

FORM 10-K

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, 1995.

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

DELAWARE 13-3386776
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

21557 TELEGRAPH ROAD, SOUTHFIELD, MI 48034
(Address of principal executive offices) (zip code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (810) 746-1500

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, 1996, the aggregate market value of the registrant's Common Stock, par value \$.01 per share, held by non-affiliates of the registrant was \$1,156,366,496. The closing price of the Common Stock on March 1, 1996 as reported on the New York Stock Exchange was \$32 per share.

As of March 1, 1996, the number of shares outstanding of the registrant's Common Stock was 56,572,178 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the registrant's Notice of Annual Meeting of Stockholders and Proxy Statement for its Annual Meeting of Stockholders to be held on May 9, 1996, as described in the Cross-Reference Sheet and a Table of Contents included herewith, are incorporated by reference into Part III of this Report.

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AND
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- (1) Certain information is incorporated by reference, as indicated below, from the registrant's Notice of Annual Meeting of Stockholders and Proxy Statement for its Annual Meeting of Stockholders to be held on May 9, 1996 (the "Proxy Statement").
- (2) Proxy Statement sections entitled "Election of Directors" and "Management."
- (3) Proxy Statement section entitled "Executive Compensation," "Compensation Committee Interlocks and Insider Participation," and "Report of Compensation Committee - Annual Incentives"
- (4) Proxy Statement section entitled "Management - Security Ownership of Certain Beneficial Owners and Management."
- (5) Proxy Statement section entitled "Certain Transactions."

PART I

ITEM 1 - BUSINESS

As used in this Report, unless the context otherwise requires, the "Company" or "Lear" refers to Lear Seating Corporation and its consolidated subsidiaries after giving effect to the merger of Lear Holdings Corporation, the former parent of Lear Seating Corporation, with and into Lear Seating Corporation, which occurred on December 31, 1993. In addition, the term "AI Division" refers to the business formerly owned by Automotive Industries Holding, Inc., which the Company acquired in August 1995.

GENERAL

Lear is the largest independent supplier of automotive interior systems in the \$23 billion North American and Western European automotive interior systems market. The Company's principal products include finished automobile and light truck seat systems, seat frames, seat covers and other seat components. With the acquisition of Automotive Industries Holding, Inc. ("AI" or "Automotive Industries") in August, 1995, the Company has expanded its product offerings to include interior trim products such as door panel and overhead systems and other interior components, as well as a variety of blow molded products and other automotive components such as fluid reservoirs, fuel tank shields, and front grille assemblies. The acquisition of AI also provided Lear with the capability to engineer, design, and deliver products for a complete vehicle interior. The Company's present customers include 24 original equipment manufacturers ("OEMs"), the most significant of which are General Motors, Ford, Fiat, Chrysler, Volvo, Saab, Volkswagen, Audi and BMW. As of December 31, 1995, the Company employed approximately 35,000 people in 18 countries and operated 107 manufacturing, research and development, product engineering and administration facilities.

The Company's seat systems, which are designed, manufactured and assembled at the Company's manufacturing facilities, are shipped to customer assembly plants on a sequential parts delivery ("SPD") basis for installation in vehicles near the end of the assembly process. The SPD process not only enables the Company to deliver seat systems to customers on a just-in-time ("JIT") basis but also permits delivery in the color and order in which the products are used in the OEMs' assembly lines. Lear's JIT seat operations are strongly complemented by the AI Division's vast array of manufacturing processes designed to satisfy their customers' different cost and functionality specifications. In order to capitalize on and integrate these manufacturing processes, the Company has implemented a program of dedicated teams consisting of interior trim and seat systems personnel who are able to meet all of a customer's interior needs. These teams provide a single interface for customers and avoid duplication of sales and engineering efforts.

Lear's sales have grown rapidly from approximately \$159.8 million in the fiscal year ended June 30, 1983, to approximately \$4.7 billion in the year ended December 31, 1995, a compound annual growth rate of approximately 33%. This increase in sales, which has been achieved through internal growth as well as acquisitions, is attributable primarily to the Company's strategy of capitalizing on two significant trends in the automotive industry: (i) the outsourcing of automotive components and systems by OEMs; and (ii) the consolidation and globalization of the OEM's supply base. Outsourcing of interior components and systems has increased in response to competitive pressures on OEMs to improve quality and reduce capital needs, costs of labor, overhead and inventory. Consolidation among automotive industry suppliers has occurred as OEMs have more frequently awarded long-term sole source contracts to the most capable global suppliers. Increasingly, the criteria for selection include not only cost, quality and responsiveness, but also certain full-service capabilities, including design, engineering and project management support. OEMs now have rigorous programs for evaluating and rating suppliers, which encompass quality, cost control, reliability of delivery, new technology implementation and overall management. Under these programs, each facility operated by a supplier is evaluated independently. The suppliers who obtain superior ratings from an OEM are considered for new business; those who do not may continue their existing contracts, but are unlikely to be considered for additional business. As a result, the OEMs' new supplier policies have sharply reduced the number of component and system suppliers. The Company believes that OEMs in North America and Europe will continue to pursue outsourcing and supplier consolidation as a means of cost reduction.

The principal beneficiaries of the trend to outsourcing have been independent suppliers, such as the Company, with proven design, engineering, program management and SPD manufacturing capabilities. Companies with such capabilities are generally referred to as Tier I suppliers. The Company believes that early involvement in the design and engineering of new seat products and other interior components and systems affords the Company a competitive advantage in securing new business and provides its customers with significant cost reduction opportunities through the coordination of the design, development and manufacturing processes. See "Business-Business Strategy."

Lear is the largest independent seat systems supplier to the \$11 billion North American and Western European seat market and is also the largest supplier of seat systems and seat components in Mexico. With the addition of AI, the Company more than doubled the size of the market it sells to, as Lear is now the largest independent supplier in the \$23 billion North American and Western European automotive interior systems market. Most non-seat related portions of the automotive interior market are highly fragmented, contain no dominant supplier and are just starting to experience the outsourcing and consolidation process. The Company believes that the same competitive pressures that contributed to the rapid expansion of its seat systems business in North America since 1983 will continue to encourage automakers in the North American and European markets to outsource more of their automotive interior requirements. Over the past three years, the Company has aggressively pursued expansion in Europe and in emerging markets, with both existing and new customers.

