AETHLON MEDICAL INC
Form 10-K
July 15, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2013

OR

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

For transition period from _____ to _____

COMMISSION FILE NUMBER 000-21846

AETHLON MEDICAL, INC.

(Exact name of registrant as specified in its charter)

NEVADA	13-3632859
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8910 University Center Lane, Suite 660, San Diego, California	92122
(Address of principal executive office)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (858) 459-7800

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE EXCHANGE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
NONE	NONE

SECURITIES REGISTERED UNDER SECTION 12(g) OF THE ACT:

COMMON STOCK--$.001 PAR VALUE

(TITLE OF CLASS)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [_]

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [_] Accelerated filer [_]
Non accelerated filer [_] Smaller reporting company [X]
(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of September 30, 2012 was approximately $17.2 million, computed by reference to the closing sale price of the common stock of $0.10 per share on the OTC Bulletin Board on September 30, 2012. Shares of common stock held by each executive officer and director and by each person who owns 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the Common Stock of the registrant outstanding as of July 11, 2013 was 182,552,460.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL OVERVIEW

The Aethlon Medical mission is to create innovative medical devices that address unmet medical needs in cancer, infectious disease, and other life-threatening conditions. Our Aethlon ADAPT™ (Adaptive Dialysis-Like Affinity Platform Technology) system is a revenue-stage technology platform that provides the basis for a new class of devices that provide rapid, yet selective removal of disease promoting particles from the entire circulatory system. At present, the Aethlon ADAPT product pipeline includes the Aethlon Hemopurifier® to address infectious disease and cancer, and a medical device being developed under a 5-year contract from the Defense Advanced Research Projects Agency (DARPA) to reduce the incidence of sepsis in combat-injured soldiers.

The Aethlon Hemopurifier®

On June 25, 2013, we disclosed that the United States Food and Drug Administration (FDA) approved an Investigational Device Exemption (IDE) that allows us to initiate human feasibility studies of the Aethlon Hemopurifier® in the United States. Our Hemopurifier® is a first-in-class medical device that targets the rapid elimination of life-threatening infectious disease and cancer glycopathogens from circulation. Under the feasibility study protocol, we will enroll ten end-stage renal disease (ESRD) patients who are infected with the Hepatitis C virus (HCV) to demonstrate the safety of Hemopurifier therapy. Successful completion of this study will allow us the opportunity to initiate pivotal studies that are required for market clearance to treat HCV and other disease conditions in the United States.

Specific to the treatment of HCV, we believe that our Hemopurifier is uniquely positioned as an adjuvant that can be incorporated with either interferon-based standard of care (SOC) or emerging all-antiviral drug regimens without adding drug toxicity. In addition to augmenting the early viral kinetic response to SOC, our Hemopurifier provides a candidate solution for viral rebound patients who traditionally are forced to discontinue therapy at the point HCV establishes resistance to drug regimens. Additionally, our Hemopurifier represents a therapeutic strategy to address the large population of HCV-infected dialysis patients for which SOC and emerging all-antiviral strategies may be contraindicated or not yet cleared. According to the World Health Organization (WHO), HCV is a blood-borne pathogen that affects upwards of 170 million persons, or 2-3% of the world's population. It is a leading cause of cirrhosis and liver transplantation.

Our FDA approved study calls for a single-site enrollment of ten HCV-infected ESRD patients who have not received any pharmaceutical therapy for their HCV infection for at least 30 days. The protocol will consist of a control phase of three consecutive standard dialysis treatments during week one followed by the inclusion of our Hemopurifier during a total of six dialysis sessions conducted during weeks two and three. The rate of adverse events observed during the Hemopurifier therapy phase will be compared to the rate experienced during the control phase. Per-treatment changes of viral load will be observed through quantitative PCR analysis. Additionally, we plan to measure the number of HCV viral copies captured within the Hemopurifier during each treatment session.

We expect this study will begin later in 2013 with completion expected in the first half of 2014. We are preparing for a limited manufacturing run to supply our studies here in the U.S. as well as for a compassionate-use program that has been established in India.

In studies previously conducted in India, we demonstrated that Hemopurifier therapy was well tolerated in treatment naïve HIV and HCV-infected ESRD patients when included during normally scheduled four-hour dialysis sessions. In these studies, we observed that average per treatment viral load reductions exceeded 50% in both disease conditions. In follow-on studies of non-ESRD individuals infected with HCV, a three-treatment protocol of Hemopurifier therapy in combination with interferon-based standard of care (SOC) resulted in undetectable HCV in as little as seven days in hardest to treat genotype-1 patients. The studies also documented the ability of the Hemopurifier to capture as many as 300 billion HCV copies during a single six-hour treatment.

The feasibility study protocol approved by FDA was originally designed as a human safety challenge and model for addressing drug and vaccine resistant bioterror and emerging pandemic threats. *In vitro* studies conducted by leading government and non-government researchers have demonstrated that the Hemopurifier is able to capture a broad-spectrum of some of world's deadliest viral pathogens. These include: Dengue hemorrhagic fever (DHF), Ebola hemorrhagic fever (EHF), Lassa hemorrhagic fever (LHF), H5N1 avian influenza (Bird Flu), H1N1 swine flu virus, the reconstructed 1918 influenza virus (r1918), West Nile virus (WNV) and Vaccinia and Monkeypox (MPV), which serve as models for human smallpox infection. Human efficacy studies are not permissible against high-threat bioterror and pandemic threats.

Studies by independent researchers show that our Hemopurifier has also been discovered to capture tumor-secreted exosomes underlying several forms of cancer. Tumor-derived exosomes have recently emerged to be a vital therapeutic target in cancer care. These microvesicular particles suppress the immune response in cancer patients through apoptosis of immune cells and their quantity in circulation correlates directly with disease progression. Beyond possessing immunosuppressive properties, tumor-secreted exosomes facilitate tumor growth, metastasis, and the development of drug resistance. By addressing this unmet medical need, we believe our Hemopurifier is well positioned as an adjunct to improve established cancer treatment regimens. I*n vitro* studies to date have documented that the Hemopurifier captures exosomes underlying lymphoma, melanoma, ovarian, and breast cancer.

In design, our Hemopurifier consists of the affinity lectin Galanthus nivalis agglutinin (GNA) immobilized in the outer-capillary space of advanced plasma membrane technology. The design allows for extracorporeal therapeutic delivery to occur on standard CRRT and dialysis instruments already located in hospitals and clinics worldwide. The mechanism of the Hemopurifier to rapidly eliminate a broad-spectrum disease targets is based on GNA's ability to selectively bind unique high mannose signatures that are abundant on the surface of cancer-secreted exosomes and glycoproteins that reside on the outer membrane of infectious viral pathogens. In 2010, we established "good manufacturing practice" (GMP) for the manufacture of the Hemopurifier® in an FDA-approved facility in San Diego, California. We have also established a compassionate-use treatment program at the Medanta Medicity Institute in India that provides treatment access to HCV-infected individuals.

Human Immunodeficiency Virus (HIV):

In addition to treating HCV-infected individuals, we have conducted a single proof of principal treatment study related to the treatment of HIV. In the study, Hemopurifier® therapy reduced viral load by 93% in an HIV-AIDS infected individual without the administration of antiviral drug therapy. The study protocol provided for 12 Hemopurifier® treatments, each four hours in duration, that were administered over the course of one month. Researchers at a university have since discovered that the Hemopurifier® is able to capture exosomes that transport NEF protein, which is known to suppress the immune response in HIV-infected individuals.

TRANSITION TO REVENUE STAGE ORGANIZATION

In May of 2011, we introduced and began marketing the Aethlon ADAPT™ system. On September 30th, 2011, we entered into a $6.8 million multi-year contract with the Defense Advanced Research Projects Agency (DARPA) resulting from our response to a program entitled "Dialysis-Like Therapeutics." Under this contract, our tasks include the development of a dialysis-like device to prevent sepsis, a fatal bloodstream infection that is often the cause of death in combat-injured soldiers.

Originally, only the base year (year one contract covering October 1, 2011 through September 30, 2012) was effective for the parties, however, effective August 16, 2012, DARPA exercised the option on the second year of the contract. Years three through five are subject to DARPA exercising their option to enter into contracts for those years.

As a result of achieving five contract milestones between October 1, 2011 and March 31, 2012, we reported $1,358,189 in contract revenue at our March 31, 2012 fiscal year end. As a result of achieving six milestones in the fiscal year ended March 31, 2013, we reported $1,230,004 in contract revenue for that fiscal year.

Year One Milestones

The year one contract (also referred to as “Year One”) contained eight milestones of which five were achieved during the fiscal year ended March 31, 2012 and the remaining three were achieved during the fiscal year ended March 31, 2013. The details of the eight Year One milestones achieved during the fiscal years ended March 31, 2012 and 2013 were as follows:

Year One Milestones Achieved During Fiscal Year Ended March 31, 2012:

Milestone 2.2.1.1 – Write requirements definition for the extracorporeal blood purification system and acquire necessary equipment with a milestone payment of $358,284. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We worked on this concept for a number of months beginning with a presentation to DARPA in late 2010. We subsequently filed for IP protection on certain of the key concepts in March 2011 and our management visited selected potential vendors to work out many of the details in the summer of 2011 before we were awarded the contract on September 30, 2011. We ordered the breadboard device from one of our vendors before the milestone payment was made. We designed the breadboard prototype and then presented the design to DARPA in order to achieve the milestone. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter. DARPA made the milestone payment in full.

Milestone 2.2.1.2 – Fabricate breadboard prototypes for anticoagulation-free anti-sepsis extracorporeal system (ASEPSYS) device. Fabricate prototype blood tubing sets. Acquire anti-thrombogenic surface modified hollow fiber plasma separators with a milestone payment of $183,367. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. The consideration for this milestone covers the cost of having the breadboard prototype developed to our specifications, hiring an engineer to supervise the project, acquiring specially coated cartridges and associated overhead. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter. DARPA made the milestone payment in full.

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Milestone 2.2.2.1 – Begin to develop the ADAPT device to efficiently capture sepsis precursors and acquire important equipment and supplies with a milestone payment of $416,424. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. It was critically important to obtain certain pieces of lab equipment as early as possible after winning the contract in order to measure the binding ability of sepsis precursors. We demonstrated that we were able to capture one of the identified possible sepsis precursors as part of our submission for approval. The consideration was also designed to cover the salaries of new and existing scientists, lab space, materials as well as fringe and corporate overhead. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter. DARPA made the milestone payment in full.

Milestone 2.2.2.2 – Perform initial screening of the different proposed capture agents by measuring binding affinity and kinetics using surface plasmon resonance (SPR) or biolayer surface interferometry (BLI) with a milestone payment amount of $216,747. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able to capture several of the identified possible sepsis precursors as part of our submission for approval. The consideration was also designed to cover the salaries of new and existing scientists, lab space, materials as well as fringe and corporate overhead. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter. DARPA made the milestone payment in full.

Milestone 2.2.1.3 – Assemble and test breadboard ASEPSYS devices. Evaluate the use of different techniques and approaches to eliminating anticoagulants. The milestone payment amount was $183,367. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. The consideration for this milestone covers the cost of assembling and testing the breadboard prototype that we had developed to our specifications, hiring an engineer to supervise the project, testing specially coated cartridges and associated overhead. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter. DARPA made the milestone payment in full.

Year One Milestones Achieved During Fiscal Year Ended March 31, 2013:

Milestone 2.2.2.3 – Perform preliminary quantitative real time PCR to measure viral load, and specific DNA or RNA targets. The milestone payment was $216,747. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able to measure viral load of one or more targets as part of our submission for approval. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.2.1.4 – Obtain all necessary IRB documentation and obtain both institutional and Government approval in accordance with IRB documentation submission guidance prior to conducting human or animal testing. The milestone

payment was $183,367. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We obtained all of the required documentation from both institutional and Government authorities. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone M2 – Target capture > 50% in 24 hours for at least one target in blood or blood components. The milestone payment was $216,747. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able to capture > 50% in 24 hours of one of the agreed targets in blood or blood components. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Year Two Milestones

The year two contract (also referred to as “Year Two”) contained eight milestones of which three were achieved during the fiscal year ended March 31, 2013. The details of the three Year Two milestones achieved during the fiscal year ended March 31, 2013 were as follows:

Milestone 2.3.3.1 – Build the ADAPT capture cartridges with the identified affinity agents. Measure the rate of capture of the specific targets from in ex vivo recirculation experiments from cell culture and blood. The milestone payment was $208,781. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able build the ADAPT capture cartridges with the identified affinity agents and to measure the rate of capture of the specific targets from in ex vivo recirculation experiments from cell culture and blood. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.3.2.1 – Demonstrate the effectiveness of the prototype device in vivo in animals preventing platelet activation or clotting in at least a 2 hour blood pumping experiment at 75 mL/min blood flow. The milestone payment amount was $195,581. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. The prototype device was successfully used in vivo in animals preventing platelet activation or clotting in at least a 2 hour blood pumping experiment at 75 mL/min blood flow. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone M4 – Target capture > 50% in 24 hours for at least 5 targets in blood or blood components. The milestone payment was $208,781. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able to capture > 50% in 24 hours for at least 5 of the agreed targets in blood or blood components. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Year Two Milestones Achieved Following March 31, 2013:

Milestone 2.3.2.2 – Formulate initial design based on work from previous phase. Begin to build and test selected instrument design and tubing sets. The milestone payment amount was $195,581. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we had begun to build and test selected instrument design and tubing sets. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

While the above milestones were evaluated and approved by DARPA, there can be no assurance that even if DARPA elects to continue the contract in future years, that we will be able to achieve the required milestones in those future years on time, if at all, or that DARPA's evaluation of the milestone deliveries will result in full payment of the milestones in those future years, if at all.

DARPA recently awarded a related contract for $22,830,840 to Battelle Memorial Institute (“Battelle”) to be the systems integrator for the various components being developed under the original contract, including our two components of the project. We agreed to become a subcontractor to Battelle under that systems integrator contract. That subcontract will be under a cost plus basis and we expect to begin generating revenues under the subcontract during the fiscal year ending March 31, 2014. Our expected revenue from the subcontract will be at the discretion of Battelle.

CORPORATE HISTORY

On March 10, 1999, Aethlon, Inc., a California corporation ("Aethlon"), Hemex, Inc., a Delaware corporation ("Hemex"), the accounting predecessor to the Company, and Bishop, Inc. ("Bishop"), a publicly traded "shell" company, completed an Agreement and Plan of Reorganization (the "Plan") structured to result in Bishop's acquisition of all of the outstanding common shares of Aethlon and Hemex (the "Reorganization"). The Reorganization was intended to qualify as a tax-free transaction under Section 368(a)(1)(B) of the 1986 Internal Revenue Code, as amended. Under the Plan's terms Bishop issued 733,500 and 1,350,000 shares of its common stock to the common stock shareholders of Aethlon and Hemex, respectively, such that Bishop then owned 100% of each company. Upon completion of the transaction, Bishop was renamed Aethlon Medical, Inc.

In October 2009, we established a new wholly owned subsidiary, Exosome Sciences, Inc., a Nevada corporation, as a corporate vehicle for our exosome-related diagnostic activities. To date, this subsidiary has been inactive.

RESEARCH AND DEVELOPMENT

The cost of research and development, all of which has been charged to operations, amounted to approximately $1,440,000 and $1,089,000 in the fiscal years ended March 31, 2013 and 2012, respectively.

INTELLECTUAL PROPERTY

We currently own or have license rights to a number of U.S. and foreign patents and patent applications and endeavor to continually improve our intellectual property position. We consider the protection of our technology, whether owned or licensed, to the exclusion of use by others, to be vital to our business. While we intend to focus primarily on patented or patentable technology, we may also rely on trade secrets, unpatented property, know-how, regulatory exclusivity, patent extensions and continuing technological innovation to develop our competitive position. We also own certain trademarks.

U.S. PATENTS

We have been exclusively assigned all rights and title to and interest in an invention and related worldwide patent rights for a method to treat cancer under an assignment agreement with the London Health Science Center Research, Inc. (LHSCRI) The invention provides for the "Depression of anticancer immunity through extracorporeal removal of microvesicular particles" (including exosomes) for which a patent was allowed by the U.S. Patent and Trademark Office (USPTO) in 2012 and patent applications have been filed abroad by us. The agreement provides that we are responsible for paying certain patent application and filing costs as well as a 2% royalty on any future net sales. Under the license agreement, LHSCRI sold and assigned all of its rights, title and interest in the worldwide patents to us.

We have also exercised an option to exclusively license a pending patent entitled, "Method to Inhibit Proliferation and Growth of Metastases" from The Trustees of Boston University. The license provides a rapid development strategy for new cancer therapies by uniting drug agents that inhibit the spread of cancer-related metastases with filtration techniques already proven in the Aethlon Hemopurifier(R). The resulting devices would inhibit tumor growth by reducing the presence of circulating growth factors without interfering with surgical wound healing or the recovery of tissue injured by radiation therapy. Depending on the applications, if we commercialize a product based upon this license, we will pay royalties up to a maximum of 3.5 percent of net sales. This license runs for the life of the patent, once it is issued, unless it is terminated earlier.

