group (Chamberlain) filed a lawsuit against us and Ford Motor Company (Ford) in the Northern District of Illinois alleging patent infringement. Two counts were asserted against us and Ford based upon two Chamberlain rolling-code garage door opener system patents. Two additional counts were asserted against Ford only (not us) based upon different Chamberlain patents. The Chamberlain lawsuit was filed in connection with the marketing of our universal garage door opener system, which competes with a product offered by JCI. JCI obtained technology from Chamberlain to operate its product. In October 2005, JCI joined the lawsuit as a plaintiff along with Chamberlain. In October 2006, Ford was dismissed from the suit. JCI and Chamberlain have filed a motion for a preliminary injunction, and we are vigorously defending the claims asserted in this lawsuit. A trial date has not yet been scheduled.

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

We have been named as a potentially responsible party at several third-party landfill sites and are engaged in the cleanup of hazardous waste at certain sites owned, leased or operated by us, including several properties acquired in our 1999 acquisition of UT Automotive. Certain present and former properties of UT Automotive are subject to environmental liabilities which may be significant. We obtained agreements and indemnities with respect to certain environmental liabilities from United Technologies Corporation (UTC) in connection with our acquisition of UT Automotive. UTC manages and directly funds these environmental liabilities pursuant to its agreements and indemnities with us.

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

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

All of the plaintiffs subsequently dismissed their claims for health effects and personal injury damages and the cases proceeded with approximately 280 plaintiffs alleging property damage claims only. In March 2005, the venue for these lawsuits was transferred from Lowndes County, Mississippi, to Lafayette County, Mississippi. In April 2005, certain plaintiffs filed an amended complaint alleging negligence, nuisance, intentional tort and conspiracy claims and seeking compensatory and punitive damages.

In the first quarter of 2006, co-defendant UTC entered into a settlement agreement with the plaintiffs. During the third quarter of 2006, we and co-defendant Johnson Electric entered into a settlement memorandum with the plaintiffs counsel outlining the terms of a global settlement, including establishing the requisite percentage of executed settlement agreements and releases that were required to be obtained from the individual plaintiffs for a final settlement to proceed. Since November 2006, we have reached a final settlement with respect to approximately 85% of the plaintiffs involving an aggregate payment of $875,000 and are in the process of attempting to resolve the remaining claims.

UTC, the former owner of UT Automotive, and Johnson Electric have each sought indemnification for losses associated with the Mississippi claims from us under the respective acquisition agreements, and we have claimed indemnification from them under the same agreements. In the first quarter of 2006, UTC filed a lawsuit against us in the State of Connecticut Superior Court, District of Hartford, seeking declaratory relief and indemnification from us for the settlement amount, attorney fees, costs and expenses UTC paid in settling and defending the Columbus, Mississippi lawsuits. In the second quarter of 2006, we filed a motion to dismiss this matter and filed a separate action against UTC and Johnson Electric in the State of Michigan, Circuit Court for the County of Oakland, seeking declaratory relief and indemnification from UTC or Johnson Electric for the settlement amount, attorney fees, costs and expenses we have paid, or will pay, in settling and defending the Columbus, Mississippi lawsuits. During the fourth quarter of 2006, UTC agreed to dismiss the lawsuit filed in the State of Connecticut Superior Court, District of Hartford and agreed to proceed with the lawsuit filed in the State of Michigan, Circuit Court for the County of Oakland. During the first quarter of 2007, Johnson Electric and UTC each filed counter-claims against us seeking declaratory relief and indemnification from us for the settlement amount, attorney fees, costs and expenses each has paid or will pay in settling and defending the Columbus, Mississippi lawsuits. To date, no company admits to, or has been found to have, an obligation to fully defend and indemnify any other. We intend to vigorously pursue our claims against UTC and Johnson Electric and believe that we are entitled to indemnification from either UTC or Johnson

Electric for our losses. However, the ultimate outcome of these matters is unknown.