The Company's North American content per vehicle has increased from \$12 in 1983 to \$227 in 1995. In Western Europe, the content per vehicle has grown from \$3 in 1983 to \$102 in 1995. These increases have resulted from the Company's ability to capitalize on a number of industry trends including outsourcing, greater design responsibility by suppliers and the increased sophistication of seat systems as OEMs add convenience features and luxury items into vehicle models. The increases in content per vehicle also resulted from several recent acquisitions, including Automotive Industries and the Fiat Seat Business (See Business - Acquisitions). In addition, the Company has been at the forefront in the development of more advanced automobile safety features, such as side impact airbags and fully integrated seatbelts.

The Company's continued expansion as a Tier I supplier resulted in the Company beginning sixteen new seat programs in 1995 including programs for Ford, General Motors, Volkswagen, Chrysler, Fiat and BMW. This new business, combined with the full integration of the December 1994 acquisition of the Fiat Seat Business and the acquisition of Automotive Industries, has contributed significantly to the Company's overall growth.

The Company is the successor to a seat frame manufacturing business founded in 1917 that served as a supplier to General Motors and Ford from its inception. Lear Holdings Corporation ("Holdings"), the former parent of the Company, was organized in August 1988 to effect the acquisition (the "1988 Acquisition") of all of the outstanding common stock of Lear Seating Corporation (formerly known as Lear Siegler Seating Corp.) and certain other subsidiaries of Lear Siegler Holdings Corp. comprising its seating group. On December 31, 1993, Holdings merged with and into the Company (the "Holdings Merger"), and the separate corporate existence of Holdings ceased on that date.

As a result of the expansion of the Company's business from automotive seat systems to products for a vehicle's complete interior, the Company has proposed changing its name to "Lear Corporation" from "Lear Seating Corporation." Formal approval of the name change will be sought at the annual meeting of stockholders.

The Company's world headquarters are located at 21557 Telegraph Road, P.O. Box 5008, Southfield, Michigan 48034-5008. Its telephone number at that location is (810) 746-1500. The Company was incorporated in Delaware on January 13, 1987.

Lear's business objective is to expand its position as the global leader of automotive interior systems to OEMs. To achieve this objective, the Company will continue to pursue a strategy based upon the following elements:

- Strong Relationships with the OEMs. The Company's management has developed strong relationships with its 24 OEM customers which allow Lear to identify business opportunities and anticipate customer needs in the early stages of vehicle design. Management believes that working closely with OEMs in the early stages of designing and engineering vehicle interior systems gives it a competitive advantage in securing new business. Lear maintains an excellent reputation with the OEMs for timely delivery and customer service and for providing world class quality at competitive prices. As a result of the Company's service and performance record, many of the Company's facilities have won awards from OEMs with which they do business.

- Product Technology and Design Capability. Lear has made substantial investments in product technology and product design capability to support its products. The Company maintains three research and development centers (in Southfield, Michigan, Rochester Hills, Michigan, and Turin, Italy) where it develops and tests current and future products to determine compliance with safety standards, quality and durability, response to environmental conditions and user wear and tear. At its 15 customer-dedicated product engineering centers, specific program applications are developed and tested. Benchmarking studies are also conducted to aid in developing innovative interior design features. The Company has also made substantial investments to upgrade its advanced computer-aided engineering ("CAE") and computer-aided design/computer-aided manufacturing ("CAD/CAM") systems. Several tools recently added to electronically create a product and evaluate its performance include advanced design modeling software, dynamic crash simulation, linear and non-linear finite element analysis and solids modeling. In addition, the Company has developed a program management process to ensure that customers' expectations are met. The proprietary "Visions" program allows Lear to manage all aspects of product development. The process ensures that employees, customers and suppliers of the Company work as a team to deliver high quality, cost-effective products on a timely basis.

- Lean Manufacturing Philosophy. Lear's "lean manufacturing" philosophy seeks to eliminate waste and inefficiency in its own operations and in those of its customers and suppliers. The Company believes that it provides superior quality automotive interior products at lower costs than the OEMs. The Company, whose seating facilities are linked by computer directly to those of its suppliers and customers, receives components from its suppliers on a JIT basis, and delivers seat systems and components to its customers on a sequential JIT basis, which provides products to an OEM's manufacturing facility in the color and order in which the products are used. The process minimizes inventories and fixed costs for both the Company and its customers and enables the Company to deliver products on as little as 90 minutes' notice. For the year ended December 31, 1995, the Company's overall annual inventory turnover rate was 30 times and up to 200 times in the case of certain of the Company's JIT plants. The Company also minimizes fixed costs by using existing suppliers to the OEMs and the OEMs themselves for certain components. In cases where one of the Company's seating manufacturing facilities is underutilized, the Company is able to redistribute products to increase facility utilization. The JIT seat manufacturing facilities are strongly complemented by AI's manufacturing facilities, with their vast array of manufacturing processes. AI has historically added value to its customers by being a "one-stop-shop" for OEMs interior trim needs. This objective has been achieved by offering a wide variety of manufacturing solutions to satisfy their customers' needs.

- Global Presence. In 1995, almost one half of total worldwide vehicle production occurred outside of North America and Western Europe. Due to significant cost savings and improved product quality and consistency, OEMs have increasingly required their suppliers to manufacture seat systems and other components in multiple geographic markets. By expanding its operations outside the United States in the early 1990's, through Lear's expansion into Western Europe and currently through the Company's expansion into emerging markets, Lear has sought to provide its products on a global basis to its OEM customers. A global market presence also affords Lear some protection against cyclical downturns in any single market. For the year ended December 31, 1995, approximately 52% of the Company's sales were outside the United States. During 1995, in furtherance of its global expansion strategy, the Company entered into three joint ventures and expanded its wholly-owned operations into a new country. The first joint venture agreement was with an affiliate of Industria Espanola del Polietter, S.A. ("INESPO"), a Spanish corporation, to supply seat systems in Brazil for the Volkswagen Gol. The Company also entered into a joint venture agreement with Grupo R.B., the largest independent automotive supplier in Argentina, to supply seat systems to Volkswagen in Argentina for the Gol and the Cordoba models and with Trambusti, a Brazilian company, to supply seat systems to Fiat in Brazil for the 178 World Car, the Tempra, and several light trucks. In addition, Lear further expanded its presence internationally by opening a facility in South Africa to provide seats to BMW.