The following table lists our issued patents and patent applications, including their ownership status:

PATENTS ISSUED IN THE UNITED STATES

PATENT #	PATENT NAME	ISSUANCE DATE	OWNED OR LICENSED
8,288,172	Extracorporeal removal of microvesicular particles (exosomes) (method patent)	10/16/12	Owned
7,226,429	Method for removal of viruses from blood by lectin affinity hemodialysis	06/05/07	Owned
6,528,057	Method for removal of HIV and other viruses from blood	03/04/03	Licensed

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PATENT APPLICATIONS IN THE UNITED STATES

APPLICATION #	APPLICATION NAME	FILING DATE	OWNED OR LICENSED
11/756543	Method for removal of viruses from blood by lectin affinity hemodialysis	05/31/07	Owned
12/600236	Device and method for purifying virally infected blood	5/12/11	Owned
13/351166	Affinity capture of circulating cancer biomarkers	1/16/12	Owned
12/810295	Method and apparatus for increasing contaminant clearance rates during extracorporeal fluid treatment	09/07/10	Owned
13/623662	Extracorporeal removal of microvesicular particles (medical device and system-based claims)	09/20/12	Owned
13/626748	Methods and systems for reducing viral load of hepatitis c virus in hemodialysis patients	09/25/12	Owned
13/808561	Methods and compositions for quantifying exosomes	01/04/13	Owned
12/996000	Enhanced antiviral therapy methods and devices	5/26/11	Owned

INTERNATIONAL PATENTS:

INTERNATIONAL PATENTS ISSUED

PATENT #	PATENT NAME	ISSUANCE DATE	OWNED OR LICENSED
2,353,399	Method for removal of viruses from blood by lectin affinity hemodialysis	01/20/04	Owned
770,344	Method for removal of HIV and other viruses from blood	06/03/04	Licensed
69929986.1-08	Method for removal of HIV and other viruses from blood	02/22/06	Licensed
1,109,564	Method for removal of HIV and other viruses from blood	02/22/06	Licensed
1,109,564	Method for removal of HIV and other viruses from blood	02/22/06	Licensed
1,109,564	Method for removal of HIV and other viruses from blood	02/22/06	Licensed
1,109,564	Method for removal of HIV and other viruses from blood	02/22/06	Licensed
2342203	Method for removal of HIV and other viruses from blood	03/01/11	Licensed

INTERNATIONAL PATENT APPLICATIONS (SOME MAY MOVE TO THE US DURING NATIONAL PHASE OF APPLICATION PROCESS)

APPLICATION #	APPLICATION NAME	FILING DATE	OWNED OR LICENSED
4,703,672.8	Method for removal of viruses from blood by lectin affinity hemodialysis	*	Owned
2,516,403	Method for removal of viruses from blood by lectin affinity hemodialysis	01/20/04	Owned
08109006.5	Method for removal of viruses from blood by lectin affinity hemodialysis	01/20/04	Owned
7,752,778.6	Extracorporeal removal of microvesicular particles(exosomes)	03/09/07	Owned
9,104,740.6	Extracorporeal removal of microvesicular particles(exosomes)	03/09/07	Owned
8139/DELNP/2008	Extracorporeal removal of microvesicular particles(exosomes)	03/09/07	Owned
6,787,633	Removal of growth factors during surgery	05/27/08	Licensed
PCT/US2012/031658	Methods and Devices Comprising Extracorporeal Blood Flow	3/30/12	Owned
08866242.4	Method and apparatus for increasing contaminant clearance rates during extra corporeal fluid treatment	12/19/08	Owned
2644855	Extracorporeal removal of microvesicular particles	03/09/07	Owned
09815068.3	Methods for reducing viral load of hepatitus c virus in hemodialysis patients	09/15/09	Owned
12100471.4	Methods for reducing viral load of hepatitus c virus in hemodialysis patients	09/15/09	Owned
11804372.8	Methods and compositions for quantifying exosomes	02/06/13	Owned

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* We received a decision - to - grant letter related to this European patent application. This will result in the issuance of patents in multiple European countries.

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In certain countries, medical devices are not patentable or only recently have become patentable, and enforcement of intellectual property rights in some countries has been limited or non-existent. Future enforcement of patents and proprietary rights in many countries can be expected to be problematic or unpredictable. We cannot guarantee that any patents issued or licensed to us, including within the U.S., will provide us with competitive advantages or will not be challenged by others, or will not expire prior to our successful commercialization of our products. Furthermore, we cannot be certain that others will not independently develop similar products or will not design around patents issued or licensed to us. We cannot guarantee that patents that are issued will not be challenged, invalidated or infringed upon or designed around by others, or that the claims contained in such patents will not infringe the patent claims of others, or provide us with significant protection against competitive products, or otherwise be commercially valuable. We may need to acquire licenses under patents belonging to others for technology potentially useful or necessary to us. If any such licenses are required, we cannot be certain that they will be available on terms acceptable to us, if at all. To the extent that we are unable to obtain patent protection for our products or technology, our business may be materially adversely affected by competitors who develop substantially equivalent technology.

TRADEMARKS

We have obtained registered trademarks in the United States for the Exosome Sciences®, Hemopurifier®, Aethlon Medical® and Aethlon Medical, Inc. and have adopted the Aethlon ADAPT™ and ELLSA trademarks in the United States. We have applied for a trademark on Hemopurifier in India and that application is currently pending.

INDUSTRY

The industry for treating infectious disease and cancer is extremely competitive, and companies developing new treatment procedures face significant capital and regulatory challenges. Additionally, as the Hemopurifier(R) is a first-in-class device, we have the additional challenge of establishing medical industry support for our technology in the marketplace.

COMPETITION

We are advancing our Hemopurifier(R) as a treatment strategy to enhance and prolong current drug therapies by removing the viral strains that cause drug resistance. We are also advancing the Hemopurifier as a tool for cancer treatment in conjunction with existing, and to be developed, cancer therapies. The Hemopurifier(R) also may prolong life for infected patients who have become drug resistant or have been infected with a viral pathogen for which there is no drug or vaccine therapy. We believe our Hemopurifier(R) augments the benefit of drug therapies and should not be considered a competitor to such treatments. However, if the industry considered the Hemopurifier(R) to be a potential replacement for drug therapy, or a device that limited the need or volume of existing drug therapies, then the

marketplace for the Hemopurifier(R) would be extremely competitive. We believe our Hemopurifier(R) is the sole therapeutic device able to selectively remove viruses and immunosuppressive proteins from circulation. However, we are aware that Asahi Kasei Kurary Medical (Asahi) based in Japan has created a double filtration plasmapheresis system that indiscriminately removes particles from blood in a certain molecule range that includes HCV. Asahi is now marketing this device in Japan as an adjunct therapy for HCV. We may also face competition from producers of antiviral drugs and vaccines.

LICENSING AGREEMENTS

Effective January 1, 2000, we entered into an agreement with a related party under which an invention and related patent rights for a method of removing HIV and other viruses from the blood using the Hemopurifier(R) were assigned to us by the inventors in exchange for a royalty to be paid on future sales of the patented product or process and shares of our common stock. On March 4, 2003, the related patent was issued and we issued 196,078 shares of restricted common stock.

On February 9, 2006, we entered into an option agreement with the Trustees of Boston University which provides for the right to negotiate an exclusive license for a Boston University patent BU05-41, "Method to Prevent Proliferation and Growth of Metastases." On February 8, 2007 we entered into an amendment to this agreement to extend its term until August 9, 2007. On April 22, 2008, we entered into the actual license agreement for this patent and as the initial payment under this license we issued shares of our common stock equivalent to 115% of $5,000.

This license agreement with the Trustees of Boston University calls for annual license fees in the amount of $15,000 (or 115% of $15,000 if paid in our common stock) until products utilizing the license are commercialized. In January 2013, we issued 246,429 shares of our common stock to Boston University, which was equivalent to 115% of the $15,000 annual license fee.

On November 7, 2006, we entered into an exclusive assignment agreement with the London Health Science Center Research, Inc. and Thomas Ichim under which an invention and related patent rights for a method to treat cancer were assigned to the Company. The invention provides for the "Extracorporeal removal of Microvesicular Particles" for which a patent has been allowed in the United States by the USPTO as of June 2012. The agreement provides that we will pay certain patent application and filing costs as well as a 2% royalty on any future net sales. Under the license agreement, we own the patents outright.

GOVERNMENT REGULATION IN THE U.S.

The Hemopurifier(R) is a medical device subject to extensive and rigorous regulation by FDA, as well as other federal and state regulatory bodies in the United States and comparable authorities in other countries. Therefore, we cannot assure that our technology will successfully complete any regulatory clinical trial for any of our proposed applications.

Clinical trials are almost always required to support an FDA premarket application. In the United States, these trials generally require submission of an application for an Investigational Device Exemption, or IDE, to the FDA. The IDE application must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. The FDA recently approved our investigational device exemption (IDE) to initiate human clinical studies in the United States as a feasibility study.

Under the feasibility study protocol, we will enroll ten end stage renal disease (ESRD) patients who are infected with the Hepatitis C virus (HCV) to demonstrate the safety of Hemopurifier therapy. The FDA approved Hemopurifier therapy feasibility study calls for a single-site enrollment of ten HCV-infected end-stage renal disease (ESRD) patients who have not received any pharmaceutical therapy for their HCV infection for at least 30 days. The protocol consists of a control phase which consists of three consecutive standard dialysis treatments during week one followed by the inclusion of the Hemopurifier during a total of six dialysis sessions conducted during weeks two and three. The rate of adverse events observed during the Hemopurifier therapy phase will be compared to the rate experienced during the control phase. Per-treatment changes of viral load will be observed through quantitative PCR analysis. Additionally, we may also choose to quantitate HCV viral copies captured within the Hemopurifier during each treatment session.

Clinical trials for significant risk devices may not begin until the IDE application is approved by the FDA and the appropriate institutional review boards, or IRBs, at the clinical trial sites. We must reach agreement with the IRB of the medical treatment center at which we plan to conduct our clinical trial in the US. Our clinical trials must be conducted under the oversight of an IRB at the relevant clinical trial sites and in accordance with FDA regulations, including but not limited to those relating to good clinical practices. We are also required to obtain patients' informed consent that complies with both FDA requirements and state and federal privacy regulations. We, the FDA or the IRB at each site at which a clinical trial is being performed may suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the benefits. Even if a trial is completed, the results of clinical testing may not demonstrate the safety and efficacy of the device, may be equivocal or may otherwise not be sufficient to obtain approval of the product.

PERVASIVE AND CONTINUING U.S. REGULATION

Should our device be cleared for market use in the United States by the FDA, numerous regulatory requirements continue to apply. These include:

- FDA's Quality System Regulation, or QSR, which requires manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all aspects of the manufacturing process;

- labeling regulations and FDA prohibitions against the promotion of products for uncleared, unapproved or off-label uses;

- clearance or approval of product modifications that could significantly affect safety or efficacy or that would constitute a major change in intended use;

- medical device reporting, or MDR, regulations, which require that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur; and

- post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device.

After a device receives a PMA, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, will require a new clearance or approval. The FDA requires each manufacturer to make this determination initially, but FDA can review any such decision and can disagree with a manufacturer's determination.

The regulations also require that we report to FDA any incident in which our product may have caused or contributed to a death or serious injury or in which our product malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury.

FRAUD AND ABUSE

We may also directly or indirectly be subject to various federal and state laws pertaining to healthcare fraud and abuse, including anti-kickback laws. In particular, the federal healthcare program Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing, arranging for or recommending a good or service, for which payment may be made in whole or part under federal healthcare programs, such as the Medicare and Medicaid programs. Penalties for violations include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs. The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. In implementing the statute, the Office of Inspector General ("OIG") has issued a series of regulations, known as the "safe harbors." These safe harbors set forth provisions that, if met, will assure healthcare providers and other parties that they will not be prosecuted under the Anti-Kickback Statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued. However, conduct and business arrangements that do not fully satisfy each applicable element of a safe harbor may result in increased scrutiny by government enforcement authorities, such as the OIG.

INTERNATIONAL REGULATIONS AND CLINICAL TRIALS

International sales of medical devices are subject to foreign governmental regulations, which vary substantially from country to country. The time required to obtain clearance or approval by a foreign country may be longer or shorter than that required for FDA market approval, and the requirements can vary from region to region.

With respect to our clinical programs in India, we have been advised that safety and efficacy observations resulting from Hemopurifier® therapy administration provide a basis to initialize commercialization on a hospital-by-hospital basis with approval of the institutional review boards (IRBs) of such hospitals. However, medical device regulation could emerge from the Indian government that could increase our clinical and commercialization challenges.

At present, our focus is directed toward the successful completion of Hepatitis-C treatment studies being conducted at the Medanta Medicity Hospital in India. Once this study has been completed and commercialization initiated at that hospital, we will then approach the IRBs of other hospitals regarding potential expansion of the Hemopurifier®

therapy distribution channel within India.

GMP manufacturing of our Hemopurifier® occurs in collaboration with a contract manufacturer based in San Diego, California. We have registered our contract manufacturing arrangement with the FDA and we have since received an export license from the FDA that allows the export our Hemopurifier® for commercial purposes to India.

The primary regulatory environment in Europe is that of the European Union, which has adopted numerous directives and has promulgated voluntary standards regulating the design, manufacture, clinical trials, labeling and adverse event reporting for medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear a CE conformity marking, indicating that the device conforms with the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout the member states of the European Union, and other countries that comply with or mirror these directives. The method of assessing conformity varies depending on the type and class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a notified body, an independent and neutral institution appointed by a country to conduct the conformity assessment. This third-party assessment may consist of an audit of the manufacturer's quality system and specific testing of the manufacturer's device. Such an assessment is required in order for a manufacturer to commercially distribute the product throughout these countries. ISO 9001 and ISO 13845 certifications are voluntary harmonized standards. Compliance establishes the presumption of conformity with the essential requirements for a CE Marking. We have not yet initiated clinical trials in the European Union.

We have not yet initiated clinical trials in the European Union nor do we have a current commitment to conduct such trials.

PRODUCT LIABILITY

The risk of product liability claims, product recalls and associated adverse publicity is inherent in the testing, manufacturing, marketing and sale of medical products. We have limited clinical trial liability insurance coverage. There can be no assurance that future insurance coverage will be adequate or available. We may not be able to secure product liability insurance coverage on acceptable terms or at reasonable costs when needed. Any liability for mandatory damages could exceed the amount of our coverage. A successful product liability claim against us could require us to pay a substantial monetary award. Moreover, a product recall could generate substantial negative publicity about our products and business and inhibit or prevent commercialization of other future product candidates.

SUBSIDIARIES

We have one wholly-owned subsidiary, Exosome Sciences, Inc.

EMPLOYEES

At July 10, 2013, we had nine full-time employees, comprised of our Chief Executive Officer, our President, our Chief Science Officer, our Chief Financial Officer, four research scientists and an executive assistant. We utilize, whenever appropriate, contract and part-time professionals in order to conserve cash and resources. We currently employ two corporate communications groups on a part-time basis. We also use several consultants to assist us with certain portions of the work under our DARPA contract. We believe our employee relations are good. None of our employees are represented by a collective bargaining unit.

ITEM 1A. RISK FACTORS

An investment in our common shares involves a high degree of risk and is subject to many uncertainties. These risks and uncertainties may adversely affect our business, operating results and financial condition. In such an event, the trading price for our common shares could decline substantially, and you could lose all or part of your investment. In order to attain an appreciation for these risks and uncertainties, you should read this annual report in its entirety and consider all of the information and advisements contained in this annual report, including the following risk factors and uncertainties.

RISKS RELATING TO OUR BUSINESS

WE HAVE INCURRED SIGNIFICANT LOSSES AND EXPECT LOSSES TO CONTINUE FOR THE FORESEEABLE FUTURE.

We have yet to establish any history of profitable operations. While we began to generate revenues during the fiscal year ended March 31, 2012, primarily from our contract with DARPA, our revenues have not been sufficient to cover our cost of operations. We have incurred net losses of $4,892,040 and $8,111,340 for the fiscal years ended March 31, 2013 and 2012, respectively. At March 31, 2013 and 2012, we had an accumulated deficit of $(61,475,325) and $(56,583,285), respectively.

Future profitability, if any, will require the successful commercialization of our Hemopurifier(R) technology, other products that may emerge from our Aethlon ADAPT™ platform or from additional government contract or grant income. No assurances can be given when or if this will occur or that we will ever be profitable.