In April 2006, a former employee of ours filed a purported class action lawsuit in the U.S. District Court for the Eastern District of Michigan against us, members of our Board of Directors, members of our Employee Benefits Committee (the EBC) and certain members of our human resources personnel alleging violations of the Employment Retirement Income Security Act (ERISA) with respect to our retirement savings plans for salaried and hourly employees. In the second quarter of 2006, we were served with three additional purported class action

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ERISA lawsuits, each of which contained similar allegations against us, members of our Board of Directors, members of our EBC and certain members of our senior management and our human resources personnel. At the end of the second quarter of 2006, the court entered an order consolidating these four lawsuits. During the third quarter of 2006, plaintiffs filed their consolidated complaint, which alleges breaches of fiduciary duties substantially similar to those alleged in the four individually filed lawsuits. The consolidated complaint continues to name certain current and former members of the Board of Directors and the EBC and certain members of senior management and adds certain other current and former members of the EBC. The consolidated complaint generally alleges that the defendants breached their fiduciary duties to plan participants in connection with the administration of our retirement savings plans for salaried and hourly employees. The fiduciary duty claims are largely based on allegations of breaches of the fiduciary duties of prudence and loyalty and of over-concentration of plan assets in our common stock. The plaintiffs purport to bring these claims on behalf of the plans and all persons who were participants in or beneficiaries of the plans from October 21, 2004, to the present and seek to recover losses allegedly suffered by the plans. The complaints do not specify the amount of damages sought. During the fourth quarter of 2006, the defendants filed a motion to dismiss all defendants and all counts in the consolidated complaint. No determination has been made that a class action can be maintained, and there have been no decisions on the merits of the cases. We intend to vigorously defend the consolidated lawsuit.

Between February 9, 2007 and February 21, 2007, certain stockholders filed six purported class action lawsuits against us, certain members of our Board of Directors and American Real Estate Partners, L.P. and certain of its affiliates (collectively, AREP). Three of the lawsuits were filed in the Delaware Court of Chancery and have since been consolidated into a single action. Three of the lawsuits were filed in Michigan Circuit Court. The class action complaints, which are substantially similar, generally allege that the Merger Agreement unfairly limits the process of selling Lear and that certain members of our Board of Directors have breached their fiduciary duties in connection with the Merger Agreement and have acted with conflicts of interest in approving the Merger Agreement. The lawsuits seek to enjoin the merger, to invalidate the Merger Agreement and to enjoin the operation of certain provisions of the Merger Agreement, a declaration that certain members of our Board of Directors breached their fiduciary duties in approving the Merger Agreement and an award of unspecified damages or rescission in the event that the proposed merger with AREP is completed. On February 23, 2007, the plaintiffs in the consolidated Delaware action filed a consolidated amended complaint, a motion for expedited proceedings and a motion to preliminarily enjoin the merger contemplated by the Merger Agreement. We believe that the lawsuits are without merit and intend to defend against them vigorously.

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

Although we record reserves for legal, product warranty and environmental matters in accordance with SFAS No. 5, Accounting for Contingencies, the outcomes of these matters are inherently uncertain. Actual results may differ significantly from current estimates. See Item 1A, Risk Factors.

Certain Tax Matters

UT Automotive

Prior to our acquisition of UT Automotive from UTC in May 1999, one of our subsidiaries purchased the stock of a UT Automotive subsidiary. In connection with the acquisition, we agreed to indemnify UTC for certain matters, including tax consequences if the Internal Revenue Service (the IRS) overturned UTC s tax treatment of the transaction. On June 28, 2006, this matter was settled with the Appeals Office of the IRS. As a result of the IRS settlement in the second quarter of 2006, we were required to make an indemnity payment to UTC of $21 million. The payment has been recorded as an adjustment to the original purchase price and allocated to goodwill in a manner consistent with the original purchase price allocation. The amount allocated to the Interiors

Americas unit of $3 million was immediately written off as this unit s goodwill is fully impaired. On September 1, 2006, we entered into a Payment Agreement and Limited Release with UTC in order to settle our indemnity obligation related to this issue. In connection with this agreement, we made a payment to UTC in the amount of $21 million, including interest up to the date of the agreement.