- Growth Through Strategic Acquisitions. Strategic acquisitions have been, and management believes will continue to be, an important element in the Company's growth worldwide and in its efforts to capitalize on automotive industry trends described above. The Company's recent acquisitions have expanded its OEM customer base and worldwide presence and enhanced its relationships with existing customers. The AI acquisition has also given the Company a significant presence in the non-seating segment of the automobile and light truck interior market. The Company believes that these markets hold significant growth potential for Lear because currently there is no dominant supplier of these products and they are just beginning to experience the outsourcing and consolidation trends that have contributed to the expansion of the seat systems industry since the early 1980's. The Company will continue to consider strategic acquisitions that expand its global presence, enhance its technological capabilities or represent an outsourcing opportunity.

RECENT ACQUISITIONS

To supplement its internal growth and implement its business strategy, the Company has made several strategic acquisitions since 1990. The following is a summary of recent major acquisitions:

Automotive Industries (AI) Acquisition

In August 1995, AIHI Acquisition Corp., a wholly-owned subsidiary of Lear, acquired all the outstanding common stock of AI and subsequently merged with and into AI. The aggregate purchase price for the acquisition of Automotive Industries (the "AI acquisition") was \$885.0 million (including the assumption of \$250.5 million of AI's existing indebtedness and fees and expenses of \$18.1 million). These funds were provided by borrowings under the Company's senior revolving credit facility with a syndicate of lenders. See Notes 5 and 10 to the Company's Consolidated Financial Statements included in this Report.

The acquisition of AI, a leading designer and manufacturer of high quality interior trim systems and blow molded parts to automobile and light truck manufacturers, made Lear the largest independent Tier I supplier of automotive interior systems in the North American and Western European light vehicle interior market. In addition to significantly increasing the Company's potential market, management believes that the AI acquisition provides Lear with a competitive advantage as OEMs continue to reduce their supplier base while demanding improved quality and additional Tier I services. In this regard, management believes that OEM's will increasingly ask their lead interior suppliers to fill the role of "Systems Integrator" to manage the design, purchasing and supply of the total automobile interior. As a result of the AI acquisition, Lear is well-positioned to fill this role.

Prior to its acquisition by Lear, Automotive Industries itself augmented its substantial internal growth with selected strategic acquisitions. The acquisitions allowed AI to expand its interior trim systems product capabilities and substantially increased AI's ability to provide advanced design, engineering and program management services to its customers. At the same time, they increased AI's global presence and provided AI access to new customers and new technologies. As a division of Lear, it is anticipated that AI will continue to consider strategic acquisitions as a means to further growth.

FSB Acquisition

On December 15, 1994, the Company, through its wholly-owned subsidiary, Lear Seating Italia Holdings, S.r.L., purchased from Gilardini S.p.A. ("Gilardini"), a subsidiary of Fiat, all the shares of SEPI S.p.A. ("SEPI"), the primary automotive seat systems supplier to Fiat. SEPI and its wholly-owned subsidiary, SEPI Sud S.p. A. ("SEPI Sud"), operate eight facilities in Italy producing automotive seat systems for 85% of Fiat's Italian vehicle production under the Fiat, Lancia, Alfa Romeo and Ferrari nameplates as well as seat frames for certain Fiat models for which SEPI and SEPI Sud do not supply the seat systems (collectively the "FSB acquisition"). In connection with this acquisition, Lear also acquired from Gilardini interests in seat systems and seat covers businesses in Poland, Spain and Turkey. Lear and Fiat also entered into a long-term supply agreement for Lear to produce all outsourced automotive seat systems for Fiat and affiliated companies worldwide.

The acquisition of the Fiat Seat Business (the "FSB") not only established Lear as the market leader in automotive seat systems in Europe, but combined with its leading position in North America, made Lear the largest automotive seat systems manufacturer in the world. In addition, it gave the Company access to rapidly expanding markets in South America and has resulted in the formation of new joint ventures which will supply automotive seat systems to Fiat or its affiliates in Brazil and Argentina.

NAB Acquisition

On November 1, 1993, Lear significantly strengthened its position in the North American automotive seating market by purchasing the North American seat cover and seat systems business (the "NAB") of Ford Motor Company. The NAB consists of an integrated United States and Mexican operation which produces seat covers for approximately 80% of Ford's North American vehicle production (as well as for several independent suppliers) and manufactures seat systems for certain Ford models. The acquisition of the NAB (the "NAB Acquisition") included the machinery, equipment, real property and other assets used in the operations of the NAB as well as all of the issued and outstanding capital stock of Favesa S.A. de C.V., a maquiladora operation located in Juarez, Mexico.

Prior to the NAB Acquisition, the Company outsourced a significant portion of its seat cover requirements. The expansion of the Company's seat cover business has provided Lear with better control over the costs and quality of one of the critical components of a seat system. In addition, by virtue of the NAB Acquisition, the Company was able to enhance its relationship with one of its largest OEM customers, entering into a five year supply agreement with Ford covering models for which the NAB had produced seat covers and seat systems at the time of the acquisition. The Company also assumed during the term of the supply agreement primary engineering responsibility for a substantial portion of Ford's car models, providing Lear with greater involvement in the planning and design of seat systems and related products for future light vehicle models.

PRODUCTS

Lear's products have evolved from the Company's many years of experience in the seat frame market where it has been a major supplier to General Motors and Ford since its 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 the Company's emergence as a dominant supplier of entire seat systems. With the acquisition of Automotive Industries, the Company has expanded its product offerings and can now provide customers with interior trim systems and components such as door panel and overhead systems, quarter panels, package trays, armrests, sunvisors, headliners and consoles. Through its AI Division, the Company also produces a variety of blow molded products and other automotive components such as fluid reservoirs, fuel tank shields, exterior airdams, front grille assemblies, engine covers, battery trays/covers and insulators. Lear believes that as OEMs continue to seek ways to improve vehicle quality while simultaneously reducing the costs of the various vehicle components, they will increasingly look to suppliers such as Lear with the capability to engineer, design and deliver products for a complete vehicle interior.