WE HAVE RECEIVED AN EXPLANATORY PARAGRAPH FROM OUR AUDITORS REGARDING OUR ABILITY TO CONTINUE AS A GOING CONCERN

Our independent registered public accounting firm noted in their report accompanying our financial statements for our fiscal year ended March 31, 2013 that we have a significant accumulated deficit, had a working capital deficit and that a significant amount of additional capital will be necessary to advance the development of our products to the point at which we may become commercially viable and stated that those conditions raised substantial doubt about our ability to continue as a going concern. Note 1 to our financial statements for the year ended March 31, 2013 describes management's plans to address these matters. We cannot assure you that our business plans will be successful in addressing these issues. This explanatory paragraph about our ability to continue as a going concern could affect our ability to obtain additional financing at favorable terms, if at all, as it may cause investors to lose faith in our long-term prospects. If we cannot successfully continue as a going concern, our shareholders may lose their entire investment in our common shares.

WE WILL REQUIRE ADDITIONAL FINANCING TO SUSTAIN OUR OPERATIONS AND WITHOUT IT WE WILL NOT BE ABLE TO CONTINUE OPERATIONS.

Should the financing we require to sustain our working capital needs be unavailable to us on reasonable terms when we require it, if at all, the consequences could be a material adverse effect on our business, operating results, financial condition and prospects. If we cannot raise operating capital, we may be forced to cease operations.

WE ARE RELIANT UPON LICENSES OF PATENTS AND TECHNOLOGIES FROM THIRD PARTIES FOR THE DEVELOPMENT OF CERTAIN APPLICATIONS AND USES OF OUR DEVICES; THE TERMINATION OF ANY SUCH LICENSE, OR A CHALLENGE TO THE PATENT AND INTELLECTUAL PROPERTY UNDERLYING SUCH LICENSE COULD HAVE A MATERIAL AND ADVERSE EFFECT UPON OUR ABILITY TO CONTINUE THE DEVELOPMENT OF OUR DEVICES IN CERTAIN FIELDS OF USE, WHICH WOULD ADVERSELY AFFECT OUR BUSINESS PROSPECTS AND THE VALUE OF YOUR INVESTMENT IN OUR SECURITIES.

We rely upon third party licenses for the development of specific uses for our Hemopurifier® devices, including in the area of cancer treatment. Specifically, we are researching, developing and testing cancer-related applications for our devices under a license with Boston University and with the London Health Science Center Research, Inc. and Mr. Thomas Ichim. Should either of these licenses be prematurely terminated for any reason, or if the patents and intellectual property owned by such entities that we have licensed should be challenged or defeated by third parties, our research efforts could be materially and adversely effected. There can be no assurances that these licenses will continue in force for as long as we require for our research, development and testing of cancer treatments. There can be no assurances that should these licenses terminate, or should the underlying patents and intellectual property be challenged or defeated, thfe of the related debt. The loss on the extinguishment of debt is recorded in other (income) expense, net. See Note 9, Other (Income) Expense, Net.

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(7) Pension and Other Postretirement Benefit Plans

Net Periodic Benefit Cost

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

	Pension Three Months Ended		Other Postretirement Three Months Ended	
	Successor July 3, 2010	Predecessor July 4, 2009	Successor July 3, 2010	Predecessor July 4, 2009
Service cost	$ 1.8	$ 2.2	$ 0.3	$ 0.7
Interest cost	11.0	11.4	2.3	2.8
Expected return on plan assets	(11.7)	(9.6)		
Amortization of actuarial loss		1.5		0.1
Amortization of transition obligation				0.2
Amortization of prior service (credit) cost		1.3		(1.8)
Special termination benefits		0.1	0.1	
Curtailment (gain) loss, net		1.3		(0.5)
Net periodic benefit cost	$ 1.1	$ 8.2	$ 2.7	$ 1.5

	Pension Six Months Ended		Other Postretirement Six Months Ended	
	Successor July 3, 2010	Predecessor July 4, 2009	Successor July 3, 2010	Predecessor July 4, 2009
Service cost	$ 3.9	$ 4.6	$ 0.6	$ 1.3
Interest cost	23.4	22.5	4.5	5.6
Expected return on plan assets	(25.4)	(19.3)		
Amortization of actuarial loss		3.0		0.2
Amortization of transition obligation				0.3
Amortization of prior service (credit) cost		2.7		(3.6)
Special termination benefits		20.3	0.1	0.1
Settlement (gain) loss	(0.1)	0.5		
Curtailment (gain) loss, net and related charges		38.6		(0.5)
Net periodic benefit cost	$ 1.8	$ 72.9	$ 5.2	$ 3.4

In the first half of 2009, the Company recorded pension plan curtailment losses and special termination benefits of $57.1 million resulting from employee terminations associated with the Company s restructuring activities.

Contributions

Employer contributions to the Company s domestic and foreign pension plans for the six months ended July 3, 2010, were $42.6 million, in aggregate. Based on minimum funding requirements, the Company expects additional contributions of approximately $5 million, in aggregate, to its domestic and foreign pension plans in 2010. The Company may elect to make contributions in excess of minimum funding requirements in response to investment performance and changes in interest rates, to achieve funding levels required by the Company s defined benefit plan

arrangements or when the Company believes it is financially advantageous to do so and based on its other capital requirements.

Employer contributions to the Company s defined contribution retirement program for its salaried employees, determined as a percentage of each covered employee s eligible compensation, for the six months ended July 3, 2010, were $3.8 million. The Company expects total contributions of approximately $10 million to this program in 2010.

New Legislation

In March 2010, the Patient Protection and Affordable Care Act and the Health Care Education and Affordability Reconciliation Act (the Acts) were signed into law. The Acts contain provisions which could impact the Company s accounting for retiree medical benefits in future periods. The Company has completed an initial assessment of the Acts, and based on the analysis to date, the

LEAR CORPORATION AND SUBSIDIARIES
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provisions of the Acts which are reasonably determinable are not expected to have a material impact on the Company s other postretirement benefit plans. Accordingly, a remeasurement of the Company s postretirement benefit obligation is not required at this time. The Company will continue to assess the provisions of the Acts and may consider plan amendments in future periods to respond to the provisions of the Acts.

(8) Cost of Sales and Selling, General and Administrative Expenses

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

(9) Other (Income) Expense, Net

Other (income) expense, net includes non-income related taxes, foreign exchange gains and losses, discounts and expenses associated with the Company s factoring facilities, gains and losses related to certain derivative instruments and hedging activities, equity in net income of affiliates, gains and losses on the sales of assets and other miscellaneous income and expense. A summary of other (income) expense, net is shown below (in millions):

	Three Months Ended		Six Months Ended	
	Successor July 3, 2010	Predecessor July 4, 2009	Successor July 3, 2010	Predecessor July 4, 2009
Other expense	$ 4.0	$ 36.0	$ 20.5	$ 62.9
Other income	(26.5)	(30.3)	(22.0)	(44.4)
Other (income) expense, net	$ (22.5)	$ 5.7	$ (1.5)	$ 18.5

For the six months ended July 3, 2010, other expense includes a loss on the extinguishment of debt of $11.8 million, resulting from the write-off of unamortized debt issuance costs in the first quarter of 2010. For the three and six months ended July 3, 2010, other income includes equity in net income of affiliates of $17.0 million and $17.8 million, respectively. Other income also includes foreign exchange gains of $5.5 million and a gain of $1.8 million related to a transaction with an affiliate for the three months ended July 3, 2010.

For the three and six months ended July 4, 2009, other expense includes equity in net loss of affiliates of $31.2 million and $50.4 million, respectively, including an impairment charge of $26.6 million (Note 4, Long-Term Assets). For the three and six months ended July 4, 2009, other income includes foreign exchange gains of $25.4 million and $36.4 million, respectively.

(10) Income Taxes

The provision for income taxes was $17.3 million for the second quarter of 2010, representing an effective tax rate of 9.5% on pretax income of $182.6 million, as compared to $14.0 million for the second quarter of 2009, representing an effective tax rate of negative 9.1% on a pretax loss of $154.4 million. The provision for income taxes was $23.7 million for the six months ended July 3, 2010, representing an effective tax rate of 9.0% on pretax income of $262.8 million, as compared to $19.7 million for the six months ended July 4, 2009, representing an effective tax rate of negative 4.8% on a pretax loss of $411.5 million.

In the first half of 2010, the provision for income taxes was impacted by the mix of earnings among tax jurisdictions, as well as a portion of the Company s restructuring charges and other expenses, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. Additionally, the provision was impacted by tax benefits of $32.8 million, including interest and penalties, related to reductions in recorded tax reserves. In the first half of 2009, the provision

for income taxes primarily relates to profitable foreign operations, as well as withholding taxes on royalties and dividends paid by the Company s foreign subsidiaries. In addition, the Company incurred losses in several countries that provided no tax benefits due to valuation allowances on its deferred tax assets in those countries. The provision was also impacted by a portion of the Company s restructuring charges, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. Additionally, the provision was impacted by tax benefits of $18.0 million, including interest, related to reductions in recorded tax reserves and tax expense of $9.9 million related to the establishment of valuation allowances in certain foreign subsidiaries. Excluding these items, the effective tax rate in the first half of 2010 and 2009 approximated the U.S. federal statutory

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income tax rate of 35% adjusted for income taxes on foreign earnings, losses and remittances, foreign and U.S. valuation allowances, tax credits, income tax incentives and other permanent items.

Further, the Company s current and future provision for income taxes is significantly impacted by the initial recognition of and changes in valuation allowances in certain countries, particularly the United States. The Company intends to maintain these allowances until it is more likely than not that the deferred tax assets will be realized. The Company s future income taxes will include no tax benefit with respect to losses incurred and no tax expense with respect to income generated in these countries until the respective valuation allowances are eliminated. Accordingly, income taxes are impacted by the U.S. and foreign valuation allowances and the mix of earnings among jurisdictions.

In connection with the Company s emergence from Chapter 11 bankruptcy proceedings, the Company was able to retain its U.S. net operating loss, capital loss and tax credit carryforwards (collectively, the Tax Attributes). However, Internal Revenue Code (IRC) Sections 382 and 383 provide an annual limitation with respect to the ability of a corporation to utilize its Tax Attributes, as well as certain built-in-losses, against future U.S. taxable income in the event of a change in ownership. The Company s emergence from Chapter 11 bankruptcy proceedings is considered a change in ownership for purposes of IRC Section 382. The limitation under the IRC is based on the value of the corporation as of the emergence date. As a result, the Company s future U.S. taxable income may not be fully offset by the Tax Attributes if such income exceeds its annual limitation, and the Company may incur a tax liability with respect to such income. In addition, subsequent changes in ownership for purposes of the IRC could further diminish the value of the Company s Tax Attributes.

The Company operates in multiple jurisdictions throughout the world, and its tax returns are periodically audited or subject to review by both domestic and foreign tax authorities. As a result of the conclusion of current examinations and the expiration of the statute of limitations in several jurisdictions, the Company decreased the amount of its gross unrecognized tax benefits, excluding interest and penalties, by $10.3 million and $21.8 million, all of which impacted the effective tax rate in the three and six months ended July 3, 2010, respectively. During the next twelve months, it is reasonably possible that, as a result of audit settlements, the conclusion of current examinations and the expiration of the statute of limitations in several jurisdictions, the Company may decrease the amount of its gross unrecognized tax benefits, excluding interest and penalties, by approximately $3.1 million, all of which, if recognized, would impact its effective tax rate. The gross unrecognized tax benefits subject to potential decrease involve issues related to transfer pricing, tax credits and various other tax items in several jurisdictions. However, as a result of ongoing examinations, tax proceedings in certain countries, additions to the gross unrecognized tax benefits for positions taken and interest and penalties, if any, arising in the future, it is not possible to estimate the potential net increase or decrease to the Company s gross unrecognized tax benefits during the next twelve months.

New Legislation

The Patient Protection and Affordable Care Act and the Health Care Education and Affordability Reconciliation Act described above in Note 7, Pension and Other Postretirement Benefit Plans, will reduce the tax deduction available to the Company to the extent of any Medicare Part D subsidy received. Although the Acts do not take effect until 2012, the Company is required to recognize the tax impact in the financial statements in the period in which the Acts were signed. Due to the full valuation allowance recorded against deferred tax assets in the United States, the Acts will not impact the Company s 2010 effective tax rate.

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(11) Net Income (Loss) Per Share Attributable to Lear

Basic net income (loss) per share attributable to Lear was computed using the two-class method by dividing net income (loss) attributable to Lear, after deducting undistributed earnings allocated to participating securities, by the average number of common shares outstanding during the period. Common shares issuable upon the satisfaction of certain conditions pursuant to a contractual agreement, such as those common shares contemplated as part of the Company s emergence from Chapter 11 bankruptcy proceedings, are considered common shares outstanding and are included in the computation of basic net income (loss) per share attributable to Lear. The Company s preferred shares outstanding are considered participating securities. In the three and six months ended July 3, 2010, average participating securities outstanding were 4,028,708 and 5,525,554, respectively. A summary of information used to compute basic net income (loss) per share attributable to Lear is shown below:

	Three Months Ended		Six Months Ended	
	Successor July 3, 2010	Predecessor July 4, 2009	Successor July 3, 2010	Predecessor July 4, 2009
Net income (loss) attributable to Lear	$ 159.8	$ (173.6)	$ 225.9	$ (438.4)
Less: Undistributed earnings allocated to participating securities	(12.8)		(25.1)	
Net income (loss) available to Lear common shareholders	$ 147.0	$ (173.6)	$ 200.8	$ (438.4)
Average common shares outstanding	46,466,393	77,519,841	44,151,154	77,484,521
Basic net income (loss) per share attributable to Lear	$ 3.16	$ (2.24)	$ 4.55	$ (5.66)

Diluted net income (loss) per share attributable to Lear was computed using the treasury stock method by dividing net income (loss) attributable to Lear by the average number of common shares outstanding, including the dilutive effect of common stock equivalents using the average share price during the period. A summary of information used to compute diluted net income (loss) per share attributable to Lear is shown below:

	Three Months Ended		Six Months Ended	
	Successor July 3, 2010	Predecessor July 4, 2009	Successor July 3, 2010	Predecessor July 4, 2009
Net income (loss) attributable to Lear	$ 159.8	$ (173.6)	$ 225.9	$ (438.4)
Average common shares outstanding	46,466,393	77,519,841	44,151,154	77,484,521
Dilutive effect of common stock equivalents	7,581,123		9,870,414	
Average diluted shares outstanding	54,047,516	77,519,841	54,021,568	77,484,521

Diluted net income (loss) per share attributable to Lear	$	2.96	$	(2.24)	$	4.18	$	(5.66)

Participating securities are convertible into common stock on a one to one basis and participate ratably with common stock on dividends. Accordingly, diluted net income (loss) per share attributable to Lear computed using the two-class method produced the same result.

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The effect of certain common stock equivalents, including options, restricted stock units, performance units and stock appreciation rights, were excluded from the computation of weighted average diluted shares outstanding for the three and six months ended July 4, 2009, as inclusion would have resulted in antidilution. In addition, shares issuable upon conversion of the Company s outstanding zero-coupon convertible debt were excluded from the computation of weighted average diluted shares outstanding for the three and six months ended July 4, 2009, as inclusion would have resulted in antidilution. A summary of these options and their exercise prices, as well as these restricted stock units, performance units and stock appreciation rights, is shown below:

	Predecessor	
	Three Months Ended July 4, 2009	Six Months Ended July 4, 2009
Options		
Antidilutive options	1,064,225	1,064,225
Exercise price	$22.12 $55.33	$22.12 $55.33
Restricted stock units	887,945	887,945
Performance units	84,709	84,709
Stock appreciation rights	2,261,363	2,261,363

(12) Comprehensive Income (Loss) and Equity (Deficit)

Comprehensive income (loss) is defined as all changes in the Company s net assets except changes resulting from transactions with stockholders. It differs from net income (loss) in that certain items recorded in equity (deficit) are included in comprehensive income (loss).

A summary of comprehensive income and reconciliations of equity, Lear Corporation stockholders equity and noncontrolling interests for the three and six months ended July 3, 2010, are shown below (in millions):

	Successor					
	Three Months Ended July 3, 2010			Six Months Ended July 3, 2010		
	Equity	Attributable to Lear Corporation Stockholders	Non-controlling Interests	Equity	Attributable to Lear Corporation Stockholders	Non-controlling Interests
Beginning equity balance	$ 2,241.3	$ 2,134.7	$ 106.6	$ 2,181.8	$ 2,089.1	$ 92.7
Stock-based compensation transactions	4.3	4.3		9.1	9.1	
Dividends paid to noncontrolling interests	(4.6)		(4.6)	(4.6)		(4.6)
Transactions with affiliates				6.5		6.5
Comprehensive income:						
Net income	165.3	159.8	5.5	239.1	225.9	13.2
Other comprehensive income (loss), net of						

tax:						
Defined benefit plan adjustments	(0.3)	(0.3)		(0.2)	(0.2)	
Derivative instruments and hedging activities	(14.1)	(14.1)		0.2	0.2	
Foreign currency translation adjustments	(69.4)	(69.9)	0.5	(109.4)	(109.6)	0.2
Other comprehensive income (loss)	(83.8)	(84.3)	0.5	(109.4)	(109.6)	0.2
Comprehensive income	81.5	75.5	6.0	129.7	116.3	13.4
Ending equity balance	$ 2,322.5	$ 2,214.5	$ 108.0	$ 2,322.5	$ 2,214.5	$ 108.0

In the three and six months ended July 3, 2010, foreign currency translation adjustments relate primarily to the Euro.