Significant Accounting Policies and Critical Accounting Estimates

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

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

Pre-Production Costs Related to Long-Term Supply Arrangements

We incur pre-production engineering, research and development (ER&D) and tooling costs related to the products produced for our customers under long-term supply agreements. We expense all pre-production ER&D costs for which reimbursement is not contractually guaranteed by the customer. In addition, we expense all pre-production tooling costs related to customer-owned tools for which reimbursement is not contractually guaranteed by the customer or for which the customer has not provided a non-cancelable right to use the tooling. During 2006 and 2005, we capitalized $122 million and $227 million, respectively, of pre-production ER&D costs for which reimbursement is contractually guaranteed by the customer. During 2006 and 2005, we also capitalized $449 million and $639 million, respectively, of pre-production tooling costs related to customer-owned tools for which reimbursement is contractually guaranteed by the customer or for which the customer has provided a non-cancelable right to use the tooling. During 2006 and 2005, we collected $765 million and $716 million, respectively, of cash related to ER&D and tooling costs.

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

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

Impairment of Goodwill

As of December 31, 2006 and 2005, we had recorded goodwill of approximately $2.0 billion and $1.9 billion, respectively. Goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment, or decline in value, may have occurred. In conducting our impairment testing, we compare the fair value of each of our reporting units to the related net book value. If the fair value of a reporting unit exceeds its net book value, goodwill is considered not to be impaired. If the net book value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. We conduct our annual impairment testing on the first day of the fourth quarter each year.

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

Our 2006 annual goodwill impairment analysis, completed as of October 1, resulted in no impairment.

During the third and fourth quarters of 2005, events occurred which indicated a significant decline in the fair value of our interior segment, as well as an impairment of the related goodwill. These events included unfavorable operating results, primarily as a result of higher raw material costs, lower production volumes on key platforms, industry overcapacity, insufficient customer pricing and changes in certain customers sourcing strategies, as well as our decision to evaluate strategic alternatives with respect to this segment. We evaluated the net book value of goodwill within our interior segment by comparing the fair value of the reporting unit to the related net book value. As a result, we recorded total goodwill impairment charges of $1.0 billion in 2005 related to the interior segment. We also recognized a $3 million goodwill impairment charge related to this segment during the second quarter of 2006. The goodwill resulted from a $19 million purchase price adjustment for an indemnification claim related to our acquisition of UT Automotive from UTC in May 1999. See Note 12, Commitments and Contingencies, to the consolidated financial statements included in this Report.

Impairment of Long-Lived Assets

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

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

In the years ended December 31, 2006 and 2005, we also recognized fixed asset impairment charges of $6 million and $15 million, respectively, in conjunction with our restructuring actions. In the year ended December 31, 2004, we recognized fixed asset impairment charges of $3 million related to certain facility consolidations. We have certain other facilities that have generated operating losses in recent years. The results of the related impairment analyses indicated that impairment of the fixed assets was not required. However, we will continue to monitor the operating plans of these facilities for potential impairment.

These fixed asset impairment charges are recorded in cost of sales in the consolidated statements of operations for the years ended December 31, 2006, 2005 and 2004.

Restructuring

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

Legal and Other Contingencies

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

Pension and Other Postretirement Benefit Plans

In 2006, we elected to freeze our U.S. salaried defined benefit pension plan effective December 31, 2006. In conjunction with this, we established a new defined contribution retirement plan for our salaried employees effective January 1, 2007.

Approximately 24% of our active workforce is covered by defined benefit pension plans. Approximately 9% 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

As of December 31, 2006 (based on a September 30, 2006 measurement date), our projected benefit obligations related to our pension and other postretirement benefit plans were $861 million and $268 million, respectively, and our unfunded pension and other postretirement benefit obligations were $287 million and $268 million, respectively. These benefit obligations were valued using a weighted average discount rate of 6.00% and 5.90% for domestic pension and other postretirement benefit plans, respectively, and 5.00% and 5.30% for foreign pension and other postretirement benefit plans, respectively. The determination of the discount rate is based on the construction of a hypothetical bond portfolio consisting of high-quality fixed income securities with durations that match the timing of expected benefit payments. Changes in the selected discount rate could have a material impact on our projected benefit obligations and the unfunded status of our pension and other postretirement benefit plans. Decreasing the discount rate by 1% would have increased the projected benefit obligations and unfunded status of our pension and other postretirement benefit plans by approximately $165 million and $50 million, respectively.