The market for seat systems developed as a result of North American automobile manufacturers' need to restructure assembly plant methods in response to vigorous foreign competition in the early 1980's. The Company was positioned to take advantage of this growing market through its long standing relationships with customers. These relationships have been fostered through the Company's performance in seat frame manufacturing over the years and its demonstrated ability to supply and manage total seat systems. The Company believes that its position in the seat systems market will improve as seats with advanced features become an increasingly important criterion for distinguishing between competing vehicle models. Moreover, with the acquisition of Automotive Industries, the Company believes it has tremendous cross-selling opportunities across both customers and vehicle platforms and is well-positioned to be the world's leading interior systems integrator.

The following is the approximate composition by product category of the Company's net sales in the year ended December 31, 1995, after giving pro forma effect to the AI acquisition: 71% seat systems; 16% interior trim products and other; 13% seat components.

- Seat Systems. The seat systems business consists of the manufacture, assembly and supply of entire seating requirements for a vehicle or assembly plant. The Company produces seat systems for automobiles and light trucks that are fully finished and ready to be installed in a vehicle. High performance seats 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 OEMs continue to view seat systems as a distinguishing marketing feature, the advanced features incorporated initially in high performance seats are more frequently becoming standard features in a wider variety of later production vehicles.

As a result of its product technology and product design strengths, the Company can provide ergonomic designs which offer styling flexibility at low cost. In addition, the Company is able to incorporate many convenience features and safety improvements into its seat designs, such as storage armrests, rear seat fold down panels, integrated restraint systems, child restraint seats, and side impact air bags.

Lear's position as a market leader in seat systems is largely attributable to seating programs on new vehicle models launched in the past five years. The Company believes that supplying seating for these new vehicle models will provide it with a long-term revenue stream throughout the lives of these models. The Company is currently working with customers in the development of a number of seat systems products to be introduced by automobile manufacturers in the late 1990's, which it expects will lead to an increase in outsourcing opportunities in the future.

- Seat Components. Lear produces seat covers at its Fairhaven, Michigan and Saltillo, Mexico facilities, which deliver seat covers primarily to other Company plants. In addition, the Company is producing approximately 80% of the seat covers for Ford's North American vehicles. The Company's major external customers for seat covers are Ford and other independent seat systems suppliers. The expansion of the Company's seat cover business allows the Company better control over the costs and quality of one of the critical components of a seat system. Typically, seat covers comprise approximately 30% of the aggregate cost of a seat system.

Lear produces steel and aluminum seat frames for passenger cars and light and medium trucks. Seat frames are primarily manufactured using precision stamped, tubular steel and aluminum components joined together by highly automated, state-of-the-art welding and assembly techniques. The manufacture of seat frames must meet strict customer specified safety standards. The Company's seat frames are either delivered to its own plants where they become part of a completed seat that is sold to the OEM customer, to customer-operated assembly plants or to other independent seating suppliers where they are used in the manufacture of assembled seating systems. The Company's product development engineers continue to advance its technological position with such innovative material applications as magnesium and plastic frames and new seat designs which dramatically reduce seat weight while increasing usable automotive vehicle interior space or increasing safety.

The Company designs and manufactures plastic storage armrests and other plastic components for inclusion in seat systems at its plant in Mendon, Michigan. Vehicles in which these components are found include the Dodge Ram Pick-up Truck, the Ford F-Series Pick-up Truck, the Ford Taurus, the Mercury Sable, the GMC C/K Pickup Truck, the Buick LeSabre and the Oldsmobile Delta 88. The Company also manufactures decorative, painted and assembled injection molded components at its Mendon, Michigan facility that are used in automotive vehicle interiors.

- Interior Trim Products. With the acquisition of AI, Lear has expanded its product offerings to include a variety of interior trim systems and components as well as blow molded plastic parts. The primary interior trim products are described below:

- Complete door panel assemblies
- Armrests and consoles
- Custom injection molded interior trim including "A," "B" and "C" pillars, cowl panels, scuff plates, trunk liners and quarter panels
- Sun visors
- Headliners and package trays
- Appliques and bolsters
- Load floors
- Spare tire covers
- Seatbacks
- Windshield washer reservoirs
- Fuel tank shields
- Coolant reservoirs
- Front grille assemblies
- HVAC ducts
- Interior insulators
- Hood insulators
- Engine shrouds
- Air intake ducts
- Exterior air dams
- Vapor canisters

The core technologies used in the AI Division's interior trim systems include injection molding, low-pressure injection molding, rotational molding and urethane foaming, compression molding of Wood-Stock(TM) (a proprietary process that combines polypropylene and wood flour), glass reinforced urethane and a proprietary headliner process. One element of the AI Division's strategy is to focus on more complex, value-added products such as door panel systems and armrests. The AI Division delivers 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 AI.

Door panel systems and armrests represent the AI Division's most complex products. A door panel consists of several component parts that are attached to a base molded substrate by various methods. Specific components include vinyl- or cloth-covered appliques, armrests, radio speaker grilles, map pocket compartments or carpet and sound reducing insulation. Upon assembly, each component must fit precisely, with a minimum of misalignment or gap, and must match the color of the base substrate. Armrests are produced by either rotational molding or injection molding of a vinyl covering and are then combined with an insert and filled with a resilient polyurethane foam to produce the finished product.

The AI Division produces a variety of blow molded products. In contrast to AI's interior systems products, blow molded products require little assembly. However, the manufacturing process for such parts demands considerable expertise in order to consistently produce high-quality products. Blow molded parts are produced by extruding a shaped parison or tube of plastic material and then clamping a mold around the parison. High pressure air is introduced into the tube causing the hot plastic to take the shape of the surrounding mold. The part is removed from the mold after cooling and finished by trimming, drilling and other operations.

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. Plastics are now commonly used in such nonstructural components as interior and exterior trim, door panels, instrument panels, grilles, bumpers duct systems, taillights and fluid reservoirs. Increasingly, automobile content requires large plastic injection molded assemblies for both the interior and exterior. 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.

MANUFACTURING

All of the Company's seating plants use JIT manufacturing techniques, and most of the Company's seating related products are delivered to the OEMs on a JIT basis. The JIT concept, first broadly utilized by Japanese automobile manufacturers, is the cornerstone of the Company's manufacturing and supply strategy. This strategy involves many of the principles of the Japanese system, but was redeveloped for compatibility with the greater volume requirements and geographic distances of the North American market. The Company first developed JIT operations in the early 1980s at its seat frame manufacturing plants in Morristown, Tennessee and Kitchener, Ontario, Canada. These plants 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 JIT manufacturing techniques, the Company has been able to consolidate plants, increase capacity and significantly increase inventory turnover, quality and productivity.

