LEAR CORP /DE/
Form 10-K405/A
October 09, 2001
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FORM 10-K/A
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2000.**

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

For the transition period from _____ to _____.

Commission file number:1-11311

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

Delaware	**13-3386776**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
21557 Telegraph Road, Southfield, MI	
(Address of principal executive offices)	
48086-5008	
(zip code)	

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

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

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $.01 per share	New York Stock Exchange

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

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

Indicate by check mark 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

As of March 1, 2001, the aggregate market value of the registrant s Common Stock, par value $.01 per share, held by non-affiliates of the registrant was $1,998,050,746. The closing price of the Common Stock on March 1, 2001 as reported on the New York Stock Exchange was $31.60 per share.

As of March 1, 2001, the number of shares outstanding of the registrant s Common Stock was 63,675,059 shares.

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PART I

EXPLANATORY NOTE

This amendment to the Form 10-K of Lear Corporation (the Company) for its fiscal year ended December 31, 2000 is being filed to disclose separate financial information regarding Lear s three reportable operating segments. The consolidated financial information included in this amendment does not differ from the financial information included in the original Form 10-K but, in some cases, is presented on a disaggregated basis in a manner consistent with the Company s organizational structure as of December 31, 2000. The sections in this amendment that have been revised from the original filing are "Management s Discussion and Analysis of Financial Condition and Results of Operations - Overview and Results of Operations and Note 14 to the Consolidated Financial Statements. Certain other sections from the original Form 10-K have been included in this amendment for the convenience of the reader but have not been revised or updated. Parts III and IV of the original Form 10-K are not included herein and have not been amended, except to disclose the exhibit to this Report.

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PART I

ITEM 1 BUSINESS

In this Report, when we use the terms the Company, Lear, we, us and our, unless otherwise indicated or the context otherwise requires, we are referring to Lear Corporation and its consolidated subsidiaries. A substantial portion of the Company s operations are conducted through wholly-owned subsidiaries of Lear Corporation. Certain disclosures included in this Report constitute forward-looking statements that are subject to risk and uncertainty. See Management s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements.

BUSINESS OF THE COMPANY

General

We are the fifth largest automotive supplier in the world. We are the leading supplier in the estimated $60 billion global automotive interior market and the third largest supplier in the estimated $20 billion global automotive electrical distribution systems market. We have grown substantially over the last five years as a result of both internal growth and acquisitions. Our sales have grown from $4.7 billion in 1995 to $14.1 billion in 2000, a compound annual growth rate of 24%. Operating income and EBITDA have grown from $245 million and $337 million in 1995 to $835 million and $1.228 billion in 2000, respectively. We supply every major automotive manufacturer in the world. Our customers include General Motors, Ford, DaimlerChrysler, Fiat, BMW, Volkswagen, Peugeot, Toyota, Subaru and Renault.

We have established in-house capabilities in all five principal segments of the automotive interior market: seat systems; flooring and acoustic systems; door panels; instrument panels; and headliners. We are the leading supplier in the estimated $27 billion global seat systems market. In North America, we are one of the two largest suppliers in each of the other principal automotive interior markets, except the instrument panels market in which we are the sixth largest supplier. We are also one of the leading global suppliers of automotive electrical distribution systems. As a result of these capabilities, we offer our customers fully-integrated modules, as well as design, engineering and project management support for the entire automotive interior, including electronics and electrical distribution systems. We believe that our ability to offer automotive interiors with integrated electrical distribution systems provides us with a competitive advantage, as automotive manufacturers continue to reduce their supplier bases and cost structures and to demand improved quality, greater product integration and enhanced technology.

We are focused on delivering high-quality automotive interior systems and components to our customers on a global basis. Due to the opportunity for significant cost savings and improved product quality and consistency, automotive manufacturers have increasingly required their suppliers to manufacture automotive interior systems and components in multiple geographic markets. In recent years, we have followed our customers and expanded our operations significantly in Europe, South America, South Africa and the Asia/Pacific Rim region. As a result of our efforts to expand our worldwide operations, our sales outside the United States and Canada have grown from $1.6 billion in 1995 to $5.5 billion in 2000. See Note 14, Segment Reporting, to our 2000 consolidated financial statements included in this Report.

Strategy

Our principal objectives are to expand our position as the leading supplier of automotive interior systems in the world and continue to capitalize on integration opportunities resulting from our electrical distribution system capabilities. We intend to build on our full-service capabilities, strong customer relationships and worldwide presence

to increase our share of the global automotive interior market. To this end, our strategy is to capitalize on three significant trends in the automotive industry:

the increasing emphasis on the automotive interior by automotive manufacturers as they seek to differentiate their vehicles in the marketplace;

the increasing demand for fully-integrated modular assemblies, such as cockpits, overhead and door panel modules; and

the consolidation and globalization of the supply base of automotive manufacturers.

These trends are rooted in the competitive pressures on automotive manufacturers to improve quality at a lower cost and reduce time to market, capital needs, labor costs, overhead and inventory. These trends have resulted in automotive manufacturers outsourcing complete modules of the interior as well as complete automotive interiors. Recently, we have received a number of business awards to design, engineer, manufacture, deliver and, in some cases, install complete interior modules as well as complete automotive interiors.

We believe that the criteria for selection of automotive interior suppliers is not only cost, quality and responsiveness but increasingly includes worldwide presence and certain full-service capabilities, such as the capability to supply electronically-integrated systems and modules.

Elements of our strategy include:

Enhance Strong Relationships with our Customers. We have developed strong relationships with our customers which allow us to identify business opportunities and anticipate customer needs in the early stages of vehicle design. Working closely with our customers in the early stages of designing and engineering vehicle interior systems gives us a competitive advantage in securing new business. We maintain a Customer Focus Group for all of our major customers. This organizational structure consists of several dedicated groups, most of which are focused on serving the needs of an individual customer and supporting that customer s programs and product development. Our Customer Focus Group interfaces with our Product Focus Group to provide all of the interior systems and components that the customer needs, allowing that customer s purchasing agents, engineers and designers to have a single point of contact. We work to maintain an excellent reputation with our customers for timely delivery and customer service and for providing world-class quality at competitive prices. As a result of our service and performance record, many of our facilities have won awards from the automotive manufacturers with which we do business.