For the year ended December 31, 2006, pension and other postretirement net periodic benefit cost was $70 million and $31 million, respectively, and was determined using a variety of actuarial assumptions. Pension net periodic benefit cost in 2006 was calculated using a weighted average discount rate of 5.75% for domestic and 5.00% foreign plans and an expected return on plan assets of 8.25% for domestic and 6.90% for foreign plans. The expected return on plan assets is determined based on several factors, including adjusted historical returns, historical risk premiums for various asset classes and target asset allocations within the portfolio. Adjustments made to the historical returns are based on recent return experience in the equity and fixed income markets and the belief that deviations from historical returns are likely over the relevant investment horizon. Other postretirement net periodic benefit cost was calculated in 2006 using a discount rate of 5.70% and 5.30% for domestic and foreign plans, respectively. Adjustments to our actuarial assumptions could have a material adverse impact on our operating results. Decreasing the discount rate by 1% would have increased pension and other postretirement net periodic benefit cost by approximately $18 million and approximately $7 million, respectively, for the year ended December 31, 2006. Decreasing the expected return on plan assets by 1% would have increased pension net periodic benefit cost by approximately $5 million for the year ended December 31, 2006.

Aggregate pension and other postretirement net periodic benefit cost is forecasted to be approximately $60 million in 2007. This estimate is based on a weighted average discount rate of 6.00% and 5.00% for domestic and foreign pension plans, respectively, and 5.90% and 5.30% 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. Additionally, this estimate does not include curtailment gains of $37 million and $15 million related to our pension and other postretirement benefit plans, respectively. The pension plan curtailment gain resulted from the suspension of the accrual of defined benefits related to our U.S. salaried defined benefit pension plan. The other postretirement benefit plan curtailment gain resulted from employee terminations associated with a facility closure in the fourth quarter of 2006. We use a September 30 measurement date for our U.S. pension and other postretirement benefit plans, and as these curtailments occurred after the measurement date, we will recognize the related curtailment gains in the first quarter of 2007.

We expect to contribute approximately $60 million to our domestic and foreign pension plan asset portfolios in 2007. Contributions to our pension plans are consistent with minimum funding requirements of the relevant governmental authorities. We may make contributions in excess of these minimums when we believe it is financially advantageous to do so and based on our other capital requirements. In addition, our future funding obligations may be affected by changes in applicable legal requirements.

Our contributions to the defined contribution retirement plan will be determined as a percentage of each covered employee s salary and are expected to be in the range of $18 million to $25 million in 2007.

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

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

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

Income Taxes

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

In the fourth quarter of 2005, we concluded that it was no longer more likely than not that we would realize our U.S. deferred tax assets. As a result, we provided a full valuation allowance in the amount of $255 million with respect to our net U.S. deferred tax assets. During 2006, we continued to incur losses in the United States for which no tax benefit was recorded. Our current and future provision for income taxes is significantly impacted by the recognition of valuation allowances in certain countries, particularly the United States. We intend to maintain these valuation allowances until it is more likely than not that the deferred taxes within these countries will be realized. Our future income tax expense will include no tax benefit with respect to losses and no tax expense with respect to income in these countries until the valuation allowance is eliminated.

In addition, the calculation of our tax benefits and liabilities includes uncertainties in the application of complex tax regulations in a multitude of jurisdictions across our global operations. We recognize tax benefits and liabilities based on our estimate of whether, and the extent to which, additional taxes will be due. We adjust these liabilities based on changing facts and circumstances; however, due to the complexity of some of these uncertainties and the impact of any tax audits, the ultimate resolutions may be materially different from our estimated liabilities. For further information related to income taxes, see Note 9, Income Taxes, to the consolidated financial statements included in this Report.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. During 2006, there were no material changes in the methods or policies used to establish estimates and assumptions. Generally, matters subject to estimation and judgment include amounts related to accounts receivable realization, inventory obsolescence, asset impairments, useful lives of intangible and fixed assets, unsettled pricing discussions with customers and suppliers, restructuring accruals, deferred tax asset valuation allowances and income taxes, pension and other postretirement benefit plan assumptions, accruals related to litigation, warranty and environmental remediation costs and self-insurance accruals. Actual results may differ from estimates provided.