The JIT principles first developed at Lear's seat frame plants in 1983 were next applied to the Company's growing seat systems business and have now evolved to SPD principles. The Company's seating plants are typically no more than 30 minutes or 20 miles from its customers' assembly plants and manufacture seats for delivery to the customers' facilities in as little as 90 minutes. Orders for the Company's seats are received on a weekly basis, pursuant to blanket purchase orders for annual requirements. These orders detail the customers' needs for the ensuing week. In addition, constant computer and other communication is maintained between personnel at the Company's plants and personnel at the customers' plants to keep production current with the customers' demand.

Seat assembly techniques fall into two major categories, traditional assembly methods (in which fabric is affixed to a frame using Velcro, wire or other material) and more advanced bonding processes. There are two bonding techniques employed by the Company, the Company's patented SureBond process, a technique in which fabric is affixed to the underlying foam padding using adhesives, and the Company's licensed foam-in-place process, in which foam is injected into a fabric cover. The SureBond process has several major advantages when compared to traditional methods, including design flexibility, increased quality and lower cost. The SureBond process, unlike alternative bonding processes, results in a more comfortable seat in which air can circulate freely. The SureBond process, moreover, is reversible, so that seat covers that are improperly installed can be removed and repositioned properly with minimal materials cost. In addition, the SureBond process is not capital intensive when compared to competing technologies. Approximately one-third of the Company's seats are manufactured using the SureBond process.

The seat assembly process begins with pulling the requisite components from inventory. Inventory at each plant is kept at a minimum, with each component's requirement monitored on a daily basis. This allows the plant to devote the maximum space to production, but also requires precise forecasts of the day's output. Seats are assembled in modules, then tested and packaged for shipment. The Company operates a specially designed trailer fleet that accommodates the off-loading of vehicle seats at the assembly plant.

The Company's AI Division uses numerous manufacturing processes. AI's manufacturing processes include numerous molding, bonding, trimming and finishing processes. The wide variety of manufacturing processes help to satisfy their customers' different cost and functionality specifications. AI's ability and experience in producing interior products for such a vast array of applications enhances the Company's ability to provide total interior solutions to OEMs globally. In addition, the Company intends to integrate into its interior trim facilities some of the JIT principles used at its seating facilities.

The Company obtains steel, aluminum and foam chemicals used in its seat systems from various producers under various supply arrangements. The principal raw materials used in the production of polyurethane foam used in seating are polyol (poly oxyalkylene) and TDI (toluene diisocyanate). These materials are supplied under various arrangements with major chemical companies and are readily available. Leather, fabric and purchased components are generally purchased from various suppliers under contractual arrangements usually lasting no longer than one year. Some of the purchased components are obtained through the Company's own customers. The principal purchased components for interior trim systems are polyethylene and polypropylene resins which are purchased under long-term agreements and are available from multiple suppliers.

CUSTOMERS

Lear serves the worldwide automobile and light truck manufacturers, which produces approximately 50 million vehicles annually. The Company's OEM customers currently include General Motors, Ford, Fiat, Chrysler, Volvo, Saab, Opel, Jaguar, Volkswagen, Audi, BMW, Rover, Honda USA, Daimler-Benz, Mitsubishi, Mazda, Toyota, Subaru, Nissan, Isuzu, Peugeot, Porsche, Renault, and Suzuki. During the year ended December 31, 1995, General Motors and Ford, the two largest automobile and light truck manufacturers in the world, accounted for approximately 34% and 33%, respectively, of the Company's net sales. For additional information regarding customers, foreign and domestic operations and sales, see Note 17, "Geographic Segment Data," to the Consolidated Financial Statements of the Company included in this Report.

In the past six years, in the course of retooling and reconfiguring plants for new models and model changeovers, OEMs have eliminated seating production from certain of their facilities, thereby committing themselves to purchasing seat systems and components from outside suppliers. During this period, the Company became a supplier of these products for a significant number of new models, many on a JIT basis.

The purchase of seat systems on a JIT basis has allowed the Company's customers to realize a competitive advantage as a result of (i) a reduction in labor costs since suppliers like the Company generally enjoy lower direct labor rates, (ii) the elimination of working capital and personnel costs associated with the production of seat systems by the OEM, (iii) a reduction in net overhead expenses and capital investment due to the availability of approximately 60,000 to 80,000 square feet of plant space for expansion of other manufacturing operations which was previously associated with seat production at the OEM facilities and (iv) a reduction in transaction costs because of the customer's ability to deal with a limited number of sophisticated system suppliers as opposed to numerous individual component suppliers. In addition, the Company offers improved quality and on-going cost reductions to its customers through design improvements.

The Company's sales of value-added assemblies and component systems have increased as a result of the decision by most OEM's to reduce their internal engineering and design resources. In recent years, the Company has significantly increased its capacity to provide complete engineering and design services to support its product line. Because assembled parts such as door panels, armrests and consoles need to be designed at an early stage in the development of new automobiles or model revisions, the Company is increasingly given the opportunity to participate earlier in the product planning process. This has resulted in opportunities to add value by furnishing engineering and design services and managing the sub-assembly process for the manufacturer, as well as providing the broader range of parts that are required for the assembly.

The Company has implemented a program of dedicated teams consisting of interior trim and seat system personnel who are able to meet all of a customer's interior needs. These teams provide a single interface for Lear's customers and avoid duplication of sales and engineering efforts. As innovative designs are developed which integrate components into a single unit, the potential to provide the Company's customers with additional cost and time savings should significantly increase.

The Company receives blanket purchase orders from its customers that normally cover annual requirements for its 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 seats. Although such purchase orders may be terminated at any time, the Company does not believe that any of its customers have terminated a material purchase order prior to the end of the life of a model. The primary risk to the Company is that an OEM will produce fewer units of a model than anticipated. In order to reduce its reliance on any one model, the Company produces complete interior systems and components for a broad cross-section of both new and more established models.