Capitalize on Module and Integration Opportunities. We believe that the same competitive pressures that led automotive manufacturers to outsource the individual interior components to independent suppliers will cause our customers to demand delivery of fully-integrated modules for new vehicle models. As automotive manufacturers continue to seek ways to improve quality and reduce costs, we believe customers will increasingly look to independent suppliers to:

supply fully-integrated modules of the automotive interior; and

act as systems integrators, by managing the design, purchase and supply of the total automotive interior.

Leverage Electronic Capabilities. Because electrical distribution systems and electrical/electronic products are an increasingly important part of automotive interior systems, we have a competitive advantage in securing new business and taking advantage of integration opportunities as a result of our capabilities in this area.

Continue Global Expansion. Global expansion will continue to be an important element of our growth strategy. In 2000, approximately two-thirds of the global automotive interior production took place outside of North America. In recent years, automotive manufacturers in Europe have outsourced to a greater number of automotive suppliers than automotive manufacturers in North America. As a result, we have excellent opportunities for continued growth through supplier consolidation in Europe, as automotive manufacturers reduce the number of suppliers with whom they do business. Markets such as South America and the Asia/Pacific Rim region also present long-term growth opportunities as demand for automotive vehicles increases and automotive manufacturers expand production in these markets. As a result of our strong customer relationships and worldwide presence, we are well-positioned to continue to grow with our customers as they expand their operations worldwide.

Invest in Product Technology and Design Capability. We will continue to make significant investments in technology and design capability to support our products. We maintain five advanced technology centers and several customer-focused product engineering centers where we design and develop new products and conduct extensive product testing. We also have state-of-the-art acoustics testing, instrumentation and data analysis capabilities.

We believe that in order to effectively develop total automotive interior systems, it is necessary to integrate the research, design, development, styling and validation of all of the automotive interior subsystems concurrently. Our advanced technology center gives us the ability to integrate engineering, research, development and validation capabilities for all five automotive interior systems at one location. Our investments in research and development are consumer driven and customer focused. We conduct extensive analysis and testing of consumer responses to automotive interior styling and innovations. Because automotive manufacturers increasingly view the vehicle interior as a major selling point to their customers, the focus of our research and development efforts is to identify new interior features that make vehicles safer, more comfortable and attractive to consumers.

Increase Use of Just-in-Time Facility Network. We have established facilities that allow our customers to receive automotive interior products on a just-in-time basis. The just-in-time manufacturing process minimizes inventories and fixed costs for both us and our customers and enables us to deliver products on as little as ninety minutes notice. Most of

our just-in-time manufacturing facilities are dedicated to individual customers. In many cases, by carefully managing floor space and overall efficiency, we can move the final assembly and sequencing of other automotive interior systems and components from centrally-located facilities to our existing just-in-time facilities. Combining our just-in-time manufacturing techniques with our systems integration capabilities provides us with an important competitive advantage in delivering total automotive interior systems to automotive manufacturers.

Products

Our products have evolved as a result of our many years of manufacturing experience in the automotive seat frame market, where we have been a supplier to Ford and General Motors since our inception in 1917. The seat frame has structural and safety requirements which make it the basis for overall seat design and was the logical first step to our

emergence as a premier supplier of entire seat systems and seat components. As we have grown, we have expanded our product offerings and can now manufacture and supply our customers with completely integrated interiors, including electrical distribution systems and electronics, flooring and acoustic systems, door panels, headliners and instrument panels. We also produce a variety of blow-molded products and other automotive components. Our sales for the year ended December 31, 2000 were comprised of the following products: 61% seat systems; 24% interior trim products and components; and 15% electrical distribution systems and electronics. We believe that automotive manufacturers will continue to seek ways to improve vehicle quality and value while reducing the costs of vehicle components. As automotive manufacturers pursue these objectives, they will increasingly look to suppliers with the capability to test, design, engineer and deliver products for a complete vehicle interior. We believe that we will be able to design fully-integrated modules of the automotive interior to:

reduce the number and complexity of parts used;

improve quality and warranty performance;

reduce automotive manufacturers installation costs;

We also believe that automotive manufacturers will continue their move to modular integrated production by sourcing to key suppliers the development and manufacture of complete interior systems.

Our principal products fall into the following categories:

Seat Systems. The seat systems business consists of the manufacture, assembly and supply of vehicle seating requirements. Seat systems typically represent approximately 30% to 40% of the cost of the total automotive interior. We produce seat systems for automobiles and light trucks that are fully finished and ready for installation. Seat systems are fully-assembled seats, designed to achieve maximum passenger comfort by adding a wide range of manual and power features such as lumbar supports, cushion and back bolsters and leg and thigh supports.

As a result of our product technology and product design strengths, we are a leader in incorporating convenience features and safety improvements into seat designs as well as in developing methods to reduce our customers costs throughout the automotive interior. In 1998, we adopted a new methodology for developing automotive interiors, People-Vehicle-Interface or PVI Method . PVI Method is the innovation development discipline that we use to understand what consumers really want inside their vehicles, while simultaneously developing automotive interiors that meet both federal safety standards and customer requirements. We also manufacture an integrated restraint seat system that increases occupant comfort and convenience. Exclusive to Lear, this patented seating concept uses an ultra high-strength steel tower and a split-frame design to improve occupant comfort and convenience. Additionally, our Self-Aligning Head Restraint is an advancement in front seat passive safety. By reducing the space between the occupant s head and the headrest in a rear impact situation through use of a headrest system that moves with the occupant, the difference between the rearward movement of the head and the shoulder area can be minimized. Finally, in the event of a crash, our

Advanced Protection and Extrication System provides improved head protection as well as enhanced driver safety during the extrication and transport of an injured driver.