Recently Issued Accounting Pronouncements

Inventory Costs

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

Nonmonetary Assets

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

Financial Instruments

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

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

Fair Value Measurements

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

Pension and Other Postretirement Benefits

The FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). This statement requires recognition of the funded status of a company s defined benefit pension and postretirement benefit plans as an asset or liability on the balance sheet. Previously, under the provisions of SFAS No. 87, Employers Accounting for Pensions, and SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, the asset or liability recorded on the balance sheet reflected the funded status of the plan, net of certain unrecognized items that qualified for delayed income statement recognition. Under SFAS No. 158, these previously unrecognized items are to be recorded in accumulated other comprehensive loss when the recognition provisions are adopted. We adopted the recognition provisions as of December 31, 2006, and the funded status of our defined benefit plans is reflected in our consolidated balance sheet as of December 31, 2006. In accordance with the transition provisions of SFAS No. 158, prior periods have not been restated. The incremental effect of applying the recognition provisions of SFAS No. 158 on the our consolidated balance sheet as of December 31, 2006, is shown below (in millions):

	Before Adoption of SFAS No. 158	**Adjustments**	**After Adoption of SFAS No. 158**
Intangible assets (other long-term assets)	$ 45.7	$ (45.7)	$
Liability for defined benefit plan obligations (current and long-term liabilities)	(420.3)	(120.9)	(541.2)

Accumulated other comprehensive loss (stockholders equity)	97.6	166.6	264.2

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

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Income Taxes

The FASB issued Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes by establishing minimum standards for the recognition and measurement of tax positions taken or expected to be taken in a tax return. Under the requirements of FIN 48, we must review all of our uncertain tax positions and make a determination as to whether our position is more-likely-than-not to be sustained upon examination by regulatory authorities. If a position meets the more-likely-than-not criterion, then the related tax benefit is measured based on the cumulative probability analysis of the amount that is more-likely-than-not to be realized upon ultimate settlement. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative impact of the initial adoption of FIN 48 will be reported as an adjustment to our beginning retained deficit balance in 2007. We are currently evaluating the impact of this interpretation on our financial statements.

Financial Statement Reporting

The SEC issued Staff Accounting Bulletin (SAB) No. 108. SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The interpretive guidance is effective for financial statements covering fiscal years ending after November 15, 2006. The effect of adoption was not 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, ex estimates and similar expressions identify these forward-looking statements. All statements contained or incorporated in this Report which address operating performance, events or developments that we expect or anticipate may occur in the future, including statements related to business opportunities, awarded sales contracts, sales backlog and on-going commercial arrangements or statements expressing views about future operating results, are forward-looking statements. Important factors, risks and uncertainties that may cause actual results to differ from those expressed in our forward-looking statements include, but are not limited to:

general economic conditions in the markets in which we operate, including changes in interest rates or currency exchange rates;

the financial condition of our customers or suppliers;

fluctuations in the production of vehicles for which we are a supplier;

disruptions in the relationships with our suppliers;

labor disputes involving us or our significant customers or suppliers or that otherwise affect us;

our ability to achieve cost reductions that offset or exceed customer-mandated selling price reductions;

the outcome of customer productivity negotiations;

the impact and timing of program launch costs;

the costs and timing of facility closures, business realignment or similar actions;

increases in our warranty or product liability costs;

risks associated with conducting business in foreign countries;

competitive conditions impacting our key customers and suppliers;

raw material costs and availability;

our ability to mitigate the significant impact of increases in raw material, energy and commodity costs;

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

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

the finalization of our restructuring strategy; and

other risks, described in Item 1A, Risk Factors, and from time to time in our other SEC filings.

Finally, the closing of the transaction contemplated by our Merger Agreement with affiliates of American Real Estate Partners, L.P. is subject to various conditions, including receipt of the affirmative vote of the holders of a majority of the outstanding shares of our common stock, antitrust approvals and other customary closing conditions. Our agreement to contribute essentially all of our North American interior business to a joint venture between us and WL Ross & Co. LLC with respect to our interior segment is also subject to various conditions, including the receipt of third-party consents, as well as other closing conditions customary for transactions of this type. No assurances can be given that these proposed transactions will be consummated on the terms contemplated or at all.