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(Continued)

A summary of comprehensive income (loss) and reconciliations of equity (deficit), Lear Corporation stockholders equity (deficit) and noncontrolling interests for the three and six months ended July 4, 2009, is shown below (in millions):

	Predecessor					
	Three Months Ended July 4, 2009			Six Months Ended July 4, 2009		
	Deficit	Attributable to Lear Corporation Stockholders	Non-controlling Interests	Equity (Deficit)	Attributable to Lear Corporation Stockholders	Non-controlling Interests
Beginning equity (deficit) balance	$ (41.4)	$ (89.4)	$ 48.0	$ 247.7	$ 198.9	$ 48.8
Stock-based compensation transactions	1.6	1.6		4.5	4.5	
Dividends paid to noncontrolling interests	(12.2)		(12.2)	(15.4)		(15.4)
Comprehensive income (loss):						
Net income (loss)	(168.4)	(173.6)	5.2	(431.2)	(438.4)	7.2
Other comprehensive income, net of tax:						
Defined benefit plan adjustments	2.9	2.9		10.3	10.3	
Derivative instruments and hedging activities	22.3	22.3		24.5	24.5	
Foreign currency translation adjustments	25.3	25.0	0.3	(10.3)	(11.0)	0.7
Other comprehensive income	50.5	50.2	0.3	24.5	23.8	0.7
Comprehensive income (loss)	(117.9)	(123.4)	5.5	(406.7)	(414.6)	7.9
Ending equity (deficit) balance	$ (169.9)	$ (211.2)	$ 41.3	$ (169.9)	$ (211.2)	$ 41.3

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

The Company incurs pre-production engineering and development (E&D) and tooling costs related to the products produced for its customers under long-term supply agreements. The Company expenses all pre-production E&D costs for which reimbursement is not contractually guaranteed by the customer. In addition, the Company expenses all pre-production tooling costs related to customer-owned tools for which reimbursement is not contractually guaranteed by the customer or for which the customer has not provided a non-cancelable right to use the tooling. During the first six months of 2010 and 2009, the Company capitalized $63.2 million and $64.1 million, respectively, of pre-production E&D costs for which reimbursement is contractually guaranteed by the customer. In addition, during the first six months of 2010 and 2009, the Company capitalized $67.6 million and $59.6 million, respectively, of

pre-production tooling costs related to customer-owned tools for which reimbursement is contractually guaranteed by the customer or for which the customer has provided a non-cancelable right to use the tooling. These amounts are included in other current and long-term assets in the accompanying condensed consolidated balance sheets. During the six months ended July 3, 2010 and July 4, 2009, the Company collected $126.1 million and $115.5 million, respectively, of cash related to E&D and tooling costs.

The classification of recoverable customer engineering, development and tooling costs related to long-term supply agreements is shown below (in millions):

	July 3, 2010	December 31, 2009
Current	$ 54.6	$ 38.5
Long-term	63.5	76.8
Recoverable customer engineering, development and tooling	$ 118.1	$ 115.3

(14) Legal and Other Contingencies

As of July 3, 2010 and December 31, 2009, the Company had recorded reserves for pending legal disputes, including commercial disputes and other matters, of $18.0 million and $18.8 million, respectively. Such reserves reflect amounts recognized in accordance with GAAP and typically exclude the cost of legal representation. Product liability and warranty reserves are recorded separately from legal liabilities, as described below.

Commercial Disputes

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

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On January 26, 2004, the Company filed a patent infringement lawsuit against Johnson Controls Inc. and Johnson Controls Interiors LLC (together, the JCI Parties) in the U.S. District Court for the Eastern District of Michigan alleging that the JCI Parties garage door opener products infringed certain of the Company s radio frequency transmitter patents (which complaint was dismissed and subsequently re-filed by the Company in September 2004). The Company is seeking a declaration that the JCI Parties infringe its patents and an order enjoining the JCI Parties from further infringing those patents by making, selling or offering to sell their garage door opener products, as well as an award of compensatory damages, attorney fees and costs. The JCI Parties counterclaimed seeking a declaration that the subject patents are invalid and unenforceable and that the JCI Parties are not infringing these patents, as well as an award of attorney fees and costs. The JCI Parties have also filed motions for summary judgment asserting that their garage door opener products do not infringe the Company s patents and that one of the Company s patents is invalid and unenforceable. In November 2007, the court issued an opinion and order granting, in part, and denying, in part, the JCI Parties motion for summary judgment on one of the Company s patents and denying the JCI Parties motion to hold the patent unenforceable. The court s opinion did not address the other two patents involved in this matter. On March 11, 2010, the court issued an opinion and order granting the JCI Parties motion for summary judgment on two of the three patents-in-suit, U.S. Patent No. Re 36,181 and U.S. Patent No. Re 36,752. This order leaves for trial by jury the issue of whether the JCI Parties infringed the third patent-in-suit, U.S. Patent No. 5,731,756. A final pre-trial conference date has been scheduled for September 2010.

On June 13, 2005, The Chamberlain Group (Chamberlain) filed a lawsuit against the Company and Ford Motor Company (Ford) in the U.S. District Court for the Northern District of Illinois alleging patent infringement (from which Ford was subsequently dismissed) (the Chamberlain Matter). Two counts were asserted against the Company based upon two Chamberlain rolling-code garage door opener system patents (Patent Nos. 6,154,544 and 6,810,123). The Company denies that it has infringed these patents and further contends that these patents are invalid and/or unenforceable. The Chamberlain lawsuit was filed in connection with the marketing of the Company s universal garage door opener system, which competes with a product offered by Johnson Controls Interiors LLC (JCI). JCI obtained technology from Chamberlain to operate its product. In October 2005, Chamberlain filed an amended complaint and joined JCI as a plaintiff. The Company filed an answer and counterclaim seeking a declaration that the patents were not infringed and were invalid, as well as an award of attorney fees and costs. Chamberlain and JCI are seeking a declaration that the Company infringes Chamberlain s patents and an order enjoining the Company from making, selling or offering to sell products which, they allege, infringe Chamberlain s patents, as well as an award of compensatory and treble damages and attorney fees and costs. On August 12, 2008, a new patent (Patent No. 7,412,056) was issued to Chamberlain relating to the same technology as the patents disputed in this lawsuit. On August 19, 2008, Chamberlain and JCI filed a second amended complaint against the Company alleging patent infringement with respect to the new patent and seeking the same types of relief. The Company filed an answer and counterclaim seeking a declaration that its products are non-infringing and that the new patent is invalid and unenforceable due to inequitable conduct, as well as an award of attorney fees and costs. On April 16, 2009, the court denied the Company s motions for summary judgment with respect to the three patents and ordered the Company to produce additional discovery related to infringement. On June 19, 2009, the Company moved for a protective order from further discovery requested by Chamberlain and JCI. On June 26, 2009, JCI moved for summary judgment with respect to the 544 and 056 patents, and on July 9, 2009, the court denied these motions without prejudice as a result of the Company s Chapter 11 bankruptcy proceedings.

Since the Company s emergence from Chapter 11 bankruptcy proceedings, the Chamberlain Matter is proceeding to determine liability, and if liability is found, the total amount of the compensable damages relating to the pre-petition period and the post-petition period, if any. Pursuant to the Company s joint plan of reorganization and a stipulation filed with the bankruptcy court among the Company, Chamberlain and JCI, the Company has agreed to reserve common stock and warrants issued under the joint plan of reorganization, sufficient to provide recoveries for an allowed claim of up to $50 million for pre-petition damages. This reserve is not a loss contingency reserve determined

in accordance with GAAP and does not reflect a determination by the Company or the bankruptcy court that Chamberlain or JCI is entitled to any recovery.

Following the Company s emergence from Chapter 11 bankruptcy proceedings, litigation in the Chamberlain Matter resumed, and on March 18, 2010, the Company filed two motions for summary judgment on non-infringement. In response, Chamberlain and JCI filed cross-motions for summary judgment on infringement. The Company has filed its responses to the cross-motions by Chamberlain and JCI. Fact discovery in the Chamberlain Matter closed on June 30, 2010, and expert discovery is scheduled to close on September 3, 2010. The parties then can move for summary judgment on subjects other than non-infringement by September 10, 2010.

On September 12, 2008, a consultant that the Company retained filed an arbitration action against the Company seeking royalties under the parties Joint Development Agreement (JDA) for the Company s sales of its garage door opener products. The Company

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denies that it owes the consultant any royalty payments under the JDA. No dates have been set in this matter, and the Company intends to vigorously defend this matter.

On August 6, 2009, Lear Automotive France (Lear France), a wholly owned subsidiary of the Company, was served with a writ by Proma France before the Orléans Commercial Court. Proma France is a sub-contractor of Lear France in connection with its manufacture of seating parts. Proma France claims that Lear France must indemnify it for damages allegedly arising from Lear France obtaining advantageous pricing without providing Proma France with a written guarantee of purchase volumes. Proma France is seeking damages of 9.6 million ($12.0 million based on exchange rates in effect as of July 3, 2010). Lear France intends to assert defenses against the claims in this matter, including that the issue is covered by a settlement agreement previously entered into by Lear France and Proma France on March 6, 2007. The Company believes that the action by Proma France is without merit and intends to vigorously defend this matter. On July 1, 2010, Lear France filed briefs in response to Proma France s claims. A hearing on the merits has been scheduled for November 2010.

Product Liability and Warranty Matters

In the event that use of the Company s products results in, or is alleged to result in, bodily injury and/or property damage or other losses, the Company may be subject to product liability lawsuits and other claims. Such lawsuits generally seek compensatory damages, punitive damages and attorney fees and costs. In addition, the Company is a party to warranty-sharing and other agreements with certain of its customers related to its products. These customers may pursue claims against the Company for contribution of all or a portion of the amounts sought in connection with product liability and warranty claims. The Company can provide no assurance that it will not experience material claims in the future or that it will not incur significant costs to defend such claims. In addition, if any of the Company s products are, or are alleged to be, defective, the Company may be required or requested by its customers to participate in a recall or other corrective action involving such products. Certain of the Company s customers have asserted claims against the Company for costs related to recalls or other corrective actions involving its products.

In certain instances, allegedly defective products may be supplied by tier II suppliers. The Company may seek recovery from its suppliers of materials or services included within the Company s products that are associated with product liability and warranty claims. The Company carries insurance for certain legal matters, including product liability claims, but such coverage may be limited. The Company does not maintain insurance for product warranty or recall matters. Future dispositions with respect to the Company s product liability claims that were subject to compromise under the Chapter 11 bankruptcy proceedings will be satisfied out of a common stock and warrant reserve established for that purpose.

The Company records product warranty reserves based on its individual customer agreements. Product warranty reserves are recorded for known warranty issues when amounts related to such issues are probable and reasonably estimable.

A summary of the changes in reserves for product liability and warranty claims for the six months ended July 3, 2010, is shown below (in millions):

Balance as of January 1, 2010	$ 26.5
Expense, net	20.5
Settlements	(6.5)
Foreign exchange and other	(3.5)
Balance as of July 3, 2010	$ 37.0

Environmental Matters

The Company is subject to local, state, federal and foreign laws, regulations and ordinances which govern activities or operations that may have adverse environmental effects and which impose liability for clean-up costs resulting from

past spills, disposals or other releases of hazardous wastes and environmental compliance. The Company s policy is to comply with all applicable environmental laws and to maintain an environmental management program based on ISO 14001 to ensure compliance with this standard. However, the Company currently is, has been and in the future may become the subject of formal or informal enforcement actions or procedures.

The Company has been named as a potentially responsible party at several third-party landfill sites and is engaged in the cleanup of hazardous waste at certain sites owned, leased or operated by the Company, including several properties acquired in its 1999 acquisition of UT Automotive, Inc. (UT Automotive). Certain present and former properties of UT Automotive are subject to environmental liabilities which may be significant. The Company obtained agreements and indemnities with respect to certain

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environmental liabilities from United Technologies Corporation (UTC) in connection with its acquisition of UT Automotive. UTC manages and directly funds these environmental liabilities pursuant to its agreements and indemnities with the Company.

As of July 3, 2010 and December 31, 2009, the Company had recorded reserves for environmental matters of $2.6 million. While the Company does not believe that the environmental liabilities associated with its current and former properties will have a material adverse impact on its business, financial position, results of operations or cash flows, no assurance can be given in this regard.

Other Matters

Although the Company records reserves for legal disputes, product liability and warranty claims and environmental and other matters in accordance with GAAP, the ultimate outcomes of these matters are inherently uncertain. Actual results may differ materially from current estimates.

The Company is involved from time to time in various other legal proceedings and claims, including, without limitation, commercial and contractual disputes, intellectual property matters, personal injury claims, tax claims and employment matters. Although the outcome of any legal matter cannot be predicted with certainty, the Company does not believe that any of these other legal proceedings or claims in which the Company is currently involved, either individually or in the aggregate, will have a material adverse impact on its business, financial position, results of operations or cash flows.

(15) Segment Reporting

The Company has two reportable operating segments: seating and electrical power management systems. The seating segment includes seat systems and related components. The electrical power management systems segment includes traditional wiring and power management systems, as well as emerging high-power and hybrid electrical systems. The Other category includes unallocated costs related to corporate headquarters, geographic headquarters and the elimination of intercompany activities, none of which meets the requirements of being classified as an operating segment.

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

	Successor - Three Months Ended July 3, 2010			
	Seating	Electrical Power Management Systems	Other	Consolidated
Revenues from external customers	$2,407.5	$ 631.8	$	$3,039.3
Segment earnings [1]	207.3	23.5	(57.4)	173.4
Depreciation and amortization	35.2	20.3	1.6	57.1
Capital expenditures	24.7	14.9	2.0	41.6
Total assets	3,528.0	1,008.6	1,768.7	6,305.3

	Predecessor - Three Months Ended July 4, 2009			
	Seating	Electrical Power Management Systems	Other	Consolidated

Revenues from external customers	$1,847.3	$ 433.7	$	$2,281.0
Segment earnings [1]	9.1	(45.7)	(49.8)	(86.4)
Depreciation and amortization	42.3	23.0	3.6	68.9
Capital expenditures	14.7	6.5	0.2	21.4
Total assets	3,430.3	1,345.3	1,596.2	6,371.8

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	Successor - Six Months Ended July 3, 2010			
	Seating	Electrical Power Management Systems	Other	Consolidated
Revenues from external customers	$4,721.0	$1,256.8	$	$5,977.8
Segment earnings [1]	356.9	49.1	(112.4)	293.6
Depreciation and amortization	71.4	41.2	3.0	115.6
Capital expenditures	47.0	26.6	2.8	76.4
Total assets	3,528.0	1,008.6	1,768.7	6,305.3

	Predecessor - Six Months Ended July 4, 2009			
	Seating	Electrical Power Management Systems	Other	Consolidated
Revenues from external customers	$3,600.0	$ 849.3	$	$4,449.3
Segment earnings [1]	(66.2)	(113.3)	(94.8)	(274.3)
Depreciation and amortization	80.4	47.0	7.1	134.5
Capital expenditures	25.2	16.6	0.3	42.1
Total assets	3,430.3	1,345.3	1,596.2	6,371.8

[1] See definition above.

For the three months ended July 3, 2010, segment earnings include restructuring charges of $1.7 million, $9.0 million and $0.9 million in the seating and electrical power management systems segments and in the other category, respectively. For the six months ended July 3, 2010, segment earnings include restructuring charges of $8.9 million, $14.2 million and $1.2 million in the seating and electrical power management systems segments and in the other category, respectively. For the three months ended July 4, 2009, segment earnings include restructuring charges of $4.4 million, $10.0 million and $0.2 million in the seating and electrical power management systems segments and in the other category, respectively. For the six months ended July 4, 2009, segment earnings include restructuring charges of $99.1 million, $25.1 million and $1.0 million in the seating and electrical power management systems segments and in the other category, respectively. See Note 2, Restructuring Activities.