Electronic and Electrical Distribution Systems and Products. The function of a basic automotive electrical distribution system is to provide the electrical interconnections necessary to convey and distribute electrical power and

signals. The distribution of such power and signals is essential for activating, controlling, operating and/or monitoring electric devices and systems throughout the vehicle. The electrical network extends to virtually every part of a vehicle, including powered comfort/convenience accessories, lighting and signaling, heating and cooling systems, powertrain, chassis, safety restraints systems and other devices. We have the capability to design and supply complete electrical distribution systems on a global basis. The electronic and electrical products are grouped into three categories: Interior Control Systems, Wireless Systems and Electronic and Electrical Distribution Systems.

Interior Control Systems products include the following:

Instrument Panel Center Console Control provides a control panel for the entertainment system, accessory switch functions, heating, ventilation, and air conditioning.

Multifunction Turn Signal Control consolidates various combinations of hazard light, headlamps, parking lamp, fog lamps, wiper and washer, cruise control, high/low headlamp beams and turn signal functions.

Integrated Seat Adjuster Module combines seat adjustment, power lumbar support, memory function and heated seat into one package.

Integrated Door Controls consolidate the controls for window lift, door lock, power mirror and heated seat.

Integrated Door and Seat Control Flip Panel System performs all power door and power seat functions from two stacked panels.

Wireless Systems products include the following:

Dual Range/Dual Function Remote Keyless Entry (RKE) System allows a single RKE transmitter button to perform multiple functions depending upon the operator s distance from the vehicle.

Remote Keyless Entry and Immobilizer Module combines the features of a remote keyless entry receiver and the immobilizer key reader into a single module.

Custom Key Fobs use decorative molding technology to offer a wide variety of options in fob design patterns or colors including textures, logos, text and translucent and glow-in-the-dark colors.

Passive Entry System allows the vehicle operator to unlock the door without using a key or physically activating the RKE fob. The passive entry technology is imbedded in the fob so that a separate device is not required.

Electronic and Electrical Distribution Systems products include the following:

Electrical and electronic content per vehicle continues to grow as installation of powered accessories and new features such as rear seat entertainment and navigation systems increases. Electronics share of the average value of U.S. vehicles has risen from 10% in 1990 to 30% in 2000. At the same time, many vehicle functions which had previously been hydraulically or mechanically activated are being replaced by electrical/electronic actuation resulting in a higher number of circuits and electromechanical and electronic controls and switches per vehicle. We are well-positioned to capitalize on this trend due to our broad range of electrical/electronic products.

The automotive electrical distribution systems and electrical/electronic automotive products businesses have been rapidly evolving in recent years as electronic functionality is added to traditional wiring systems. This progression has involved the integration of existing products and the development of new products, competencies and technologies. The progressive increase in the content and complexity of electrical and electronic components requires a broader, overall design perspective. This shift in design philosophy is described as moving from the wire itself to the wire ends, reflecting a view that design should include both wiring systems and the electromechanical and electronic devices to which they are connected. The migration from electrical distribution systems to electrical and electronic distribution

systems will facilitate integration of wiring, electronics and switching/control products within the overall electrical architecture of a vehicle and generate significant design benefits for customers. For example, we expect this integrated approach to help designers optimize the number of circuits and electronic control modules/microprocessors and help program managers validate the performance of all of the individual components in a vehicle s electronic systems. Intertronics™, our unique ability to integrate electronic and electrical products into vehicle interior systems, is already paying dividends. Our Integrated Seat Adjuster Module has two dozen fewer cut circuits and five fewer connectors, weighs a half of a pound less and costs 20% less than a traditional seat wiring system.

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The migration from electrical distribution systems to electrical and electronic distribution systems can be seen in a number of new and next generation products. For example, our smart junction box combines traditional junction box function with electronics capabilities. Unlike earlier junction box designs, which provided the mechanical interconnection of electrical wire harnesses, smart junction boxes can incorporate electronic control functions traditionally located elsewhere in the vehicle. We are also positioned to participate in the development of advanced vehicle operating systems. Advanced vehicle operating systems will combine technologies ranging from safety and security features to power management to the integration of personal electronics.

Flooring and Acoustic Systems. The automotive flooring system is multi-purpose. Performance is based on the correct selection of materials to achieve an attractive, quiet and durable interior compartment. Automotive carpet requirements are more stringent than the requirements for carpet used in homes and offices. For example, automotive carpet must provide higher resistance to fading and improved resistance to wear despite being lighter in weight than carpet found in homes and offices. Our significant experience in automotive flooring has enabled us to meet these specialized needs. Carpet flooring systems generally consist of tufted carpet with a thermoplastic backcoating which, when heated, allows the carpet to be fitted precisely to the interior of the vehicle. Additional insulation materials are added to provide noise, vibration and harshness resistance. Flooring systems are complex products which are based on sophisticated designs and use specialized design materials to achieve the desired visual, acoustic and heat management requirements in the automotive interior.

Flooring systems consist both of carpet and vinyl products, molded to fit precisely the front and rear passenger compartments of cars and trucks, and accessory mats. While carpet floors are used predominately in passenger cars and trucks, vinyl floors, because of their better wear and maintenance characteristics, are used primarily in commercial and fleet vehicles. We are one of the largest independent suppliers of vinyl automotive flooring systems in North America and one of the few suppliers of both carpet and vinyl automotive flooring systems.

Our primary acoustic product, after flooring systems, is the dash insulator. The dash insulator separates the passenger compartment from the engine compartment and is the primary component for preventing engine noise and heat from entering the passenger compartment. Our ability to produce both the dash insulator and the flooring system enables us to accelerate the design process and supply an integrated system. Automotive manufacturers, recognizing the cost and quality advantages of producing the dash insulator and the flooring system as an integrated system, are increasingly seeking suppliers to coordinate the design, development and manufacture of the entire flooring and acoustic system.