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

To the Board of Directors and Shareholders of
Lear Corporation

We have audited the accompanying consolidated balance sheets of Lear Corporation and Subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule for the three years in the period ended December 31, 2006, 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 the Company as of December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the three years in the period ended December 31, 2006, 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, in 2006 the Company changed its method of accounting for stock-based compensation.

As discussed in Note 10 to the consolidated financial statements, in 2006 the Company changed its method of accounting for pension and other postretirement benefit plans.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2006, 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 20, 2007, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Detroit, Michigan
February 20, 2007

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

To the Board of Directors and Shareholders of
Lear Corporation

We have audited management s assessment, included in Management s Annual Report on Internal Control Over Financial Reporting included in Item 9A(b), that Lear Corporation and Subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company 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. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of 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, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control 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 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 preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (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, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2006, and the related financial statement schedule for the three years in the period ended December 31, 2006, and our report dated February 20, 2007, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Detroit, Michigan
February 20, 2007

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LEAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31,	2006	2005
	(In millions, except share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 502.7	$ 197.3
Accounts receivable	2,006.9	2,000.1
Inventories	581.5	595.6
Current assets of business held for sale	427.8	607.7
Other	371.4	445.7
Total current assets	3,890.3	3,846.4
Long-Term Assets:		
Property, plant and equipment, net	1,471.7	1,614.7
Goodwill, net	1,996.7	1,939.8
Long-term assets of business held for sale		485.2
Other	491.8	402.3
Total long-term assets	3,960.2	4,442.0
	$ 7,850.5	$ 8,288.4
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Short-term borrowings	$ 39.3	$ 23.4
Accounts payable and drafts	2,317.4	2,516.0
Accrued liabilities	1,099.3	1,008.6
Current liabilities of business held for sale	405.7	549.3
Current portion of long-term debt	25.6	9.4
Total current liabilities	3,887.3	4,106.7
Long-Term Liabilities:		
Long-term debt	2,434.5	2,243.1
Long-term liabilities of business held for sale	48.5	27.6
Other	878.2	800.0
Total long-term liabilities	3,361.2	3,070.7
Stockholders Equity:		
	0.7	0.7

Common stock, par value $0.01 per share, 150,000,000 shares authorized, 81,984,306 shares and 73,281,653 shares issued as of December 31, 2006 and 2005, respectively		
Additional paid-in capital	1,338.1	1,108.6
Common stock held in treasury, 5,732,316 shares and 6,094,847 shares as of December 31, 2006 and 2005, respectively, at cost	(210.2)	(225.5)
Retained earnings (deficit)	(362.5)	361.8
Accumulated other comprehensive loss	(164.1)	(134.6)
Total stockholders equity	602.0	1,111.0
	$ 7,850.5	$ 8,288.4

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

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LEAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Year Ended December 31,	2006	2005	2004
	(In million, except per share data)		
Net sales	$ 17,838.9	$ 17,089.2	$ 16,960.0
Cost of sales	16,911.2	16,353.2	15,557.9
Selling, general and administrative expenses	646.7	630.6	633.7
Goodwill impairment charges	2.9	1,012.8	
Loss on divestiture of Interior business	636.0		
Interest expense	209.8	183.2	165.5
Other expense, net	85.7	38.0	38.6
Income (loss) before provision for income taxes, minority interests in consolidated subsidiaries, equity in net (income) loss of affiliates and cumulative effect of a change in accounting principle	(653.4)	(1,128.6)	564.3
Provision for income taxes	54.9	194.3	128.0
Minority interests in consolidated subsidiaries	18.3	7.2	16.7
Equity in net (income) loss of affiliates	(16.2)	51.4	(2.6)
Income (loss) before cumulative effect of a change in accounting principle	(710.4)	(1,381.5)	422.2
Cumulative effect of a change in accounting principle	2.9		
Net income (loss)	$ (707.5)	$ (1,381.5)	$ 422.2
Basic net income (loss) per share:			
Income (loss) before cumulative effect of a change in accounting principle	$ (10.35)	$ (20.57)	$ 6.18
Cumulative effect of change in accounting principle	0.04		
Basic net income (loss) per share	$ (10.31)	$ (20.57)	$ 6.18
Diluted net income (loss) per share:			
Income (loss) before cumulative effect of a change in accounting principle	$ (10.35)	$ (20.57)	$ 5.77
Cumulative effect of change in accounting principle	0.04		
Diluted net income (loss) per share	$ (10.31)	$ (20.57)	$ 5.77