A reconciliation of consolidated segment earnings to consolidated income (loss) before provision for income taxes is shown below (in millions):

	Three Months Ended		Six Months Ended	
	Successor July 3, 2010	Predecessor July 4, 2009	Successor July 3, 2010	Predecessor July 4, 2009
Segment earnings	$ 173.4	$ (86.4)	$ 293.6	$ (274.3)
Interest expense	13.3	62.3	32.3	118.7
Other (income) expense, net	(22.5)	5.7	(1.5)	18.5
	$ 182.6	$ (154.4)	$ 262.8	$ (411.5)

Consolidated income (loss) before provision for
income taxes

(16) Financial Instruments

The carrying values of the Company s debt instruments vary from their fair values. The fair values were determined by reference to the quoted market prices of these securities. As of July 3, 2010, the aggregate carrying value of the Company s Notes was $694.6 million, as compared to an estimated aggregate fair value of $703.8 million. As of December 31, 2009, the aggregate carrying value of term loans outstanding of under the first and second lien credit agreements was $925.0 million, as compared to an estimated aggregate fair value of $932.6 million.

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Certain of the Company s Asian subsidiaries periodically factor their accounts receivable with financial institutions. Such receivables are factored without recourse to the Company and are excluded from accounts receivable in the accompanying condensed consolidated balance sheets. There were no factored receivables as of July 3, 2010 and December 31, 2009.

Derivative Instruments and Hedging Activities

Forward foreign exchange, futures and option contracts The Company uses forward foreign exchange, futures and option contracts to reduce the effect of fluctuations in foreign exchange rates on known foreign currency exposures. Gains and losses on the derivative instruments are intended to offset gains and losses on the hedged transaction in an effort to reduce the earnings volatility resulting from fluctuations in foreign exchange rates. The principal currencies hedged by the Company include the Mexican peso and various European currencies. Forward foreign exchange, futures and option contracts are accounted for as cash flow hedges when the hedged item is a forecasted transaction or relates to the variability of cash flows to be received or paid. As of July 3, 2010, contracts designated as cash flow hedges with $193.0 million of notional amount were outstanding with maturities of less than six months. As of July 3, 2010, the fair value of these contracts was approximately ($0.4) million. As of July 3, 2010, other foreign currency derivative contracts that did not qualify for hedge accounting with $6.2 million of notional amount were outstanding. These foreign currency derivative contracts consist principally of cash transactions between three and thirty days, hedges of intercompany loans and hedges of certain other balance sheet exposures. As of July 3, 2010, the fair value of these contracts was ($0.1) million. As of December 31, 2009, there were no foreign exchange contracts outstanding. The fair value of outstanding foreign currency derivative contracts and the related classification in the accompanying condensed consolidated balance sheet as of July 3, 2010, are shown below (in millions):

	Successor July 3, 2010
Contracts qualifying for hedge accounting:	
Other current assets	$ 1.8
Other current liabilities	(2.2)
	(0.4)
Contracts not qualifying for hedge accounting:	
Other current assets	0.1
Other current liabilities	(0.2)
	(0.1)
	$ (0.5)

Pretax amounts related to foreign currency derivative contracts that were recognized in and reclassified from accumulated other comprehensive loss are shown below (in millions):

	Three Months Ended		Six Months Ended	
	Successor July 3, 2010	Predecessor July 4, 2009	Successor July 3, 2010	Predecessor July 4, 2009
Contracts qualifying for hedge accounting:				

Gains (losses) recognized in accumulated other comprehensive loss	$ (12.0)	$ 2.0	$ 4.1	$ (12.2)
(Gains) losses reclassified from accumulated other comprehensive loss	(2.8)	16.1	(4.6)	35.5
Comprehensive income (loss)	$ (14.8)	$ 18.1	$ (0.5)	$ 23.3

Interest rate swap and other derivative contracts Historically, the Company used interest rate swap and other derivative contracts to manage its exposure to fluctuations in interest rates. Interest rate swap and other derivative contracts which fix the interest payments of certain variable rate debt instruments or fix the market rate component of anticipated fixed rate debt instruments were accounted for as cash flow hedges. Interest rate swap contracts which hedge the change in fair value of certain fixed rate debt instruments were accounted for as fair value hedges. As of July 3, 2010, and December 31, 2009, there were no interest rate contracts outstanding. The Company will continue to evaluate, and may use derivative financial instruments, including forwards, futures, options, swaps and other derivative contracts to manage its exposures to fluctuations in interest rates in the future.

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Pretax amounts related to interest rate contracts that were recognized in and reclassified from accumulated other comprehensive loss are shown below (in millions):

	Predecessor	
	Three Months Ended July 4, 2009	Six Months Ended July 4, 2009
Contracts qualifying for hedge accounting:		
Losses recognized in accumulated other comprehensive loss	$ (6.0)	$ (14.2)
Losses reclassified from accumulated other comprehensive loss	5.8	11.9
Comprehensive loss	$ (0.2)	$ (2.3)

Commodity swap contracts Historically, the Company used derivative instruments to reduce its exposure to fluctuations in certain commodity prices. These derivative instruments were utilized to hedge forecasted inventory purchases and to the extent that they qualified and met hedge accounting criteria, they were accounted for as cash flow hedges. Commodity swap contracts that were not designated as cash flow hedges were marked to market with changes in fair value recognized immediately in the condensed consolidated statements of operations. As of July 3, 2010 and December 31, 2009, there were no commodity swap contracts outstanding. The Company will continue to evaluate, and may use derivative financial instruments, including forwards, futures, options, swaps and other derivative contracts to manage its exposures to fluctuations in commodity prices in the future.

Pretax amounts related to commodity swap contracts that were recognized in and reclassified from accumulated other comprehensive loss are shown below (in millions):

	Predecessor	
	Three Months Ended July 4, 2009	Six Months Ended July 4, 2009
Contracts qualifying for hedge accounting:		
Gains recognized in accumulated other comprehensive loss	$	$ 1.8
Losses reclassified from accumulated other comprehensive loss	1.0	2.1
Comprehensive income	$ 1.0	$ 3.9

As of July 3, 2010, net losses of approximately $0.5 million related to the Company s derivative instruments and hedging activities were recorded in accumulated other comprehensive loss. During the three and six months ended July 3, 2010, net gains of approximately $2.8 million and $4.6 million, respectively, related to the Company s hedging activities were reclassified from accumulated other comprehensive loss into earnings. During the three and six months ended July 4, 2009, net losses of approximately $22.9 million and $49.5 million, respectively, related to the Company s hedging activities were reclassified from accumulated other comprehensive loss into earnings. During the twelve month period ending July 2, 2011, the Company expects to reclassify into earnings net losses of approximately $0.5 million recorded in accumulated other comprehensive loss as of July 3, 2010. Such losses will be reclassified at

the time that the underlying hedged transactions are realized. During the three and six months ended July 3, 2010 and July 4, 2009, amounts recognized in the accompanying condensed consolidated statements of operations related to changes in the fair value of cash flow and fair value hedges excluded from the Company s effectiveness assessments and the ineffective portion of changes in the fair value of cash flow and fair value hedges were not material.

Fair Value Measurements

In accordance with GAAP, fair value is an exit price, defined as a market-based measurement that represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value measurements are based on one or more of the following three valuation techniques:

Market: This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

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Income: This approach uses valuation techniques to convert future amounts to a single present value amount based on current market expectations.

Cost: This approach is based on the amount that would be required to replace the service capacity of an asset (replacement cost).

Further, GAAP prioritizes the inputs and assumptions used in the valuation techniques described above into a three-tier fair value hierarchy as follows:

Level 1: Observable inputs, such as quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Inputs, other than quoted market prices included in Level 1, that are observable either directly or indirectly for the asset or liability.

Level 3: Unobservable inputs that reflect the entity s own assumptions about the exit price of the asset or liability. Unobservable inputs may be used if there is little or no market data for the asset or liability at the measurement date.

The Company discloses fair value measurements and the related valuation techniques and fair value hierarchy level for its assets and liabilities that are measured or disclosed at fair value.

Items measured at fair value on a recurring basis Fair value measurements and the related valuation techniques and fair value hierarchy level for the Company s assets and liabilities measured or disclosed at fair value on a recurring basis as of July 3, 2010, are shown below (in millions):

	Frequency	Asset (Liability)	Valuation Technique	Level 1	Level 2	Level 3
Foreign currency derivative contracts	Recurring	$ (0.5)	Market/Income	$	$(0.5)	$

The Company determines the fair value of its derivative contracts using quoted market prices to calculate the forward values and then discounts such forward values to the present value. The discount rates used are based on quoted bank deposit or swap interest rates. If a derivative contract is in a net liability position, these discount rates are adjusted by an estimate of the credit spread that would be applied by market participants purchasing these contracts from the Company s counterparties. To estimate this credit spread, the Company uses significant assumptions and factors other than quoted market rates, which would result in the classification of its derivative liabilities within Level 3 of the fair value hierarchy. As of July 3, 2010, there were no derivative contracts that were classified within Level 3 of the fair value hierarchy. In addition, there were no transfers in and out of Level 3 during the first half of 2010 as there were no derivative contracts outstanding at December 31, 2009.

Items measured at fair value on a non-recurring basis In addition to items that are measured at fair value on a recurring basis, the Company measures certain assets and liabilities at fair value on a non-recurring basis, which are not included in the table above. As these non-recurring fair value measurements are generally determined using unobservable inputs, these fair value measurements are classified within Level 3 of the fair value hierarchy. For further information on assets and liabilities measured at fair value on a non-recurring basis, see Note 2, Restructuring, and Note 4, Long-Term Assets.

(17) Accounting Pronouncements

Financial Instruments and Fair Value Measurements

The FASB amended ASC 860, Transfers and Servicing, with Accounting Standards Update (ASU) 2009-16, Accounting for Transfers of Financial Assets, to, among other things, eliminate the concept of qualifying special purpose entities, provide additional sale accounting requirements and require enhanced disclosures. The provisions of this update are effective for annual reporting periods beginning after November 15, 2009. The effects of adoption

were not significant because the Company s previous asset-backed securitization facility expired in 2008. The Company will assess the impact of this update on any future securitizations.

The FASB amended ASC 820, Fair Value Measurements and Disclosures, with ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, to require additional disclosures regarding fair

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value measurements, including the amount and reasons for transfers between levels within the fair value hierarchy and more detailed information regarding the inputs and valuation techniques used in determining the fair value of assets and liabilities classified as Level 2 or Level 3 within the fair value hierarchy. In addition, this update clarifies previous guidance related to the level at which fair value disclosures should be disaggregated. With the exception of additional disclosures related to activity within Level 3 of the fair value hierarchy, which are effective for fiscal years beginning after December 15, 2010, the provisions of this update are effective as of January 1, 2010. The effects of adoption were not significant. For further information, see Note 16, Financial Instruments.

Consolidation of Variable Interest Entities

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

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(18) Supplemental Guarantor Condensed Consolidating Financial Statements

	Successor July 3, 2010				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 764.3	$ 0.5	$ 655.5	$	$ 1,420.3
Accounts receivable	31.3	283.0	1,573.8		1,888.1
Inventories	7.6	178.2	324.2		510.0
Other	43.2	11.8	281.8		336.8
Total current assets	846.4	473.5	2,835.3		4,155.2
LONG-TERM ASSETS:					
Property, plant and equipment, net	94.7	155.1	707.8		957.6
Goodwill	23.5	303.9	270.1		597.5
Investments in subsidiaries	893.1	839.5		(1,732.6)	
Other	148.5	34.3	412.2		595.0
Total long-term assets	1,159.8	1,332.8	1,390.1	(1,732.6)	2,150.1
	$ 2,006.2	$ 1,806.3	$ 4,225.4	$ (1,732.6)	$ 6,305.3
LIABILITIES AND EQUITY					
CURRENT LIABILITIES:					
Short-term borrowings	$	$	$ 23.4	$	$ 23.4
Accounts payable and drafts	58.3	407.7	1,333.0		1,799.0
Accrued liabilities	125.2	171.7	676.0		972.9
Current portion of long-term debt			2.0		2.0
Total current liabilities	183.5	579.4	2,034.4		2,797.3
LONG-TERM LIABILITIES:					
Long-term debt	694.6		0.7		695.3
Intercompany accounts, net	(1,200.1)	159.8	1,040.3		
Other	113.7	85.7	290.8		490.2
Total long-term liabilities	(391.8)	245.5	1,331.8		1,185.5
EQUITY:					
Lear Corporation stockholders equity	2,214.5	981.4	751.2	(1,732.6)	2,214.5
Noncontrolling interests			108.0		108.0

Equity	2,214.5	981.4	859.2	(1,732.6)	2,322.5
	$ 2,006.2	$ 1,806.3	$ 4,225.4	$ (1,732.6)	$ 6,305.3

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

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

	Successor December 31, 2009				
	Lear	Guarantors	Non-guarantors	Eliminations	Consolidated
			(In millions)		
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 584.9	$ 0.1	$ 969.0	$	$ 1,554.0
Accounts receivable	23.5	206.0	1,250.4		1,479.9
Inventories	4.0	166.0	277.4		447.4
Other	25.9	15.0	264.8		305.7
Total current assets	638.3	387.1	2,761.6		3,787.0
LONG-TERM ASSETS:					
Property, plant and equipment, net	97.0	160.1	793.8		1,050.9
Goodwill	23.5	303.9	294.0		621.4
Investments in subsidiaries	1,057.0	1,109.2		(2,166.2)	
Other	160.5	32.0	421.5		614.0
Total long-term assets	1,338.0	1,605.2	1,509.3	(2,166.2)	2,286.3
	$ 1,976.3	$ 1,992.3	$ 4,270.9	$ (2,166.2)	$ 6,073.3
LIABILITIES AND EQUITY					
CURRENT LIABILITIES:					
Short-term borrowings	$	$	$ 37.1	$	$ 37.1
Accounts payable and drafts	37.3	335.1	1,175.1		1,547.5
Accrued liabilities	97.6	100.4	610.1		808.1
Current portion of long-term debt	3.8		4.3		8.1
Total current liabilities	138.7	435.5	1,826.6		2,400.8
LONG-TERM LIABILITIES:					
Long-term debt	921.2		5.9		927.1
Intercompany accounts, net	(1,291.9)	67.9	1,224.0		
Other	119.2	92.2	352.2		563.6
Total long-term liabilities	(251.5)	160.1	1,582.1		1,490.7
EQUITY:					
Lear Corporation stockholders equity	2,089.1	1,396.7	769.5	(2,166.2)	2,089.1
Noncontrolling interests			92.7		92.7

Equity	2,089.1	1,396.7	862.2	(2,166.2)	2,181.8
	$ 1,976.3	$ 1,992.3	$ 4,270.9	$ (2,166.2)	$ 6,073.3

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

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

	Successor For the Three Months Ended July 3, 2010				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net sales	$ 61.4	$ 1,120.1	$ 2,755.3	$ (897.5)	$ 3,039.3
Cost of sales	88.4	1,002.4	2,553.2	(897.5)	2,746.5
Selling, general and administrative expenses	38.0	18.3	56.5		112.8
Amortization of intangible assets	0.3	0.1	6.2		6.6
Intercompany charges	0.5	(2.5)	2.0		
Interest (income) expense	(13.6)	19.7	7.2		13.3
Other intercompany (income) expense, net	(46.1)	10.6	35.5		
Other income, net	(2.1)	(5.1)	(15.3)		(22.5)
Consolidated income (loss) before income taxes and equity in net income of subsidiaries	(4.0)	76.6	110.0		182.6
Provision for income taxes	3.7		13.6		17.3
Equity in net income of subsidiaries	(167.5)	(24.3)		191.8	
Consolidated net income	159.8	100.9	96.4	(191.8)	165.3
Less: Net income attributable to noncontrolling interests			5.5		5.5
Net income attributable to Lear	$ 159.8	$ 100.9	$ 90.9	$ (191.8)	$ 159.8

	Predecessor For the Three Months Ended July 4, 2009				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net sales	$ 39.7	$ 571.3	$ 2,212.8	$ (542.8)	$ 2,281.0
Cost of sales	59.4	570.1	2,158.4	(542.8)	2,245.1
Selling, general and administrative expenses	39.4	14.7	67.0		121.1
Amortization of intangible assets			1.2		1.2
Intercompany charges	0.8	(2.5)	1.7		
Interest (income) expense	51.9	(2.5)	12.9		62.3
	(100.9)	31.6	69.3		

Other intercompany (income) expense, net					
Other (income) expense, net	5.6	0.3	(0.2)		5.7
Consolidated loss before income taxes and equity in net loss of subsidiaries	(16.5)	(40.4)	(97.5)		(154.4)
Provision for income taxes		(9.6)	23.6		14.0
Equity in net loss of subsidiaries	157.1	41.9		(199.0)	
Consolidated net loss	(173.6)	(72.7)	(121.1)	199.0	(168.4)
Less: Net income attributable to noncontrolling interests			5.2		5.2
Net loss attributable to Lear	$ (173.6)	$ (72.7)	$ (126.3)	$ 199.0	$ (173.6)