Door Panels. Door panels consist of several component parts that are attached to a substrate by various methods. Specific components include vinyl or cloth-covered appliqués, armrests, radio speaker grilles, map pocket compartments, carpet and sound-reducing insulation. In addition, door panels often incorporate electrical distribution systems and electrical/electronic products, including switches and wire harnesses for the control of power seats, windows, mirrors and door locks. Upon assembly, each component must fit precisely and must match the color of the base substrate. Lear has been awarded a program with a major OEM to begin supplying its One-Step Liftgate Module

in the 2003 model year. The One-Step Liftgate consolidates all internal mechanisms, including glass, window regulator and latches, providing Lear customers with a fully assembled higher-quality product at a lower price. The One-Step door and One-Step liftgate can be shipped to automotive manufacturers fully assembled, tested and ready for installation. The One-Step door and One-Step liftgate offer us opportunities to capture a major share of the estimated $9 billion modular door market.

Instrument Panels. The instrument panel is a complex system of coverings, foams, plastics and metals designed to house various components and act as a safety device for the vehicle occupants. Specific components of the cockpit include the gauge cluster, the heating, venting and air conditioning module, air distribution ducts, air vents, cross car structure, glove compartment assemblies, electrical/electronic components, wiring harness, radio system and driver and passenger safety systems. As the primary occupant focal point of the vehicle interior, the instrument panel is designed to be aesthetically pleasing while also housing various components.

Over the past several years, the automotive industry has seen a rapid increase in the complexity of instrument panels. Automotive manufacturers are beginning to require that suppliers produce integrated instrument panels that combine electrical/electronic products with other traditional instrument panel components. This movement provides suppliers with the opportunity to capitalize on the ability of instrument panels to incorporate an increased number of higher-margin, value-added components, such as telecommunications and navigational equipment. In addition to being responsible for the overall design, integration and assembly of the cockpit system, we are able to supply the basic instrument panel, the structural cross vehicle beam, numerous molded parts and a variety of electrical/electronic components. We believe that our strength in designing and manufacturing electrical distribution systems and electrical/electronic products will enhance our position as a leading supplier of instrument panels and better position us as automotive manufacturers continue to demand more complex integrated systems.

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Another trend in the instrument panel segment concerns safety issues in air bag technologies. Through our research and development efforts, we intend to introduce cost-effective, integrated, seamless airbag covers which increase occupant safety. Future trends in the instrument panel segment will continue to focus on safety with the introduction of innovations such as knee restraints and energy-absorbing substructures.

Headliners. Headliners consist of a substrate as well as a finished interior layer made of a variety of fabrics and materials. While headliners are an important contributor to interior aesthetics, they also provide insulation from road noise and can serve as carriers for a variety of other components, such as visors, overhead consoles, grab handles, coat hooks, electrical wiring, speakers, lighting and other electrical/electronic products. As electrical/electronic content available in vehicles has increased, headliners have emerged as an important carrier of technology since electronic features ranging from garage door openers to lighting systems are often optimally situated in the headliner system.

As automotive manufacturers continue to seek ways to improve vehicle quality and simultaneously reduce costs, headliners are increasingly being outsourced to suppliers with extensive technological and systems integration capabilities. In addition, as with door panels and instrument panels, the ability of headliners to incorporate more components, provides us with the opportunity to increase the number of high-margin, value-added products we supply to automotive manufacturers.

Manufacturing

Most of our manufacturing facilities use just-in-time manufacturing techniques. Most of our seating-related products and many of our other interior products are delivered to the automotive manufacturers on a just-in-time basis. The just-in-time concept, first broadly used by Japanese automotive manufacturers, is the cornerstone of our manufacturing and supply strategy. This strategy involves many of the principles of the Japanese system but was adapted for compatibility with the increased volume requirements and geographic distances of the North American market. We first developed just-in-time operations in the early 1980 s. We had previously operated under traditional manufacturing practices, resulting in relatively low inventory turnover rates, significant scrap and rework, a high level of indirect labor costs and long production set-up times. As a result of just-in-time manufacturing techniques, we have been able to consolidate plants, increase capacity and significantly increase inventory turnover, quality and productivity.

The just-in-time principles first developed at our seat frame plants were next applied to our growing seat systems business and have now evolved into sequential parts delivery principles. Our seating plants are typically no more than 30 minutes or 20 miles from our customers assembly plants and are able to manufacture seats for delivery to the customers facilities in as little as 90 minutes. Orders for our seats are received on a weekly basis, pursuant to blanket purchase orders for annual requirements. These orders detail the customers needs for the following week. In addition, constant computer and other communication connections are maintained between personnel at our plants and personnel at the customers plants to keep production current with the customers demand.

As we have expanded our product line to include total automotive interiors, we have also expanded our just-in-time facility network. Our strategy is to leverage our just-in-time seat system facilities by moving the final assembly and sequencing of other interior components from our centrally-located facilities to our just-in-time facilities.

A description of the manufacturing processes for each of our product segments is set forth below.

Seat Systems. Seat assembly techniques fall into two major categories, traditional assembly methods, in which fabric is affixed to the frame using Velcro, wire or other material, or more advanced bonding processes. The principal bonding technique involves our patented SureBond and DryBond processes, in which fabric is affixed to the underlying foam padding using adhesives. The SureBond and DryBond processes have several major advantages when compared to traditional methods, including design flexibility, increased quality, lower cost and improved acoustical performance over traditional bonding methods. The SureBond and DryBond processes, unlike alternative bonding processes, result in a more comfortable seat in which air circulates freely. Moreover, the SureBond and DryBond processes are reversible, so that improperly installed seat covers can be removed and properly installed with minimal materials cost. In addition, the SureBond and DryBond processes are not capital intensive when compared to competing bonding technologies.

Inventory at each plant is kept at a minimum. Each component s requirement is monitored on a daily basis. This allows the plant to minimize production space but also requires precise forecasts of the day s output. Seats are assembled in modules, then tested and packaged for shipment. We operate a specially-designed trailer fleet that accommodates the off-loading of vehicle seats at the customers assembly plants.

We obtain steel, aluminum and foam chemicals used in our seat systems from several producers under various supply arrangements. These materials are readily available. Leather, fabric and certain purchased components are generally purchased from

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various suppliers under contractual arrangements usually lasting no longer than one year. Some of the purchased components are obtained from our own customers.