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

LEAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

December 31,	2006	2005	2004
	(In millions, except share data)		
Common Stock			
Balance at beginning and end of period	$ 0.7	$ 0.7	$ 0.7
Additional Paid-in Capital			
Balance at beginning of period	$ 1,108.6	$ 1,064.4	$ 1,027.7
Net proceeds from the issuance of 8,695,653 shares of common stock	199.2		
Stock-based compensation	30.7	43.8	26.4
Cumulative effect of a change in accounting principle	(0.4)		
Tax benefit of stock options exercised		0.4	10.3
Balance at end of period	$ 1,338.1	$ 1,108.6	$ 1,064.4
Treasury Stock			
Balance at beginning of period	$ (225.5)	$ (204.1)	$ (110.8)
Issuances of 362,531 shares at an average price of $42.40	15.3		
Purchases of 490,900 shares at an average price of $51.75		(25.4)	
Issuances of 126,529 shares at an average price of $31.99		4.0	
Purchases of 1,834,300 shares at an average price of $53.29			(97.7)
Issuances of 395,126 shares at an average price of $11.12 per share in settlement of stock-based compensation			4.4
Balance at end of period	$ (210.2)	$ (225.5)	$ (204.1)
Retained Earnings (Deficit)			
Balance at beginning of period	$ 361.8	$ 1,810.5	$ 1,441.8
Net income (loss)	(707.5)	(1,381.5)	422.2
Dividends declared of $0.25 per share in 2006, $1.00 per share in 2005 and $0.80 per share in 2004	(16.8)	(67.2)	(53.5)
Balance at end of period	$ (362.5)	$ 361.8	$ 1,810.5
Accumulated Other Comprehensive Income (Loss)			
Defined Benefit Plans			
Balance at beginning of period	$ (115.0)	$ (72.6)	$ (62.2)
Defined benefit plan adjustments	17.4	(42.4)	(10.4)
Adoption of SFAS No. 158	(166.6)		
Balance at end of period	$ (264.2)	$ (115.0)	$ (72.6)
Derivative Instruments and Hedging Activities			
Balance at beginning of period	$ 9.0	$ 17.4	$ (13.7)

Derivative instruments and hedging activities adjustments		5.7		(8.4)		31.1
Balance at end of period	$	14.7	$	9.0	$	17.4
Cumulative Translation Adjustments						
Balance at beginning of period	$	(86.8)	$	65.6	$	(61.5)
Cumulative translation adjustments		90.7		(152.4)		127.1
Balance at end of period	$	3.9	$	(86.8)	$	65.6
Deferred Income Tax Asset						
Balance at beginning of period	$	58.2	$	48.2	$	35.5
Deferred income tax asset adjustments		23.3		10.0		12.7
Balance at end of period	$	81.5	$	58.2	$	48.2
Accumulated other comprehensive income (loss)	$	(164.1)	$	(134.6)	$	58.6
Total Stockholders Equity	$	602.0	$	1,111.0	$	2,730.1
Comprehensive Income (Loss)						
Net income (loss)	$	(707.5)	$	(1,381.5)	$	422.2
Defined benefit plan adjustments		17.4		(42.4)		(10.4)
Derivative instruments and hedging activities adjustments		5.7		(8.4)		31.1
Cumulative translation adjustments		90.7		(152.4)		127.1
Deferred income tax asset adjustments		23.3		10.0		12.7
Comprehensive Income (Loss)	$	(570.4)	$	(1,574.7)	$	582.7

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

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LEAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Year Ended December 31,	2006	2005	2004
		(In millions)	
Cash Flows from Operating Activities:			
Net income (loss)	$ (707.5)	$ (1,381.5)	$ 422.2
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Cumulative effect of a change in accounting principle	(2.9)		
Goodwill impairment charges	2.9	1,012.8	
Loss on divestiture of Interior business	636.0		
Fixed asset impairment charges	15.8	97.4	3.0
Deferred tax provision (benefit)	(55.0)	44.7	8.7
Equity in net (income) loss of affiliates	(16.2)		