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

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

	Successor For the Six Months Ended July 3, 2010				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net sales	$ 118.6	$ 2,190.1	$ 5,418.2	$ (1,749.1)	$ 5,977.8
Cost of sales	159.9	1,977.9	5,041.5	(1,749.1)	5,430.2
Selling, general and administrative expenses	84.6	36.5	119.6		240.7
Amortization of intangible assets	0.6	0.2	12.5		13.3
Intercompany charges	2.4	(6.2)	3.8		
Interest (income) expense	(7.1)	23.7	15.7		32.3
Other intercompany (income) expense, net	(74.4)	20.7	53.7		
Other (income) expense, net	17.5	(4.8)	(14.2)		(1.5)
Consolidated income (loss) before income taxes and equity in net income of subsidiaries	(64.9)	142.1	185.6		262.8
Provision for income taxes	5.0		18.7		23.7
Equity in net income of subsidiaries	(295.8)	(88.3)		384.1	
Consolidated net income	225.9	230.4	166.9	(384.1)	239.1
Less: Net income attributable to noncontrolling interests			13.2		13.2
Net income attributable to Lear	$ 225.9	$ 230.4	$ 153.7	$ (384.1)	$ 225.9

	Predecessor For the Six Months Ended July 4, 2009				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net sales	$ 97.2	$ 1,241.3	$ 4,196.9	$ (1,086.1)	$ 4,449.3
Cost of sales	118.5	1,235.9	4,219.8	(1,086.1)	4,488.1
Selling, general and administrative expenses	78.3	30.5	124.4		233.2
Amortization of intangible assets		0.1	2.2		2.3
Intercompany charges	3.9	(8.7)	4.8		
Interest expense	90.8	6.0	21.9		118.7
	(28.1)	68.5	(40.4)		

Other intercompany (income) expense, net					
Other (income) expense, net	(5.2)	1.7	22.0		18.5
Consolidated loss before income taxes and equity in net loss of subsidiaries	(161.0)	(92.7)	(157.8)		(411.5)
Provision (benefit) for income taxes		(9.6)	29.3		19.7
Equity in net loss of subsidiaries	277.4	111.8		(389.2)	
Consolidated net loss	(438.4)	(194.9)	(187.1)	389.2	(431.2)
Less: Net income attributable to noncontrolling interests			7.2		7.2
Net loss attributable to Lear	$ (438.4)	$ (194.9)	$ (194.3)	$ 389.2	$ (438.4)

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

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

	Successor For the Six Months Ended July 3, 2010				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net cash provided by (used in) operating activities	$ (15.4)	$ 215.1	$ 66.3	$	$ 266.0
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(5.2)	(19.6)	(51.6)		(76.4)
Other, net	0.2	2.1	0.3		2.6
Net cash used in investing activities	(5.0)	(17.5)	(51.3)		(73.8)
Cash Flows from Financing Activities:					
Proceeds from the issuance of senior notes	694.5				694.5
First lien credit agreement repayments	(375.0)				(375.0)
Second lien credit agreement repayments	(550.0)				(550.0)
Other long-term debt repayments, net			(6.1)		(6.1)
Short-term debt repayments, net			(13.9)		(13.9)
Payment of debt issuance costs	(17.6)				(17.6)
Dividends paid to noncontrolling interests			(4.6)		(4.6)
Increase in drafts	0.4		0.7		1.1
Change in intercompany accounts	438.9	(196.7)	(242.2)		
Net cash provided by (used in) financing activities	191.2	(196.7)	(266.1)		(271.6)
Effect of foreign currency translation	8.8		(63.1)		(54.3)
Net Change in Cash and Cash Equivalents	179.6	0.9	(314.2)		(133.7)
Cash and Cash Equivalents as of Beginning of Period	584.9	0.1	969.0		1,554.0
Cash and Cash Equivalents as of End of Period	$ 764.5	$ 1.0	$ 654.8	$	$ 1,420.3

	Predecessor For the Six Months Ended July 4, 2009				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net cash provided by (used in) operating activities	$ (200.0)	$ (266.5)	$ 70.0	$	$ (396.5)
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(0.8)	(5.7)	(35.6)		(42.1)
Other, net	2.1	6.0	1.1		9.2
Net cash provided by (used in) investing activities	1.3	0.3	(34.5)		(32.9)
Cash Flows from Financing Activities:					
Other long-term debt repayments, net			(2.6)		(2.6)
Short-term debt repayments, net			(9.0)		(9.0)
Payment of debt issuance costs	(21.2)				(21.2)
Dividends paid to noncontrolling interests			(15.4)		(15.4)
Decrease in drafts	(0.1)	(0.1)	(0.1)		(0.3)
Change in intercompany accounts	(969.6)	266.2	703.4		
Net cash provided by (used in) financing activities	(990.9)	266.1	676.3		(48.5)
Effect of foreign currency translation			19.3		19.3
Net Change in Cash and Cash Equivalents	(1,189.6)	(0.1)	731.1		(458.6)
Cash and Cash Equivalents as of Beginning of Period	1,310.6	0.6	280.9		1,592.1
Cash and Cash Equivalents as of End of Period	$ 121.0	$ 0.5	$ 1,012.0	$	$ 1,133.5

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

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

Basis of Presentation Certain of Lear s domestic 100% owned subsidiaries (the Guarantors) have jointly and severally unconditionally guaranteed, on a senior unsecured basis, the performance and the full and punctual payment when due, whether at stated maturity, by acceleration or otherwise, of the Company s obligations under the Revolving Credit Facility and the indenture governing the Notes, including the Company s obligations to pay principal, premium, if any, and interest with respect to the Notes. The senior notes consist of $350 million in aggregate principal amount of 7.875% senior notes due 2018 and $350 million in aggregate principal amount of 8.125% senior notes due 2020. The Guarantors include Lear #50 Holdings, LLC, Lear Argentine Holdings Corporation #2, Lear Automotive Dearborn, Inc., Lear Automotive Manufacturing, LLC, Lear Corporation (Germany) Ltd., Lear Corporation EEDS and Interiors, Lear Corporation Global Development, Inc., Lear EEDS Holdings, LLC, Lear European Operations Corporation, Lear Holdings, LLC, Lear Investments Company, L.L.C., Lear Mexican Holdings Corporation, Lear Mexican Holdings, L.L.C., Lear Mexican Seating Corporation, Lear Operations Corporation, Lear Seating Holdings Corp. #50, Lear South American Holdings Corporation, Lear Trim L.P. and Renosol Seating, LLC. In lieu of providing separate financial statements for the Guarantors, the Company has included the supplemental guarantor condensed consolidating financial statements above. These financial statements reflect the Guarantors listed above for all periods presented. Management does not believe that separate financial statements of the Guarantors are material to investors. Therefore, separate financial statements and other disclosures concerning the Guarantors are not presented.

As of December 31, 2009, the supplemental guarantor condensed consolidating financial statements have been restated to reflect certain changes to the equity investments of the Guarantors.

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

Selling, General and Administrative Expenses Corporate and division selling, general and administrative expenses are allocated to the operating subsidiaries based on various factors, which estimate usage of particular corporate and division functions, and in certain instances, other relevant factors, such as the revenues or the number of employees of the Company s subsidiaries. During the three months ended July 3, 2010 and July 4, 2009, $3.9 million and ($4.7) million, respectively, of corporate selling, general and administrative expenses were allocated (to) from Lear. During the six months ended July 3, 2010 and July 4, 2009, $3.3 million and ($4.0) million, respectively, of corporate selling, general and administrative expenses were allocated (to) from Lear.

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

	July 3, 2010	December 31, 2009
Senior notes	$ 694.6	$
First lien credit agreement term loan		375.0
Second lien credit agreement term loan		550.0
	694.6	925.0
Less current portion		(3.8)
	$ 694.6	$ 921.2

LEAR CORPORATION

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

EXECUTIVE OVERVIEW

We were incorporated in Delaware in 1987 and are one of the world s largest automotive suppliers based on net sales. We supply our products to every major automotive manufacturer in the world.

We supply automotive manufacturers with complete automotive seat systems and electrical power management systems. Our strategy is to leverage our global presence and expand our low-cost footprint, focus on our core capabilities, effect selective vertical integration and investments in product development and enhance and diversify our strong customer relationships through operational excellence.

Industry Overview

Demand for our products is directly related to the automotive vehicle production of our major customers. Automotive sales and production can be affected by general economic or industry conditions, labor relations issues, fuel prices, regulatory requirements, government initiatives, trade agreements, availability and cost of credit and other factors. Our operating results are also significantly impacted by the overall commercial success of the vehicle platforms for which we supply particular products, as well as our relative profitability on these platforms. In addition, it is possible that customers could elect to manufacture components internally that are currently produced by external suppliers, such as us. The loss of business with respect to any vehicle model for which we are a significant supplier, or a decrease in the production levels of any such models, could have a material adverse impact on our operating results. In addition, larger cars and light trucks, as well as vehicle platforms that offer more features and functionality, such as luxury, sport utility and crossover vehicles, typically have more content and, therefore, tend to have a more significant impact on our operating results.

The global automotive industry is characterized by significant overcapacity and fierce competition among automotive manufacturers. We expect these challenging industry conditions to continue in the foreseeable future. The automotive industry in 2009 was severely affected by the turmoil in the global credit markets and the economic recession in the U.S. and global economies. These conditions had a dramatic impact on consumer vehicle demand in 2009, resulting in the lowest per capita sales rates in the United States in half a century and lower global automotive production for the second consecutive year following six consecutive years of steady growth. The first half of 2010 saw a significant improvement in industry production volumes globally. North American light vehicle industry production increased by approximately 73% from a year ago levels to 6.0 million units. European light vehicle industry production increased by approximately 22% from a year ago levels to 9.0 million units.

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

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

Our material cost as a percentage of net sales was 68.0% in the first half of 2010, as compared to 69.0% in 2009 and 69.3% in 2008. Raw material, energy and commodity costs have been extremely volatile over the past several years. Unfavorable industry conditions have also resulted in financial distress within our supply base and an increase in the risk of supply disruption. We have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, which include cost reduction actions, such as the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments and the selective expansion of low-cost country sourcing and engineering, as well as value engineering and product benchmarking.

However, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. These costs remain volatile and could have an adverse impact on our operating results in the foreseeable future. See Forward-Looking Statements and Item 1A, Risk Factors High raw material costs could continue to have an adverse impact on our profitability, in our Annual Report on Form 10-K for the year ended December 31, 2009.

LEAR CORPORATION

Financial Measures

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

Our success in generating cash flow will depend, in part, on our ability to manage working capital efficiently. Working capital can be significantly impacted by the timing of cash flows from sales and purchases. Historically, we have generally been successful in aligning our vendor payment terms with our customer payment terms. However, our ability to continue to do so may be adversely impacted by the unfavorable financial results of our suppliers and adverse automotive industry conditions, as well as our financial results. In addition, our cash flow is impacted by our ability to manage our inventory and capital spending efficiently. 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 2005, we initiated a three-year restructuring strategy to (i) eliminate excess capacity and lower our operating costs, (ii) streamline our organizational structure and reposition our business for improved long-term profitability and (iii) better align our manufacturing footprint with the changing needs of our customers. In light of industry conditions and customer announcements, we expanded this strategy, and through the end of 2009, we incurred pretax restructuring costs of approximately $672 million and related manufacturing inefficiency charges of approximately $68 million.

In the first half of 2010, we incurred additional restructuring costs of approximately $24 million and related manufacturing inefficiency charges of approximately $2 million, as we continued to restructure our global operations and aggressively reduce our costs. We expect accelerated restructuring actions and related investments to continue for the next few years.

Financing Transactions

On March 26, 2010, we issued $350 million in aggregate principal amount at maturity of unsecured senior notes due 2018 at a stated coupon rate of 7.875% and $350 million in aggregate principal amount at maturity of unsecured senior notes due 2020 at a stated coupon rate of 8.125%. The net proceeds from the issuance of the notes, together with existing cash on hand, were used to repay in full an aggregate amount of $925 million of term loans provided under our first and second lien credit agreements. In connection with these transactions, we recognized a loss on the extinguishment of debt of approximately $12 million, resulting from the write-off of unamortized debt issuance costs. For further information, see Note 6, Long-Term Debt, to the accompanying condensed consolidated financial statements included in this Report.

Other Matters

In the three and six months ended July 4, 2009, we incurred fees and expenses related to our capital restructuring of $15 million and $21 million, respectively.

In the three and six months ended July 3, 2010, we recognized tax benefits of $15 million and $33 million, respectively, related to reductions in recorded tax reserves. In the three and six months ended July 4, 2009, we recognized tax benefits of $8 million and $18 million, respectively, related to reductions in recorded tax reserves, as well as tax expense of $4 million and $10 million, respectively, related to the establishment of valuation allowances in certain foreign subsidiaries.

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As discussed above, our results for the three and six months ended July 3, 2010 and July 4, 2009, reflect the following items (in millions):

	Three months ended		Six months ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Costs related to restructuring actions, including manufacturing inefficiencies of $1 million and $2 million in the three and six months ended July 3, 2010, respectively, and $5 million and $9 million in the three and six months ended July 4, 2009, respectively	$ 12	$19	$ 26	$134
Fees and expenses related to capital restructuring and other related matters	4	15	8	21
Impairment of investment in affiliate		27		27
Tax benefits, net	(15)	(4)	(33)	(8)

For further information regarding these items, see Restructuring and Note 2, Restructuring Activities, Note 4, Long-Term Assets, and Note 10, Income Taxes, to the condensed consolidated financial statements included in this Report.

This section includes forward-looking statements that are subject to risks and uncertainties. For further information regarding other factors that have had, or may have in the future, a significant impact on our business, financial condition or results of operations, see Forward-Looking Statements and Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2009, as supplemented and updated by Part II Item 1A, Risk Factors, in our Quarterly Report on Form 10-Q for the quarter ended April 3, 2010.

RESULTS OF OPERATIONS

As a result of our emergence from Chapter 11 bankruptcy proceedings on November 9, 2009, and the adoption of fresh-start accounting on November 7, 2009, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification™ (ASC) 852, Reorganizations, Lear is considered a new entity for financial reporting purposes. Accordingly, our financial statements for the first half of 2010 are designated Successor and our financial statements for the first half of 2009 are designated Predecessor. The effects of emergence and fresh-start accounting did not have a material impact on the comparability of our results of operations between the periods, except as discussed below.

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

	Three Months Ended				Six Months Ended			
	Successor July 3, 2010		Predecessor July 4, 2009		Successor July 3, 2010		Predecessor July 4, 2009	
Net sales								
Seating	$ 2,407.5	79.2%	$ 1,847.3	81.0%	$ 4,721.0	79.0%	$ 3,600.0	80.9%
Electrical power management systems	631.8	20.8	433.7	19.0	1,256.8	21.0	849.3	19.1
Net sales	3,039.3	100.0	2,281.0	100.0	5,977.8	100.0	4,449.3	100.0
Gross profit (loss)	292.8	9.6	35.9	1.6	547.6	9.2	(38.8)	(0.9)
Selling, general and administrative expenses	112.8	3.7	121.1	5.3	240.7	4.0	233.2	5.2

Amortization of intangible assets	6.6	0.2	1.2	0.1	13.3	0.2	2.3	0.1
Interest expense	13.3	0.4	62.3	2.7	32.3	0.6	118.7	2.7
Other (income) expense, net	(22.5)	(0.7)	5.7	0.3	(1.5)		18.5	0.4
Provision for income taxes	17.3	0.5	14.0	0.6	23.7	0.4	19.7	0.4
Net income attributable to noncontrolling interests	5.5	0.2	5.2	0.2	13.2	0.2	7.2	0.2
Net income (loss) attributable to Lear	$ 159.8	5.3%	$ (173.6)	(7.6)%	$ 225.9	3.8%	$ (438.4)	(9.9)%

LEAR CORPORATION

Three Months Ended July 3, 2010 vs. Three Months Ended July 4, 2009

Net sales in the second quarter of 2010 were $3.0 billion, as compared to $2.3 billion in the second quarter of 2009, an increase of $758 million or 33.2%. Improved global vehicle production volumes and favorable platform mix positively impacted net sales by $701 million.

Gross profit and gross margin were $293 million and 9.6% in the quarter ended July 3, 2010, as compared to $36 million and 1.6% in the quarter ended July 4, 2009. Improved global vehicle production volumes and favorable platform mix, as well as favorable operating performance and the benefit of operational restructuring actions, positively impacted gross profit by $282 million collectively. Gross profit also benefited from the impact of new business. These increases were partially offset by the impact of selling price reductions. In addition, gross profit includes operational restructuring costs of $8 million in the second quarter of 2010, as compared to $16 million in the second quarter of 2009.