Electrical Distribution Systems and Electrical/Electronic Products. Electrical distribution systems are networks of wiring and associated control devices that route electrical power and signals throughout the vehicle. Wire harness assemblies consist of raw, coiled wire that is automatically cut to length and terminated. Individual circuits are then assembled together on a jig or table, inserted into connectors and wrapped or taped to form harness assemblies. Cell-based manufacturing techniques are extensively applied to manufacture products on a just-in-time basis. Materials are purchased, with the exception of a portion of the connectors that are produced in-house. The assembly process is labor intensive. Therefore, production is performed in low labor rate sites in Mexico, the Philippines, Europe and North Africa.

Some of the principal components attached to the wiring harnesses that we manufacture include junction boxes, electronic control modules and switches. Junction boxes are manufactured in Europe and North America with a proprietary, capital intensive assembly process that utilizes specially produced printed circuit boards, purchased from selected suppliers. Custom designed switches are assembled from electrical, mechanical and decorated plastic parts purchased in the United States, Mexico and Europe using a combination of manual and automated assembly and test methods. Electronics modules are assembled using high-speed surface mount placement equipment in Europe and North America.

We believe that technology trends will result in electronics and other products being combined to create multiplexed electrical distribution systems, smart junction boxes, mechatronic switches and integrated interior modules. We are well-positioned to take advantage of these trends.

Flooring and Acoustics Systems. Currently, we produce carpet at our plant in Carlisle, Pennsylvania. Smaller focused facilities are dedicated to specific groups of customers and are strategically located near their production facilities. This proximity improves our responsiveness to our customers and the speed of product delivery, done on a just-in-time basis, to our customers assembly lines. Our manufacturing operations are complemented by our research and development efforts, which have led to the development of a number of proprietary products, such as our SonoTec EP recycling process, Maslite , a lightweight proprietary material used in the production of accessory mats and as a vinyl floor alternative, and SonoTec Corweb , a unique construction resulting in a lighter weight and acoustically-optimized system.

Door Panels/Headliners. We use numerous molding, bonding, trimming and finishing manufacturing processes in our door panel and headliner production. The wide variety of manufacturing processes helps us to satisfy a broad range of customers cost and functionality specifications. Our ability and experience in producing interior products for such a vast array of applications enhances our ability to provide total interior solutions to automotive manufacturers on a global basis. We employ many of the same just-in-time manufacturing principles used at our seat facilities.

The core technologies used in our interior trim systems include injection molding, low-pressure injection molding, rotational molding, urethane foaming and compression molding of Wood-Stock , a process which combines polypropylene and wood flour, glass-reinforced urethane and a proprietary headliner process. One element of our strategy is to focus on more complex, value-added integrated systems. We deliver these integrated systems at attractive prices to the customer because certain services such as design and engineering and sub-assembly are provided more cost efficiently by Lear. The principal purchased components for interior trim systems are polyethylene and polypropylene resins, which are generally purchased under long-term agreements and are available from multiple suppliers. We are continuing to develop recycling methods in light of future environmental requirements and conditions in order to maintain our competitive position in this segment.

The combined pressures of cost reduction and fuel economy enhancement have caused automotive manufacturers to concentrate their efforts on developing and employing lower-cost, lighter materials. As a result, plastic content in cars and light trucks has grown significantly. Increasingly, automotive content requires large plastic injection-molded assemblies for both the interior and exterior. Plastics are now commonly used in such nonstructural components as interior and exterior trim, door panels, instrument panels, grills, bumpers, duct systems, taillights and fluid reservoirs. For interior trim applications, substitution of plastics for other materials is largely complete, and little growth through substitution is expected. However, further advances in injection molding technologies are improving the performance and appearance of parts molded in reinforced thermoplastics.

Instrument Panels. Our in-house process capabilities for producing instrument panels include injection molding, vacuum forming and various finishing methods. Our foil and foam capabilities, in which molded vinyl is bonded to a plastic substrate using an expandable foam, are used throughout the world. The wide variety of manufacturing processes helps us to continue to meet customers cost and functionality specifications. We are continuing to develop recycling methods in light of future environmental requirements and conditions in order to reduce costs and increase our presence in this segment.

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Customers

We serve the worldwide automotive and light truck market, which produces over 55 million vehicles annually. Our automotive manufacturer customers currently include:

- BMW - Daewoo - DaimlerChrysler - Fiat - Ford-Gaz-General Motors-Honda-Hyundai-Isuzu-Jaguar-Mahindra & Mahindra-Mazda-Mitsubishi-Nissan-Peugeot-Porsche-Renault-Saab-Subaru-Suzuki-Toyota-Volkswagen-Volvo

During the year ended December 31, 2000, General Motors and Ford, the two largest automotive and light truck manufacturers in the world, including their affiliates, accounted for approximately 32% and 28%, respectively, of our net sales. For additional information regarding customers and foreign and domestic sales and operations, see Note 14, Segment Reporting, to our 2000 consolidated financial statements included in this Report.

During the past ten years, in the course of retooling and reconfiguring plants for new models and model changeovers, certain automotive manufacturers have eliminated the production of seat systems and other automotive interior systems and components from certain of their facilities, thereby committing themselves to purchasing these items from outside suppliers. During this period, we became a supplier of these products for a significant number of new models, many on a just-in-time basis.

The purchase of seat systems and other automotive interior systems and components from full-service independent suppliers has allowed our customers to realize a competitive advantage as a result of:

a reduction in net overhead expenses and capital investment due to the availability of significant floor space for the expansion of other manufacturing operations;

the elimination of working capital and personnel costs associated with the production of interior systems by the automotive manufacturer;

a reduction in labor costs since suppliers like Lear generally have lower direct labor and benefit rates; and

a reduction in transaction costs by utilizing a limited number of sophisticated system suppliers instead of numerous individual component suppliers.

In addition, we offer improved quality and on-going cost reductions to our customers through continuous Lear-initiated design improvements.