The Company's sales for the year ended December 31, 1995 were comprised of the following vehicle categories: 41% light truck; 23% mid-size; 15% compact and other; 12% luxury/sport; and 9% full-size. The following table presents an overview of the major vehicle models for which the Company or its affiliates produce seat systems, interior trim systems or other components and the locations of such production:

UNITED STATES AND CANADA

| BMW: | FORD: | GENERAL MOTORS: | GENERAL MOTORS (CONT): |
|----------------------------|-----------------------------|-----------------------------|----------------------------|
| 3 Series | Ford Aerostar | Buick Century | Oldsmobile Cutlass Supreme |
| Z3 | Ford Bronco | Buick LeSabre | Oldsmobile Eurosport |
| | Ford Contour | Buick Park Avenue | Oldsmobile Silhouette |
| GENERAL MOTORS /SUZUKI: | Ford Crown Victoria | Buick Regal | Pontiac Bonneville |
| Geo Metro | Ford Econoline/Club Wagon | Buick Riviera | Pontiac Firebird |
| Geo Tracker | Ford Escort | Buick Skylark | Pontiac Grand Am |
| Suzuki Sidekick | Ford Explorer | Cadillac DeVille/Concours | Pontiac Grand Prix |
| Suzuki Swift | Ford F-Series Pick-up Truck | Cadillac Eldorado | Pontiac Sunfire |
| | Ford Mustang LX | Chevrolet Astro | Pontiac Transport |
| CHRYSLER: | Ford Probe | Chevrolet Beretta | Saturn SC |
| Chrysler Cirrus | Ford Ranger | Chevrolet Blazer | Saturn SL |
| Chrysler Concorde | Ford Ranger Supercab/STX | Chevrolet C/K Pick-up Truck | |
| Chrysler LeBaron | Ford Taurus | Chevrolet Camaro | HONDA: |
| Chrysler LHS | Ford Taurus SHO | Chevrolet Cavalier | Accord |
| Chrysler Sebring | Ford Thunderbird | Chevrolet Corsica | Civic |
| Chrysler Town & Country | Ford Thunderbird SC | Chevrolet Corvette | Passport |
| Dodge Avenger | Ford Windstar Minivan | Chevrolet/GMC G-Van | |
| Dodge Caravan | Lincoln Continental | Chevrolet Kodiak | MAZDA: |
| Dodge Dakota Pick-up Truck | Lincoln Mark VIII | Chevrolet Lumina/Van | 626 |
| Dodge Intrepid | Lincoln Town Car | Chevrolet Monte Carlo | B2000 |
| Dodge Neon | Mercury Cougar | Chevrolet Sport Van/Van | MX6 |
| Dodge Ram Pick-up Truck | Mercury Grand Marquis | Chevrolet/GMC Suburban | |
| Dodge Ram Van | Mercury Mystique | Chevrolet Tahoe/GMC Yukon | MITSUBISHI: |
| Dodge Ram Wagon | Mercury Sable | GMC 10-30,15-35 | Eclipse |
| Dodge Viper | Mercury Tracer | GMC C/K Pick-up Truck | Gallant |
| Eagle Talon | Mercury Villager | GMC Rally/Vandura | |
| Jeep Cherokee | | GMC Safari | NISSAN: |
| Jeep Grand Cherokee | SUBARU/ISUZU: | GMC Top Kick | King Cab Pick-up Truck |
| Jeep Wrangler | Isuzu Rodeo | Oldsmobile 88 | Quest |
| Plymouth Neon | Subaru Legacy | Oldsmobile 98 | Sentra |
| Plymouth Voyager | | Oldsmobile Achieva | |
| | | Oldsmobile Aurora | TOYOTA: |
| | | Oldsmobile Ciera | Camry |

MEXICO

| BMW: | FORD: | GENERAL MOTORS: | NISSAN: |
|-----------------|------------------|-----------------------------|-------------|
| 3 Series | Ford Contour | Chevrolet Cavalier | Pick-up |
| | Ford Escort | Chevrolet C/K Pick-up Truck | Tsuru |
| CHRYSLER: | Ford F-Series | Chevrolet Tahoe/GMC Yukon | |
| Chrysler Cirrus | Mercury Mystique | Opel Corsa | VOLKSWAGEN: |
| Dodge Neon | Mercury Tracer | Pontiac Sunfire | Golf |
| Dodge Ram | | | Jetta |
| JX Convertible | | | Derby |
| Plymouth Neon | | | GPA Minivan |

EUROPE

| | | | |
|------------------|------------------------|-------------|--------------------|
| ALFA ROMEO: | FIAT (CONT): | LANCIA: | ROVER (CONT): |
| Alfa 145/146 | Punto | Dedra | Metro |
| Alfa 155 | Tempra | Delta | MGA |
| Alfa 164 | Tipo | Kappa | Mini |
| Coupe | Uno | Thema | R3 |
| Spider | | Y11 | Range Rover |
| AUDI: | FORD: | MERCEDES: | SAAB: |
| A Series | Escort | 200 Series | Saab 900 |
| B Series | Fiesta | C-Class | Saab 900 Cabriolet |
| | Mondeo | E-Class | Saab 9000 |
| | Scorpio | S-Class | |
| BMW: | GENERAL MOTORS - OPEL: | PORSCHE: | TOYOTA: |
| 3 Series | Astra | 911 | Carina |
| 5 Series | Corsa/Van | 928 | Corolla |
| CHRYSLER: | Omega | 968 | VOLVO: |
| Voyager Eurostar | Vectra | | 800 Series |
| | | RENAULT: | 900 Series |
| DINA: | HONDA: | Cabrio | |
| Heavy Truck | Accord | | VOLKSWAGEN: |
| | Civic | ROVER: | Golf |
| FIAT: | JAGUAR: | 200/New 400 | Passat |
| 126 | XJS | 400/Saloon | Taro |
| 500 | X300 | 600 | Transit |
| Barchetta | X330 | 800 | Transporter T4 |
| Brava/Bravo | | Discovery | T-4 Multivan |
| Coupe 500 | MAN: | Land Rover | Viento |
| Croma | Heavy Truck | Maestro | |
| Ducato X230 | | | |