Selling, general and administrative expenses, including engineering and development expenses, were $113 million in the three months ended July 3, 2010, as compared to $121 million in the three months ended July 4, 2009. The decrease in selling, general and administrative expenses was primarily due to fees and expenses related to our capital restructuring incurred in the second quarter of 2009 and the recovery of previously expensed engineering and development costs in the second quarter of 2010. These decreases were partially offset by an increase in compensation-related costs in the second quarter of 2010. As a percentage of net sales, selling, general and administrative expenses declined to 3.7% in the second quarter of 2010, as compared to 5.3% in the second quarter of 2009, as net sales increased and selling, general and administrative expenses decreased.

Amortization of intangible assets was $7 million in the second quarter of 2010, as compared to $1 million in the second quarter of 2009, as a result of intangible assets recognized in connection with the adoption of fresh-start accounting in 2009.

Interest expense was $13 million in the second quarter of 2010, as compared to $62 million in the second quarter of 2009. The decrease in interest expense was due to lower borrowing levels in 2010 and costs incurred in connection with our capital restructuring in 2009.

Other (income) expense, which includes non-income related taxes, foreign exchange gains and losses, discounts and expenses associated with our factoring facilities, gains and losses related to certain derivative instruments and hedging activities, equity in net income of affiliates, gains and losses on the sales of assets and other miscellaneous income and expense, was income of $23 million in the second quarter of 2010, as compared to expense of $6 million in the second quarter of 2009. The improvement in other (income) expense between periods was primarily due to an impairment charge of $27 million related to an investment in an equity affiliate in the second quarter of 2009 and the favorable performance of our equity affiliates in the second quarter of 2010, partially offset by decreased foreign exchange gains in the second quarter of 2010.

The provision for income taxes was $17 million for the second quarter of 2010, representing an effective tax rate of 9.5% on pretax income of $183 million, as compared to $14 million for the second quarter of 2009, representing an effective tax rate of negative 9.1% on a pretax loss of $154 million. In the second quarter of 2010, the provision for income taxes was impacted by the mix of earnings among tax jurisdictions, as well as a portion of our restructuring charges and other expenses, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. Additionally, the provision was impacted by tax benefits of $15 million, including interest, related to reductions in recorded tax reserves. In the second quarter of 2009, the provision for income taxes primarily relates to profitable foreign operations, as well as withholding taxes on royalties and dividends paid by our foreign subsidiaries. In addition, we incurred losses in several countries that provided no tax benefits due to valuation allowances on our deferred tax assets in those countries. The provision was also impacted by a portion of our restructuring charges, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. Additionally, the provision was impacted by tax benefits of $8 million, including interest, related to reductions in recorded tax reserves and tax expense of $4 million related to the establishment of valuation allowances in certain foreign subsidiaries. Excluding these items, the effective tax rate

in the second quarters of 2010 and 2009 approximated the U.S. federal statutory income tax rate of 35% adjusted for income taxes on foreign earnings, losses and remittances, foreign and U.S. valuation allowances, tax credits, income tax incentives and other permanent items.

Further, our current and future provision for income taxes is significantly impacted by the initial recognition of and changes in valuation allowances in certain countries, particularly the United States. We intend to maintain these allowances until it is more likely than not that the deferred tax assets will be realized. Our future income taxes will include no tax benefit with respect to losses incurred and no tax expense with respect to income generated in these countries until the respective valuation allowances are

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eliminated. Accordingly, income taxes are impacted by the U.S. and foreign valuation allowances and the mix of earnings among jurisdictions.

Net income (loss) attributable to Lear in the second quarter of 2010 was $160 million, or $2.96 per diluted share, as compared to ($174) million, or ($2.24) per diluted share, in the second quarter of 2009, for the reasons described above.

Reportable Operating Segments

We have two reportable operating segments: seating, which includes seat systems and related components, and electrical power management systems, which includes traditional wiring and power management systems, as well as emerging high-power and hybrid electrical systems. The financial information presented below is for our two reportable operating segments and our other category for the periods presented. The other category includes unallocated costs related to corporate headquarters, geographic headquarters and the elimination of intercompany activities, none of which meets the requirements of being classified as an operating segment. Corporate and geographic headquarters costs include various support functions, such as information technology, purchasing, corporate finance, legal, executive administration and human resources. Financial measures regarding each segment s income (loss) before interest expense, other (income) expense and provision for income taxes (segment earnings) and segment earnings divided by net sales (margin) are not measures of performance under accounting principles generally accepted in the United States (GAAP). Segment earnings and the related margin are used by management to evaluate the performance of our reportable operating segments. Segment earnings should not be considered in isolation or as a substitute for net income (loss) attributable to Lear, net cash provided by (used in) operating activities or other statement of operations or cash flow statement data prepared in accordance with GAAP or as measures of profitability or liquidity. In addition, segment earnings, as we determine it, may not be comparable to related or similarly titled measures reported by other companies. For a reconciliation of consolidated segment earnings to consolidated income (loss) before provision for income taxes, see Note 15, Segment Reporting, to the condensed consolidated financial statements included in this Report.

Seating

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

	Three months ended	
	Successor July 3, 2010	**Predecessor July 4, 2009**
Net sales	$2,407.5	$1,847.3
Segment earnings [1]	207.3	9.1
Margin	8.6%	0.5%

(1) See definition above.

Seating net sales were $2.4 billion in the second quarter of 2010, as compared to $1.8 billion in the second quarter of 2009, an increase of $560 million or 30.3%. Improved global vehicle production volumes and favorable platform mix positively impacted net sales by $599 million. Segment earnings, including restructuring costs, and the related margin on net sales were $207 million and 8.6% in the second quarter of 2010, as compared to $9 million and 0.5% in the second quarter of 2009. Improved global vehicle production volumes and favorable platform mix positively impacted segment earnings. The benefit of our restructuring and other operating performance actions were partially offset by the impact of selling price reductions. In addition, in the second quarter of 2010, we incurred costs related to our restructuring actions of $2 million, as compared $8 million in the second quarter of 2009.

Electrical Power Management Systems

A summary of financial measures for our electrical power management systems segment is shown below (dollar amounts in millions):

	Three months ended	
	Successor	**Predecessor**
	July 3, 2010	**July 4, 2009**
Net sales	$631.8	$433.7
Segment earnings [1]	23.5	(45.7)
Margin	3.7%	(10.5)%

(1) See definition above.

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Electrical power management systems net sales were $632 million in the second quarter of 2010, as compared to $434 million in the second quarter of 2009, an increase of $198 million or 45.7%. Improved global vehicle production volumes and favorable platform mix and the impact of new business positively impacted net sales by $102 million and $98 million, respectively. Segment earnings, including restructuring costs, and the related margin on net sales were $24 million and 3.7% in the second quarter of 2010, as compared to ($46) million and negative 10.5% in the second quarter of 2009. Improved global vehicle production volumes and favorable platform mix, the benefit of our restructuring and other operating performance actions and the impact of new business positively impacted segment earnings. These increases were partially offset by the impact of selling price reductions. In addition, in the second quarter of 2010, we incurred costs related to our restructuring actions of $9 million, as compared to $11 million in the second quarter of 2009.

Other

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

	Three months ended	
	Successor July 3, 2010	Predecessor July 4, 2009
Net sales	$	$
Segment earnings [1]	(57.4)	(49.8)
Margin	N/A	N/A

(1) See definition above.

Our other category includes unallocated corporate and geographic headquarters costs, as well as the elimination of intercompany activity. Corporate and geographic headquarters costs include various support functions, such as information technology, purchasing, corporate finance, legal, executive administration and human resources. Segment earnings related to our other category were ($57) million in the second quarter of 2010, as compared to ($50) million in the second quarter of 2009, primarily due to an increase in compensation-related costs, partially offset by fees and expenses incurred in the second quarter of 2009 related to our capital restructuring.

Six Months Ended July 3, 2010 vs. Six Months Ended July 4, 2009

Net sales in the first six months of 2010 were $6.0 billion as compared to $4.4 billion in the first six months of 2009, an increase of $1.5 billion or 34.4%. Improved global vehicle production volumes positively impacted net sales by $1.3 billion.

Gross profit (loss) and gross margin were $548 million and 9.2% in the six months ended July 3, 2010, as compared to ($39) million and negative 0.9% in the six months ended July 4, 2009. Improved global vehicle production volumes, as well as favorable operating performance and the benefit of operational restructuring actions, positively impacted gross profit by $562 million collectively. Gross profit also benefited from the impact of new business. These increases were partially offset by the impact of selling price reductions. In addition, gross profit includes operational restructuring costs of $22 million in the first half of 2010, as compared to $125 million in the first half of 2009.

Selling, general and administrative expenses, including engineering and development expenses, were $241 million in the first six months of 2010, as compared to $233 million in the first six months of 2009. The increase in selling, general and administrative expenses was primarily due to an increase in compensation-related costs, partially offset by fees and expenses related to our capital restructuring incurred in 2009 and reduced costs related to our restructuring actions in 2010. As a percentage of net sales, selling, general and administrative expenses declined to 4.0% in the first half of 2010, as compared to 5.2% in the first half of 2009, as the increase in net sales more than offset the increase in selling, general and administrative expenses.

Amortization of intangible assets was $13 million in the first half of 2010, as compared to $2 million in the first half of 2009, as a result of intangible assets recognized in connection with the adoption of fresh-start accounting in 2009.
Interest expense was $32 million in the six months ended July 3, 2010, as compared to $119 million in the six months ended July 4, 2009. The decrease in interest expense was due to lower borrowing levels in 2010 and costs incurred in connection with our capital restructuring in 2009.
Other (income) expense, which includes non-income related taxes, foreign exchange gains and losses, discounts and expenses associated with our factoring facilities, gains and losses related to certain derivative instruments and hedging activities, equity in net

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income of affiliates, gains and losses on the sales of assets and other miscellaneous income and expense, was income of $2 million in the first six months of 2010, as compared to expense of $19 million in the first six months of 2009. The improvement in other (income) expense between periods was primarily due to the favorable performance of our equity affiliates in the first half 2010 and an impairment charge of $27 million related to an investment in an equity affiliate in the second quarter of 2009. These improvements were partially offset by unfavorable foreign exchange and a loss on the extinguishment of debt of approximately $12 million, resulting from the write-off of unamortized debt issuance costs in the first quarter of 2010.

The provision for income taxes was $24 million for the first half of 2010, representing an effective tax rate of 9.0% on pretax income of $263 million, as compared to $20 million for the first half of 2009, representing an effective tax rate of negative 4.8% on a pretax loss of $412 million. In the first half of 2010, the provision for income taxes was impacted by the mix of earnings among tax jurisdictions, as well as a portion of our restructuring charges and other expenses, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. Additionally, the provision was impacted by tax benefits of $33 million, including interest and penalties, related to reductions in recorded tax reserves. In the first half of 2009, the provision for income taxes primarily relates to profitable foreign operations, as well as withholding taxes on royalties and dividends paid by our foreign subsidiaries. In addition, we incurred losses in several countries that provided no tax benefits due to valuation allowances on our deferred tax assets in those countries. The provision was also impacted by a portion of our restructuring charges, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. Additionally, the provision was impacted by tax benefits of $18 million, including interest, related to reductions in recorded tax reserves and tax expense of $10 million related to the establishment of valuation allowances in certain foreign subsidiaries. Excluding these items, the effective tax rate in the first half of 2010 and 2009 approximated the U.S. federal statutory income tax rate of 35% adjusted for income taxes on foreign earnings, losses and remittances, foreign and U.S. valuation allowances, tax credits, income tax incentives and other permanent items.

Further, our current and future provision for income taxes is significantly impacted by the initial recognition of and changes in valuation allowances in certain countries, particularly the United States. We intend to maintain these allowances until it is more likely than not that the deferred tax assets will be realized. Our future income taxes will include no tax benefit with respect to losses incurred and no tax expense with respect to income generated in these countries until the respective valuation allowances are eliminated. Accordingly, income taxes are impacted by the U.S. and foreign valuation allowances and the mix of earnings among jurisdictions.

Net income (loss) attributable to Lear in the first six months of 2010 was $226 million, or $4.18 per diluted share, as compared to ($438) million, or ($5.66) per diluted share, in the first six months of 2009, for the reasons described above.

Reportable Operating Segments

We have two reportable operating segments: seating, which includes seat systems and related components, and electrical power management systems, which includes traditional wiring and power management systems, as well as emerging high-power and hybrid electrical systems. The financial information presented below is for our two reportable operating segments and our other category for the periods presented. The other category includes unallocated costs related to corporate headquarters, geographic headquarters and the elimination of intercompany activities, none of which meets the requirements of being classified as an operating segment. Corporate and geographic headquarters costs include various support functions, such as information technology, purchasing, corporate finance, legal, executive administration and human resources. Financial measures regarding each segment s income (loss) before interest expense, other (income) expense and provision for income taxes (segment earnings) and segment earnings divided by net sales (margin) are not measures of performance under GAAP. Segment earnings and the related margin are used by management to evaluate the performance of our reportable operating segments. Segment earnings should not be considered in isolation or as a substitute for net income (loss) attributable to Lear, net cash provided by (used in) operating activities or other statement of operations or cash flow statement data prepared in

accordance with GAAP or as measures of profitability or liquidity. In addition, segment earnings, as we determine it, may not be comparable to related or similarly titled measures reported by other companies. For a reconciliation of consolidated segment earnings to consolidated income (loss) before provision for income taxes, see Note 15, Segment Reporting, to the condensed consolidated financial statements included in this Report.

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Seating

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

	Six months ended	
	Successor July 3, 2010	**Predecessor July 4, 2009**
Net sales	$4,721.0	$3,600.0
Segment earnings [1]	356.9	(66.2)
Margin	7.6%	(1.8)%

(1) See definition above.

Seating net sales were $4.7 billion in the first half of 2010, as compared to $3.6 billion in the first half of 2009, an increase of $1.1 billion or 31.1%. Improved global vehicle production volumes positively impacted net sales by $1.1 billion. Segment earnings, including restructuring costs, and the related margin on net sales were $357 million and 7.6% in the first half of 2010, as compared to ($66) million and negative 1.8% in the first half of 2009. Improved global vehicle production volumes positively impacted segment earnings. The benefit of our restructuring and other operating performance actions were largely offset by the impact of selling price reductions. In addition, in the first half of 2010, we incurred costs related to our restructuring actions of $10 million, as compared to $108 million in the first half of 2009.

Electrical Power Management Systems

A summary of financial measures for our electrical power management systems segment is shown below (dollar amounts in millions):

	Six months ended	
	Successor July 3, 2010	**Predecessor July 4, 2009**
Net sales	$1,256.8	$ 849.3
Segment earnings [1]	49.1	(113.3)
Margin	3.9%	(13.3)%

(1) See definition above.

Electrical power management systems net sales were $1.3 billion in the first half of 2010, as compared to $849 million in the first half of 2009, an increase of $408 million or 48.0%. Improved global vehicle production volumes and the impact of new business positively impacted net sales by $245 million and $163 million, respectively. Segment earnings, including restructuring costs, and the related margin on net sales were $49 million and 3.9% in the first half of 2010, as compared to ($113) million and negative 13.3% in the first half of 2009. Improved global vehicle production volumes and the benefit of our restructuring and other operating performance actions and the impact of new business positively impacted segment earnings. These increases were partially offset by the impact of selling price reductions. In addition, in the first half of 2010, we incurred costs related to our restructuring actions of $15 million, as compared to $26 million in the first half of 2009.

Other

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

	Six months ended	
	Successor July 3, 2010	**Predecessor July 4, 2009**
Net sales	$	$
Segment earnings [1]	(112.4)	(94.8)
Margin	N/A	N/A

(1) See definition above.

Our other category includes unallocated corporate and geographic headquarters costs, as well as the elimination of intercompany activity. Corporate and geographic headquarters costs include various support functions, such as information technology, purchasing, corporate finance, legal, executive administration and human resources. Segment earnings related to our other category were ($112)

million in the first six months of 2010, as compared to ($95) million in the first six months of 2009, primarily due to an increase in compensation-related costs, partially offset by fees and expenses incurred in the first half of 2009 related to our capital restructuring.

RESTRUCTURING

In 2005, we initiated a three-year restructuring strategy to (i) eliminate excess capacity and lower our operating costs, (ii) streamline our organizational structure and reposition our business for improved long-term profitability and (iii) better align our manufacturing footprint with the changing needs of our customers. In light of industry conditions and customer announcements, we expanded this strategy, and through the end of 2009, we incurred pretax restructuring costs of approximately $672 million and related manufacturing inefficiency charges of approximately $68 million. In the first half of 2010, we continued to restructure our global operations and to aggressively reduce our costs. We expect accelerated restructuring actions and related investments to continue for the next few years.

Restructuring costs include employee termination benefits, fixed asset impairment charges and contract termination costs, as well as other incremental costs resulting from the restructuring actions. These incremental costs principally include equipment and personnel relocation costs. We also incur incremental manufacturing inefficiency costs at the operating locations impacted by the restructuring actions during the related restructuring implementation period.