We maintain a Customer Focus Group for most of our major customers. This organizational structure consists of several dedicated groups, each of which is primarily focused on serving the needs of a single customer and supporting that customer s programs and product development. Each Customer Focus Group interfaces with our Product Focus Group to provide all of the automotive interior systems and components that the customer needs, allowing that customer s purchasing agents, engineers and designers to have a single point of contact for their total automotive interior needs.

We receive blanket purchase orders from our customers that normally cover annual requirements for products to be supplied for a particular vehicle model. Such supply relationships typically extend over the life of the model, which is generally four to seven years, and do not require the purchase by the customer of any minimum number of products. Although such purchase orders may be terminated at any time, we do not believe that any of our customers have terminated a material purchase order prior to the end of the life of a model. Our primary risk is that an automotive manufacturer will produce fewer units of a model than anticipated. In order to reduce our reliance on any one model, we produce automotive interior systems and components for a broad cross-section of both new and more established models. Our sales for the year ended December 31, 2000 were comprised of the following vehicle categories: 42% light truck; 25% mid-size; 15% luxury/sport; 14% compact; and 4% full-size.

Because of the economic benefits inherent in outsourcing to suppliers and the costs associated with reversing a decision to purchase seat systems and other automotive interior systems and components from an outside supplier, automotive manufacturers commitment to purchasing seat systems and other automotive interior systems and components from outside suppliers, particularly on a

just-in-time basis, will increase. However, under the contracts currently in effect in the United States and Canada between each of Ford, General Motors and DaimlerChrysler with the United Auto Workers (UAW) and the Canadian Auto Workers (CAW), in order for any of such automotive manufacturers to obtain from external sources components that it currently produces, it must first notify the UAW or the CAW of such intention. If the UAW or the CAW objects to the proposed outsourcing, some agreement will have to be reached between the UAW or the CAW and the automotive manufacturer. Factors that will normally be taken into account by the UAW, the CAW and the automotive manufacturer include:

whether the proposed new supplier is technologically more advanced than the automotive manufacturer;

whether the new supplier is unionized;

whether cost benefits exist; and

whether the automotive manufacturer will be able to reassign union members whose jobs are being displaced to other jobs within the same factories.

As part of our agreement with General Motors, we operate our Rochester Hills, Michigan facility with General Motors employees and reimburse General Motors for the wages of such employees on the basis of our employee wage structure. We enter into these arrangements to enhance our relationship with customers. As of March 17, 2000, the General Motors employees working at our Wentzville, Missouri facility under this agreement became Lear employees.

Our contracts with our major customers generally provide for an annual productivity price reduction and provide for the recovery of increases in material and labor costs in some instances. Historically, cost reductions through design changes, increased productivity and similar programs with our suppliers have generally offset changes in selling prices, although no assurances can be given that we will be able to achieve such cost reductions in the future. Our cost structure is comprised of a high percentage of variable costs. This structure provides us with additional flexibility during economic cycles.

Marketing and Sales

We market our products by maintaining strong customer relationships. We have developed these relationships over our 80 plus year history through:

extensive technical and product development capabilities;

reliable just-in-time delivery of high-quality products;

strong customer service;

innovative new products; and

a competitive cost structure.

Close personal communications with automotive manufacturers is an integral part of our marketing strategy. Recognizing this, we are organized into independent customer groups, each with the ability to focus on its customers and programs. By moving the decision-making process closer to the customer and by instilling a philosophy of cooperative autonomy, we are more responsive to and have strengthened our relationships with our customers. Automotive manufacturers have generally continued to reduce the number of their suppliers as part of a strategy to purchase automotive interior systems rather than individual components. This process favors suppliers with established ties to automotive manufacturers and the demonstrated ability to adapt to the new competitive environment in the automotive industry.

Our sales are originated almost entirely by our sales staff. This marketing effort is augmented by design and manufacturing engineers who work closely with automotive manufacturers from the preliminary design to the manufacture and supply of automotive interior systems or components. Automotive manufacturers have increasingly looked to suppliers to assume responsibility for introducing product innovation, shortening the development cycle of new models, decreasing tooling investment and labor costs, reducing the number of costly design changes in the early phases of production and improving automotive interior comfort and functionality. Once we are engaged to develop the design for the automotive interior system or component of a specific vehicle model, we are also generally engaged to supply these items when the vehicle goes into production. We have devoted substantial resources toward improving our engineering and technical capabilities and developing advanced technology centers in the United States and in

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Europe. We have also developed full-scope engineering capabilities, including all aspects of safety and functional testing, acoustics testing and comfort assessment. In addition, we have established numerous product engineering sites in close proximity to our automotive manufacturer customers to enhance customer relationships and design activity. Finally, we have implemented a program of dedicated teams consisting of seat system and automotive interior trim personnel who are able to meet all of a customer s interior needs. These teams provide a single interface for our customers and help avoid duplication of sales and engineering efforts.

Technology

Advanced technology development is conducted at our advanced technology center in Southfield, Michigan, under the group name VisionWorks, and at several worldwide product engineering centers. At these centers, we engineer our products to comply with applicable safety standards, meet quality and durability standards, respond to environmental conditions and conform to customer requirements. We also have state-of-the-art acoustics testing and instrumentation and data analysis capabilities.

In order to effectively develop total automotive interior systems, it is necessary to integrate the engineering, research, design, development and validation of all interior subsystems. Our advanced technology center gives us the ability to integrate engineering, research, design, development and validation capabilities for all five interior systems at one location.

We have dedicated, and will continue to dedicate, resources to research and development in order to maintain our position as a leading developer of technology in the automotive interior industry. Research and development costs incurred in connection with the development of new products and manufacturing methods, to the extent not recoverable from the customer, are charged to selling, general and administrative expenses as incurred. Such costs amounted to approximately $208.7 million, $181.2 million and $116.6 million for the years ended December 31, 2000, 1999 and 1998, respectively.