OTHER

| | | | |
|-----------------------|---------------------|-------------------------|-------------------------|
| FIAT (SOUTH AMERICA): | GENERAL MOTORS - | GENERAL MOTORS OPEL: | VOLKSWAGEN: |
| 178 | HOLDEN (AUSTRALIA): | S-10 Blazer (Indonesia) | Gol (Brazil, Argentina) |
| Brava/Bravo | Acclaim | | |
| Fiorino | Berlina | BMW (SOUTH AFRICA): | VOLVO (THAILAND): |
| Tempra | Caprice | 3 Series | 800 Series |
| Uno | Commodore | | 900 Series |
| | Statesman | | |

Because of the economic benefits inherent in outsourcing to suppliers such as Lear and the costs associated with reversing a decision to purchase seat systems and other interior systems and components from an outside supplier, the Company believes that automobile manufacturers' level of commitment to purchasing seating and other interior systems and components from outside suppliers, particularly on a JIT basis, will increase. However, under the contracts currently in effect in the United States between each of General Motors, Ford and Chrysler with the UAW, in order for any of such manufacturers to obtain components that it currently produces itself from external sources, it must first notify the UAW of such intention. If the UAW objects to the proposed outsourcing, some agreement will have to be reached between the UAW and the OEM. Factors that will normally be taken into account by the UAW and the OEM include whether the proposed new supplier is technologically more advanced than the OEM, cost and whether the OEM will be able to reassign union members whose jobs are being displaced to other jobs within the same factories. As part of its long-term agreement with General Motors, the Company operates its Grand Rapids, Michigan, Rochester Hills, Michigan, Wentzville, Missouri and Lordstown, Ohio facilities with General Motors employees and reimburses General Motors for the wages of such employees on the basis of the Company's employee wage structure. The Company enters into these arrangements to enhance its relationship with its customers.

The Company's contracts with its major customers generally provide for an annual productivity price reduction and, in some cases, provide for the recovery of increases in material and labor costs. Cost reduction through design changes, increased productivity and similar programs with the Company's suppliers have generally offset changes in selling prices. The Company's cost structure is comprised of a high percentage of variable costs. The Company believes that this structure provides it with additional flexibility during economic cycles.

As a result of the Company's worldwide customer base and the global expansion of its operations, a significant portion of the Company's revenues and expenses are denominated in currencies other than U.S. dollars and therefore, fluctuations in exchange rates could have significant effects on the Company's results of operations.

MARKETING AND SALES

Lear markets its products by maintaining strong relationships with its customers fostered during its 78-year history through strong technical and product development capabilities, reliable delivery of high quality products, strong customer service, innovative new products and a competitive cost structure. Close personal communications with automobile manufacturers are an integral part of the Company's marketing strategy. Recognizing this, the Company is organized into six independent divisions, each with the ability to focus on its own customers and programs and each having complete responsibility for the product, from design to installation. By moving the decision-making process closer to the customer, and instilling a philosophy of "cooperative autonomy," the Company is more responsive to, and has strengthened its relationships with, its customers. Automobile manufacturers have increasingly reduced the number of their suppliers as part of a strategy of purchasing systems rather than individual components. This process favors suppliers like Lear with established ties to OEMs and the demonstrated ability to adapt to the new competitive environment in the automotive industry.

The Company's sales are originated entirely by its sales staff. This marketing effort is augmented by design and manufacturing engineers who work closely with automobile manufacturers from the preliminary design to the manufacture and supply of seating systems or interior components. Manufacturers have increasingly looked to suppliers like the Company to assume responsibility for the introduction of product innovation, shorten the development cycle of new models, decrease tooling investment and labor costs, reduce the number of costly design changes in the early phases of production and improve interior comfort and functionality. Once the Company is engaged to develop the design for the seat or interior components of a specific vehicle model, it is also generally engaged to supply these items when the vehicle goes into production. The acquisition of AI gives Lear the ability to provide total interior systems, not just components, to the OEMs. The Company has devoted substantial resources toward improving its engineering and technical capabilities and developing technical centers in the United States and in Europe. The Company has also developed full-scope engineering capabilities, including all aspects of safety and functional testing and comfort assessment. In addition, the Company has established various remote engineering sites in close proximity to several of its OEM customers to enhance customer relationships and design activity.

TECHNOLOGY

Lear conducts advanced product design development at its technical centers in Southfield, Michigan, Rochester Hills, Michigan and Turin, Italy and at 15 worldwide product engineering centers. At these centers, the Company tests its products to determine compliance with applicable safety standards, the products' quality and durability, response to environmental conditions and user wear and tear. In the past, the Company has developed a number of designs for innovative seat features which it has patented, including ergonomic features such as adjustable lumbar supports and bolster systems and adjustable thigh supports.

In addition, the Company incorporates many convenience, comfort and safety features into its seat designs, including storage armrests, rear seat fold down panels, integrated restraint systems and child restraint seats. The Company has recently invested to further upgrade its CAE and CAD/CAM systems, including three-dimensional color graphics, customer telecommunications and direct interface with customer CAD systems. 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 operations as incurred. Such costs amounted to approximately \$53.3 million, \$21.9 million, and \$16.2 million for the years ended December 31, 1995, 1994 and 1993.

Lear uses its patented SureBond process (the patent for which has approximately 8 years remaining) in bonding seat cover materials to the foam pads used in certain of its seats. The SureBond process is used to bond a pre-shaped cover to the underlying foam to minimize the need for sewing and achieve new seating shapes, such as concave shapes, which were previously difficult to manufacture.

The Company, through its wholly-owned subsidiary, Progress Pattern Corp. ("Progress Pattern"), produces patterns and tooling for use in the automotive casting industry. Its capabilities include foundry and vacuum form tooling, porous mold design and lost foam tooling production. The Progress Pattern operation is also integral to the Company's seating design programs, including independent product design and development, contract design, engineering services, manufacturing feasibility and engineering cost studies. Progress Pattern also manufactures production tooling for the Company's plastic and foam molding operations. In addition to providing support for the Company's continuing seat design, Progress Pattern provides services to its own customers, including Ford and General Motors. For example, it produced the casting tooling for the General Motors Saturn engine.

Through its AI Division, the Company has virtually all technologies and manufacturing processes available for interior trim and under-the-hood applications. The manufacturing 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 the Company to assist its customers in selecting the technologies that are the most cost effective for each application. Combined with its design and engineering capabilities, AI provides comprehensive support to its OEM suppliers from product development to production.