Restructuring costs are recognized in our consolidated financial statements in accordance with GAAP. 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 the first half of 2010, we recorded restructuring and related manufacturing inefficiency charges of $26 million in connection with our restructuring actions. These charges consist of $21 million recorded as cost of sales and $5 million recorded as selling, general and administrative expenses. Cash expenditures related to our restructuring actions totaled $61 million in the first half of 2010. The 2010 charges consist of employee termination benefits of $18 million, asset impairment charges of $3 million and other related costs of $3 million. We also estimate that we incurred approximately $2 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 $3 million in excess of related estimated fair values.

LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs are to fund general business requirements, including working capital requirements, capital expenditures, operational restructuring actions and debt service requirements. Our principal source of liquidity is cash flows from operating activities and existing cash balances. A substantial portion of our operating income is generated by our subsidiaries. As a result, we are dependent on the earnings and cash flows of and the combination of dividends, royalties, intercompany loan repayments and other distributions and advances from our subsidiaries to provide the funds necessary to meet our obligations. There are no significant restrictions on the ability of our subsidiaries to pay dividends or make other distributions to Lear. For further information regarding potential dividends from our non-U.S. subsidiaries, see Note 11, Income Taxes, to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Cash Flow

Net cash provided by operating activities was $266 million in the first six months of 2010, as compared to net cash used in operating activities of $397 million in the first six months of 2009, an improvement of $663 million. Higher earnings in 2010, including the impact of depreciation and amortization, favorably impacted cash flows from operating activities by $651 million. The net change in sold accounts receivable, which reflects the termination of our European accounts receivable factoring facility in 2009, benefited operating cash flow between periods by $139 million and was largely offset by changes in long-term pension and other liabilities, which reflect pension plan curtailment losses and special termination benefits of $57 million in the first half of 2009 and incremental reductions in long-term liabilities of $51 million in the first half of 2010. In the first six months of 2010, increases in accounts receivable and accounts payable resulted in a use of cash of $472 million and a source of cash of $338 million,

respectively, primarily reflecting the impact of increased production volumes.

Net cash used in investing activities was $74 million in the first six months of 2010, as compared to $33 million in the first six months of 2009, reflecting an increase in capital expenditures of $34 million between periods. Capital expenditures in 2010 are estimated at approximately $195 million.

Net cash used in financing activities was $272 million in the first six months of 2010, as compared to $49 million in the first six months of 2009, reflecting the repayment of $925 million of term loans outstanding, partially offset by $681 million of net proceeds related to the issuance of the Notes in 2010. For further information regarding our 2010 financing transactions, see Executive Overview, above and Capitalization, below.

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Capitalization

In addition to cash provided by operating activities, we utilize uncommitted credit facilities to fund our capital expenditures and working capital requirements at certain of our foreign subsidiaries. We utilize uncommitted lines of credit as needed for our short-term working capital fluctuations. For the six months ended July 3, 2010 and July 4, 2009, our average outstanding short-term debt balance, excluding borrowings outstanding under our prior year primary credit facility and senior notes, as of the end of each fiscal quarter, was $34 million and $39 million, respectively. The weighted average short-term interest rate on our short-term debt balances, excluding rates under our prior year primary credit facility and senior notes, was 2.5% and 4.5% for the respective periods. The availability of uncommitted lines of credit may be affected by our financial performance, credit ratings and other factors.

Senior Notes

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

Interest is payable on the Notes on March 15 and September 15 of each year, beginning September 15, 2010. The 2018 Notes mature on March 15, 2018, and the 2020 Notes mature on March 15, 2020. As of July 3, 2010, we had $695 million of senior notes outstanding. Scheduled cash interest payments on the Notes are approximately $27 million in the last half of 2010. As of July 3, 2010, we were in compliance with all covenants under the indenture governing the Notes.

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

For further information related to the Notes, including information on early redemption, covenants and events of default, see Note 6, Long-Term Debt, to the condensed consolidated financial statements included in this Report and the indenture (as amended and supplemented) governing the Notes, which has been incorporated by reference as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended April 3, 2010.

First and Second Lien Credit Agreements

In connection with our emergence from Chapter 11 bankruptcy proceedings, we entered into a first lien credit agreement and a second lien credit agreement in the fourth quarter of 2009. The first lien credit agreement provided for the issuance of $375 million of term loans, and the second lien credit agreement provided for the issuance of $550 million of term loans.

Effective March 19, 2010, we entered into an amendment and restatement of the first lien credit agreement (as amended, restated or otherwise modified, the first lien credit agreement), which provides for a $110 million revolving credit facility (the Revolving Credit Facility). The Revolving Credit Facility permits borrowings for general corporate and working capital purposes and the issuance of letters of credit. The commitments under the Revolving Credit Facility expire on March 19, 2013.

As of July 3, 2010, there were no borrowings outstanding under the Revolving Credit Facility, and we were in compliance with all covenants set forth in the agreement governing the Revolving Credit Facility.

For further information related to the Revolving Credit Facility, including information on pricing, covenants and events of default, see Note 6, Long-Term Debt, to the condensed consolidated financial statements included in this Report and the amended and restated first lien credit agreement, which has been incorporated by reference as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended April 3, 2010.

Also on March 19, 2010, we amended the first lien credit agreement, which facilitated, among other things, the issuance of the Notes, and in connection therewith, permitted the application of the proceeds of such offering to prepay amounts outstanding under the second lien credit agreement and the application of our existing cash on hand to prepay remaining amounts outstanding under the second lien credit agreement. The amendment also provides for the

repurchase of certain amounts of the Notes and for a limited amount of cash dividend payments or repurchases of our common stock, when certain terms and conditions are met.

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Contractual Obligations

As a result of the financing transactions discussed above in Senior Notes, and First and Second Lien Credit Agreements, our scheduled maturities of long-term debt, including capital lease obligations, and scheduled interest payments on the Notes as of July 3, 2010, are shown below (in millions):

	2010	2011	2012	2013	2014	Thereafter	Total
Long-term debt maturities	$ 1.3	$ 0.9	$ 0.5	$	$	$ 694.6	$ 697.3
Scheduled interest payments	27.1	56.0	56.0	56.0	56.0	252.9	504.0
Total	$ 28.4	$ 56.9	$ 56.5	$ 56.0	$ 56.0	$ 947.5	$ 1,201.3

Off-Balance Sheet Arrangements

Guarantees and Commitments

We guarantee certain of the debt of one of our unconsolidated affiliates. As of July 3, 2010, the aggregate amount of debt guaranteed was approximately $3 million.

Accounts Receivable Factoring

Certain of our Asian subsidiaries periodically factor their accounts receivable with financial institutions. Such receivables are factored without recourse to us and are excluded from accounts receivable in the condensed consolidated balance sheets included in this Report. We cannot provide any assurances that these or any other factoring facilities will be available or utilized in the future. There were no factored receivables as of July 3, 2010 and December 31, 2009.

Adequacy of Liquidity Sources

As of July 3, 2010, we had approximately $1.4 billion of cash and cash equivalents on hand, which we believe will enable us to meet our liquidity needs to satisfy ordinary course business obligations. However, our ability to continue to meet such liquidity needs is subject to, and will be affected by, cash flows from operations, including the impact of restructuring activities, challenging automotive industry conditions, the financial condition of our customers and suppliers and other related factors. Additionally, as discussed in Executive Overview above, an economic downturn or a reduction in production levels could negatively impact our financial condition. Furthermore, our future financial results will be affected by cash flows from operations, including the impact of restructuring activities, and will also be subject to certain factors outside of our control, including those described above in this paragraph. See Executive Overview above, Forward-Looking Statements below and Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2009, as supplemented and updated by Part II Item 1A, Risk Factors, in our Quarterly Report on Form 10-Q for the quarter ended April 3, 2010, for further discussion of the risks and uncertainties affecting our cash flows from operations, borrowing availability and overall liquidity.

Market Rate Sensitivity

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

Foreign Exchange

Operating results may be impacted by our buying, selling and financing in currencies other than the functional currency of our operating companies (transactional exposure). We mitigate this risk by entering into forward foreign exchange, futures and option contracts. The foreign exchange contracts are executed with banks that we believe are creditworthy. Gains and losses related to foreign exchange contracts are deferred 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 various European currencies. We have performed a quantitative analysis of our overall currency rate exposure as of July 3, 2010. The potential adverse earnings impact related to net transactional exposures from a hypothetical 10% strengthening of the U.S. dollar relative to all other currencies for a twelve-month period is approximately $11 million. The potential adverse earnings impact related to net transactional exposures from a similar strengthening of the Euro relative to all other currencies for a twelve-month period is approximately negative $15 million.

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As of July 3, 2010, foreign exchange contracts representing $199 million of notional amount were outstanding with maturities of less than six months. As of July 3, 2010, the fair value of these contracts was approximately negative $1 million. A 10% change in the value of the U.S. dollar relative to all other currencies would result in a $7 million change in the aggregate fair value of these contracts. A 10% change in the value of the Euro relative to all other currencies would result in a $7 million change in the aggregate fair 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 (translational exposure). In 2009, net sales outside of the United States accounted for 84% of our consolidated net sales, although certain non-U.S. sales are U.S. dollar denominated. We do not enter into foreign exchange contracts to mitigate our translational exposure.

Interest Rates

Historically, we have used interest rate swap and other derivative contracts to manage our exposure to variable interest rates on outstanding variable rate debt instruments indexed to United States or European Monetary Union short-term money market rates. As of July 3, 2010, and December 31, 2009, there were no interest rate contracts outstanding. The Company will continue to evaluate, and may use derivative financial instruments, including forwards, futures, options, swaps and other derivative contracts to manage its exposures to fluctuations in interest rates in the future.

Commodity Prices

We have commodity price risk with respect to purchases of certain raw materials, including steel, leather, resins, chemicals, copper and diesel fuel. Raw material, energy and commodity costs have been extremely volatile over the past several years. In limited circumstances, we have used financial instruments to mitigate this risk.

We have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, which include cost reduction actions, such as the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments and the selective expansion of low-cost country sourcing and engineering, as well as value engineering and product benchmarking. However, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. These costs remain volatile and could have an adverse impact on our operating results in the foreseeable future. See Forward-Looking Statements below and Item 1A, Risk Factors High raw material costs could continue to have an adverse impact on our profitability, in our Annual Report on Form 10-K for the year ended December 31, 2009.

Historically, we have used derivative instruments to reduce our exposure to fluctuations in certain commodity prices, including copper. As of July 3, 2010, and December 31, 2009, there were no commodity swap contracts outstanding. The Company will continue to evaluate and may use derivative financial instruments, including forwards, futures, options, swaps and other derivative contracts to manage its exposures to commodity prices in the future.

OTHER MATTERS

Legal and Environmental Matters

We are involved from time to time in various legal proceedings and claims, including, without limitation, commercial and contractual disputes, product liability claims and environmental and other matters. As of July 3, 2010, we had recorded reserves for pending legal disputes, including commercial disputes and other matters, of $18 million. In addition, as of July 3, 2010, we had recorded reserves for product liability claims and environmental matters of $37 million and $3 million, respectively. Although these reserves were determined in accordance with GAAP, the ultimate outcomes of these matters are inherently uncertain, and actual results may differ materially from current estimates. For a description of risks related to various legal proceedings and claims, see Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2009. For a more complete description of our outstanding material legal proceedings, see Note 14, Legal and Other Contingencies, to the condensed consolidated financial statements included in this Report.

Significant Accounting Policies and Critical Accounting Estimates

Certain of our accounting policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the

reporting period. These estimates and assumptions are based on our historical experience, the terms of existing contracts, our evaluation of trends in the industry, information provided by our customers and suppliers and information available from other outside sources, as appropriate. However, these estimates and assumptions are subject to an inherent degree of uncertainty. As a result, actual results in these areas may differ significantly from our estimates. For a discussion of our significant accounting policies and critical accounting estimates, see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Significant Accounting Policies and Critical Accounting Estimates, and Note 4, Summary of Significant Accounting Policies, to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009. There have been no significant changes in our significant accounting policies or critical accounting estimates during the first six months of 2010.

Recently Issued Accounting Pronouncements

Financial Instruments and Fair Value Measurements

The FASB amended ASC 860, Transfers and Servicing, with Accounting Standards Update (ASU) 2009-16, Accounting for Transfers of Financial Assets, to, among other things, eliminate the concept of qualifying special purpose entities, provide additional sale accounting requirements and require enhanced disclosures. The provisions of this update are effective for annual reporting periods beginning after November 15, 2009. The effects of adoption were not significant because our previous asset-backed securitization facility expired in 2008. We will assess the impact of this update on any future securitizations.

The FASB amended ASC 820, Fair Value Measurements and Disclosures, with ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, to require additional disclosures regarding fair value measurements, including the amount and reasons for transfers between levels within the fair value hierarchy and more detailed information regarding the inputs and valuation techniques used in determining the fair value of assets and liabilities classified as Level 2 or Level 3 within the fair value hierarchy. In addition, this update clarifies previous guidance related to the level at which fair value disclosures should be disaggregated. With the exception of additional disclosures related to activity within Level 3 of the fair value hierarchy, which are effective for fiscal years beginning after December 15, 2010, the provisions of this update are effective as of January 1, 2010. The effects of adoption were not significant. For further information, see Note 16, Financial Instruments, to the condensed consolidated financial statements included in this Report.

Consolidation of Variable Interest Entities

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

LEAR CORPORATION

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 ongoing 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 materially from anticipated results include, but are not limited to:

- general economic conditions in the markets in which we operate, including changes in interest rates or currency exchange rates;
- the financial condition and restructuring actions of our customers and suppliers;
- changes in actual industry vehicle production levels from our current estimates;
- fluctuations in the production of vehicles or the loss of business with respect to a vehicle model for which we are a significant supplier;
- disruptions in the relationships with our suppliers;
- labor disputes involving us or our significant customers or suppliers or that otherwise affect us;
- the outcome of customer negotiations;
- the impact and timing of program launch costs;
- the costs, timing and success of restructuring actions;
- increases in our warranty or product liability costs;
- risks associated with conducting business in foreign countries;
- competitive conditions impacting our key customers and suppliers;
- the cost and availability of raw materials and energy;
- our ability to mitigate increases in raw material, energy and commodity costs;
- the outcome of legal or regulatory proceedings to which we are or may become a party;
- the impact of pending legislation and regulations or changes in existing federal, state, local or foreign laws or regulations;
- unanticipated changes in cash flow, including our ability to align our vendor payment terms with those of our customers;
- our ability to access capital markets on commercially reasonable terms;
- impairment charges initiated by adverse industry or market developments;
- our anticipated future performance, including, without limitation, our ability to maintain or increase revenue and gross margins, control future operating expenses and make necessary capital expenditures; and
- other risks, described in Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2009, as supplemented and updated by Part II Item 1A, Risk Factors, in our Quarterly Report on Form 10-Q for the quarter ended April 3, 2010, and from time to time in our other Securities and Exchange Commission filings.

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

LEAR CORPORATION

ITEM 4 CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

The Company has evaluated, under the supervision and with the participation of the Company s management, including the Company s Chairman, Chief Executive Officer and President along with the Company s Senior Vice President and Chief Financial Officer, the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this Report. The Company s disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Based on the evaluation described above, the Company s Chairman, Chief Executive Officer and President along with the Company s Senior Vice President and Chief Financial Officer have concluded that the Company s disclosure controls and procedures were effective to provide reasonable assurance that the desired control objectives were achieved as of the end of the period covered by this Report.

(b) Changes in Internal Controls over Financial Reporting

There was no change in the Company s internal control over financial reporting that occurred during the fiscal quarter ended July 3, 2010, that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

We are involved from time to time in various legal proceedings and claims, including, without limitation, commercial and contractual disputes, product liability claims and environmental and other matters. In particular, we are involved in the outstanding material legal proceedings described in Note 14, Legal and Other Contingencies, to the condensed consolidated financial statements included in this Report. In addition, see Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2009, for a description of risks relating to various legal proceedings and claims.

ITEM 1A RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009, as supplemented and updated by Part II Item 1A, Risk Factors, in our Quarterly Report on Form 10-Q for the quarter ended April 3, 2010.

ITEM 6 EXHIBITS

The exhibits listed on the Index to Exhibits on page 48 are filed with this Form 10-Q or incorporated by reference as set forth below.

LEAR CORPORATION
SIGNATURES

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

LEAR CORPORATION

Dated: August 3, 2010

By: /s/ Robert E. Rossiter
Robert E. Rossiter
Chairman, Chief Executive Officer and President

By: /s/ Matthew J. Simoncini
Matthew J. Simoncini
Senior Vice President and Chief Financial Officer

LEAR CORPORATION
Index to Exhibits

Exhibit Number	Exhibit
* 31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
* 31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
* 32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
* 32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.