We have developed a number of designs for innovative interior features which we have patented, all focused on increasing value to the customer. Examples include Lear s proprietary Common Architecture Strategy allowing freedom of choice and configuration of interior components at mass production prices, the TransG aging baby-boomer vehicle interior, the OASys overhead audio system, the Revolution Seating system and the One-Step door and One-Step liftgate modules. In 2000, Lear introduced Intertronics , a capability that shows tremendous potential to integrate electronic products with vehicle interior systems. Intertronics products and technologies are grouped into three categories: Interior Control Systems, Wireless Systems and Electronic and Electrical Distribution Systems, and include smart junction boxes, advanced electronic products and switches and remote keyless entry systems. In May 2000, Lear opened the Intertronics Innovation Center as its LEED facility in Dearborn to confirm its commitment to growing this business. In addition, we incorporate many convenience, comfort and safety features into our interior designs, including advanced whiplash concepts, lifestyle vehicle interior storage systems, overhead integrated modules, seat integrated restraint systems (3-point and 4-point belt systems integrated into seats), side impact air bags, child restraint seats and integrated IP air-bag systems. We continually invest in our computer-aided-engineering-design and computer-aided-manufacturing systems. Recent enhancements to these systems include advanced acoustic modeling and analysis capabilities and the enhancement of our Virtual Technology Division (VTD) web site allowing customer telecommunications and the direct exchange of engineering data and information with other worldwide divisions.

We have created brand identities, which highlight products for our customers. The ProTec brand identifies products optimized for interior safety; the SonoTec brand identifies products optimized for interior acoustics; and the EnviroTec brand identifies environmentally friendly products.

We have virtually all technologies and manufacturing processes available for automotive interior trim and under-the-hood applications. These processes include, among other things, high and low pressure injection molding, vacuum forming, blow molding, soft foam molding, heat staking, water jet cutting, vibration welding, ultrasonic welding and robotic painting. This wide range of capabilities allows us to assist our customers in selecting the technologies that are the most cost effective for each application. Combined with our design and engineering capabilities and our state-of-the-art technology and engineering centers, we provide comprehensive support to our automotive manufacturer customers from product development to production.

We own one of the few proprietary-design acoustical testing chambers with an integrated four-wheel dynamometer capable of precision acoustics testing of front, rear and four-wheel drive vehicles. Together with our custom-designed reverberation room, computer-controlled data acquisition and analysis capabilities provide precisely controlled laboratory testing conditions for sophisticated interior and exterior noise, vibration and harshness testing of parts, materials and systems, including powertrain, exhaust and suspension components.

We hold a number of mechanical and design patents covering our products and have numerous applications for patents currently pending. In addition, we hold several trademarks relating to various manufacturing processes. We also license selected technologies to

automotive manufacturers and other seating manufacturers. We continually strive to identify and implement new technologies for use in the design and development of our products.

Joint Ventures and Minority Interests

We pursue attractive joint ventures in order to assist our entry into new markets, facilitate the exchange of technical information, expand our product offerings and broaden our customer base. We currently have thirty-seven joint ventures located in seventeen countries. Eighteen of these joint ventures are consolidated, seventeen are accounted for using the equity method of accounting and two are accounted for using the cost method of accounting. In May 2000, we formed a joint venture with Motorola, Inc. to design integrated interior systems for Ford. In November 2000, we formed Total Interior Systems America, a joint venture with Takashimaya Nippatsu Kogyo Co. Ltd. to supply seat systems for the Sienna minivan, our first seat contract with Toyota for production in North America.

Competition

We are the leading supplier of automotive interior products with manufacturing capabilities in all five automotive interior product groups: seat systems; flooring and acoustic systems; door panels; headliners; and instrument panels. Within each segment, we compete with a variety of independent suppliers and automotive manufacturer in-house operations, primarily on the basis of cost, product quality and service. Set forth below is a summary of our primary independent competitors.

Seat Systems. We are one of two primary independent suppliers in the outsourced North American seat systems market. Our main independent competitor in North America is Johnson Controls. Our major independent competitors in Western Europe are Johnson Controls and Faurecia (headquartered in France).

Electrical Distribution Systems and Electrical/Electronic Products. We are one of the leading independent suppliers of automotive electrical distribution systems in North America and Europe. Our major competitors in the

electrical distribution systems market include Delphi, Yazaki and Sumitomo. The automotive electrical/electronic products industry remains highly fragmented. Other participants in this industry include Eaton, Tokai Rika, Kostal, Methode, Pollack, Cherry, Niles, Omron and others.

Flooring and Acoustic Systems. We are one of the three primary independent suppliers in the outsourced North American flooring and acoustic systems market. Our primary independent competitors are Collins & Aikman and the Magee Carpet Company. Our major independent competitors in Western Europe include Faurecia, Magna, Radici, Borgers, Rieter Automotive and Treves.

Other Interior Systems and Components. Our major independent competitors in the door panel, instrument panel and headliner segments include Johnson Controls, Magna International, Textron, Delphi, Visteon, Faurecia and a large number of smaller operations.

Seasonality

Our principal operations are directly related to the automotive industry. Consequently, we may experience seasonal fluctuation to the extent automotive vehicle production slows, such as in the summer months when plants close for model year changeovers and vacation. Historically, our sales and operating profit have been the strongest in the second and fourth calendar quarters. See Note 16, Quarterly Financial Data, to our 2000 consolidated financial statements included in this Report.

Our cost structure is comprised of a high percentage of variable costs. This structure provides us with additional flexibility during economic cycles.

Employees

As of December 31, 2000, Lear employed approximately 35,700 people in the United States and Canada, 40,000 in Mexico, 32,500 in Europe and 13,400 in other regions of the world. A substantial number of our employees are members of unions. We have collective bargaining agreements with several unions including: the UAW; the CAW; UNITE; the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America; and the International Association of Machinists and Aerospace Workers. Virtually all of our unionized facilities in the United States and Canada have a separate contract with the union which represents the workers employed there, with each such contract having an expiration date independent of our other labor contracts. The majority of our European and Mexican employees are members of industrial trade union organizations and confederations within their respective countries. Many of these organizations and confederations operate under national contracts, which are not specific to any one employer. We have occasionally experienced labor disputes at our plants, none of which has significantly disrupted production or

had a material adverse effect on our operations. We have been able to resolve all such labor disputes and believe our relations with our employees are generally good. In addition, as part of our long-term agreements with General Motors, we currently operate one facility with approximately 400 General Motors employees and reimburse General Motors for the wages of such employees on the basis of our wage structure. See Management s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements.

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ITEM 2 PROPERTIES

As of December 31, 2000, our operations were conducted through 335 facilities, some of which are used for multiple purposes, including 167 production/manufacturing sites, 55 JIT sites, 42 administrative/technical support sites, 7 assembly sites, 5 advanced technology centers and 5 distribution centers, in 32 countries. The remaining facilities are primarily warehouses. Our world headquarters is located in Southfield, Michigan. Our facilities range in size up to 1,016,000 square feet.

No facility is materially underutilized. Of the 335 facilities, which include facilities owned by our less than majority-owned affiliates, 175 are owned and 160 are leased with expiration dates ranging from 2001 through 2021. We believe substantially all of our property and equipment is in good condition and that we have sufficient capacity to meet our current and expected manufacturing and distribution needs. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Financial Condition Cash Flow.

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The following table presents the locations of our facilities:

Argentina	**Germany**	**Mexico (Continued)**	**Tunisia**	**United States (Continued)**
Escobar, BA				
BesigheimMexico City,				
DFBir El				
BeyPerrysburg,				
OHFerreyra, CO				
BoblingenNaucalpan,				
MXPeru, INPacheco,				
BA BremenPuebla,				
PU**Turkey**Pikeville,				
TNSan Luis, SL				
EbersbergRamos				
Arizpe,				
COBursaPlainwell, MI				
EisenachSaltillo,				
COPlymouth,				
IN**Australia**				
EnseldorfSanta				
Catarina, NL**United**				
StatesPlymouth,				
MISalisbury, SA				
GaimersheimToluca,				
MXAllen Park,				
MIPontiac, MI				
Garching-HochbruckTultitlan,				
MXAlma, MIPort				
Huron, MI**Austria**				
Ginsheim-GustavsburgAndrews,				
INRiverside,				
IAKoflach				
Koln**Netherlands**Arlington,				
TXRochester Hills, MI				
KronachAmsterdamAtlanta,				

GARomulus,
MI**Belgium**
PlattlingAuburn Hills,
MIRoscommon,
MIGenk
Quakenbruck**Philippines**Berne,
INSheboygan,
WIHouthalen
RietbergLapu-Lapu
City, CEBourbon,
INSidney, OH
SaarlouisBowling
Green, OHSouthfield,
MI**Brazil**
Sulzbach**Poland**Bridgeton,
MOStrasburg,
VABetim
WackersdorfBielsko-BialaByron
Center, MITampa,
FLCacapava
WolfsburgMielecCarlisle,
PATaylor,
MICuritibaPlockColumbus,
OHToledo,
OHDiadema
HondurasSwidnicaCovington,
VATraverse City,
MIGravatai Naco,
SBTychyDayton,
TNTroy, MIJuiz de For
aDearborn, MIUnion
City, INSao Jose dos
Pinhais **Hong
KongPortugal**Detroit,
MIWalker, MI North
PointPalmela,
SLDuncan, SCWarren,
MI**Canada**Povoa de
Lanhoso,Edinburgh,
INWarren, OHAjax
HungaryBAEl Paso,
TXWauseon,
OHConcord
GodolloValongo,
POElsie, MIWentzville,
MOKitchener
GyoerFenton, MIWest
Chicago,
ILMississauga
Gyonygos**Russia**Frankfort,
INWinchester,
VAOakville
MorNihzny
NovgorodFremont,
OHZanesville, OHSt.
ThomasGrand Rapids,
MIWhitby
IndiaSingaporeGreencastle,
IN**Venezuela**Windsor
ChennaiSingaporeGreensboro,
NCValenciaWoodstock
HalolHammond, IN

MumbaiSouth
Africa Highland Park,
MIChina
NasikBritsHolland,
MIChongqing New
DelhiEast
LondonHunington,
INNanchangPort
ElizabethHuron,
OHShanghai
Italy RosslynnIowa
City, IAWuhan Bairo
Canavese,
TOWoodbrookIthaca,
MI Bellizzi,
SAJanesville, WICzech
Republic Caivano,
NASpainLebanon,
OHPrestice Cassino,
FRAlmussafes,
VALebanon, VA
Grugliasco, TOAvila,
AVLewistown,
PAEngland Melfi,
PZCevera,
LELexington,
KYBasildon, SS
Montelabbate, PSEpila,
ZALiberty,
MOBicester, OX
Orbassano,
TOLogrono,
LRLouisville,
KYCoventry, CV
Pianfei, CNRoquetes,
TAMadison Heights,
MICoventry, M Pozzo
d Adda, MIValls,
TAMadisonville,
KYKenilworth, WA
Termini Imerese,
PAVigo, PAManteca,
CALiverpool, ME
Villastellone,
TOMarlette,
MINottingham,
NGSwedenMarshall,
MIShepperton, SU
JapanFargelandaMason,
MITamworth, ST
AichiGnosjoMelvindale,
MITipton, M
HiroshimaGothenburgMendon,
MIWashington, TY
TokyoTanumshedeMorristown,
TNTidaholmMt. Airy,
NCFrance MexicoNew
Castle, DECergy
Chihuahua,
CHThailandNewark,
DEGarches Cuautitlan
Izcalli,

MXBangkokNorthwood,
OHGuipry Hermosillo,
SONakornratchasimaNovi,
MIMeaux Juarez,
CHRayongO Fallon,
MOOffranville Leon,
GOOklahoma City, OK

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ITEM 3 LEGAL PROCEEDINGS

We are involved in certain legal actions and claims arising in the ordinary course of business. We do not believe that any of the litigation in which we are currently engaged, either individu