The Company holds a number of mechanical and design patents covering its products and has numerous applications for patents currently pending. In addition, the Company holds several trademarks relating to various manufacturing processes. The Company also licenses its technology to a number of seating manufacturers.

The Company has and will continue to dedicate resources to research and development to maintain its position as a leading developer of technology in the automotive interior industry.

JOINT VENTURES AND MINORITY INTERESTS

The Company conducts a portion of its business through joint ventures in order to facilitate the exchange of technical information and the establishment of business relationships with foreign automakers. In connection with the FSB Acquisition, the Company obtained a 49% interest in Industrias Cousin Freres, S.L., a Spanish joint venture with Bertrand Faure S.A. which produces seat components, and a 35% interest in Markol Otomotiv Yan Sanayi Ve Ticart, a Turkish joint venture which proposes to produce seat systems for Tofas, a Fiat Affiliate, and seat covers for certain of the Company's Italian subsidiaries. As part of the Company's effort to procure business in the Asia-Pacific market, the Company holds a 49% interest in Lear Seating Thailand Corporation. The Company also participates in joint ventures with NHK Spring Co., Ltd. of Japan and certain other foreign automotive component suppliers. In connection with the purchase of Automotive Industries, the Company obtained a 40% interest in Interiores Automotrices Summa, S.A. de C.V., a Mexican joint venture, and a 33% interest in Guildford Kast Plastifol Ltd., a United Kingdom joint venture, both of which produce interior trim parts for automobiles. During 1995, the Company entered into three new joint venture agreements. The first joint venture agreement was with an affiliate of Industria Espanola del Polieter, S.A. ("INESPO"), a Spanish corporation, to supply seat systems in Brazil for the Volkswagen Gol. The Company also entered into a joint venture agreement with Grupo R.B., the largest independent automotive supplier in Argentina, to supply seat systems to Volkswagen in Argentina for the Gol and the Cordoba models and with Trambusti, a Brazilian company, to supply seat systems to Fiat in Brazil for the 178 World Car, the Temptra, and several light trucks.

COMPETITION

Lear is one of the two primary suppliers in the outsourced North American seat systems market. The Company's main independent competitor is Johnson Controls, Inc., and it competes, to a lesser extent, with Douglas & Lomason Company and Magna International, Inc. The Company's major independent competitors in Europe, besides Johnson Controls, Inc., are Bertrand Faure (headquartered in France) and Keiper Recaro (headquartered in Germany). The Company's primary independent competitors in the interior trim and blow molded product industries include Davidson Interior Trim (a division of Textron), UT Automotive (a subsidiary of United Technologies), Prince Corporation, The Becker Group and a large number of smaller operations. The Company also competes with the OEM's in-house seat system and automotive interior suppliers. The Company competes on the basis of technical expertise, reliability, quality and price. The Company believes its technical resources, product design capabilities and customer responsiveness are the key factors that allow it to compete successfully in the automotive interior market.

Lear's principal operations are directly related to the automotive industry. Consequently the Company 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, the Company's sales and operating profit have been the strongest in the second and fourth calendar quarters. Net sales for the year ended December 31, 1995 by calendar quarter broke down as follows: first quarter, 22%; second quarter, 24%; third quarter, 23%; and fourth quarter, 31%. See Note 18, "Quarterly Financial Data," of the notes to the consolidated financial statements included in this Report.

EMPLOYEES

As of December 31, 1995, the Company employed approximately 16,100 persons in the United States and Canada, 11,600 in Mexico, 7,900 in Europe. Of these, about 5,300 are salaried employees and the balance are paid on an hourly basis. Approximately 24,000 of the Company's employees are members of unions. The Company has collective bargaining agreements with several unions including: the UAW; the Canadian Auto Workers; the Textile Workers of Canada; the Confederation of Mexican Workers; the International Brotherhood of Teamsters, Chauffeurs, Warehousemen, and Helpers of America; the International Association of Machinists and Aerospace Workers; and the AFL-CIO. Each of the Company's facilities has a separate contract with the union which represents the workers employed there, with each such contract having an expiration date independent of the Company's other labor contracts. The Company has experienced some labor disputes at its plants, none of which has significantly disrupted production or had a materially adverse effect on its operations. The Company has been able to resolve all such labor disputes and believes its relations with its employees are generally good.

ENVIRONMENTAL

The Company is subject to various laws, regulations and ordinances which govern activities such as discharges to the air and water, as well as handling and disposal practices for solid and hazardous wastes and which impose costs and damages associated with spills, disposal or other releases of hazardous substances. The Company believes that it is in substantial compliance with such requirements. Management does not believe that it will incur compliance costs pursuant to such requirements that would have a material adverse effect on the Company's consolidated financial position or future results of operations. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - Environmental Matters."

ITEM 2 PROPERTIES

The Company's operations are conducted through 107 facilities, including 89 manufacturing facilities, 15 product engineering centers and 3 research and development centers, in 18 countries employing approximately 35,600 people worldwide. The Company's management is headquartered in Southfield, Michigan. Of the 107 facilities, 49 are seat manufacturing facilities, 9 are seat component facilities, 31 are interior trim product facilities, and 18 are engineering centers. The facilities range in size from 10,000 square feet to 500,000 square feet. Substantially all owned facilities secure borrowings under the Company's various debt agreements.

The Company's facilities are located in appropriately designed buildings which are kept in good repair with sufficient capacity to handle present volumes. The Company has designed its seat system facilities to provide for efficient JIT manufacturing of its products. No facility is materially underutilized. Of the 107 facilities, 60 are owned and 47 are leased with expiration dates ranging from 1996 through 2005. Management believes substantially all of the Company's property and equipment is in good condition and that it has sufficient capacity to meet its current and expected manufacturing and distribution needs. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company Capital Expenditures."

The following table summarizes the locations of the Company's facilities:

| Argentina | Germany | Poland | United States (continued) |
|----------------|--------------|-------------------|---------------------------|
| Buenos Aires | Ebersberg | Myslowice | Greencastle, IN |
| Australia | Eisenach | Tychy | Hammond, IN |
| Adelaide | Gustavsburg | | Huron, OH |
| Brooklyn | Munich | South Africa | Janesville, WI |
| Austria | Plattling | Brits | Lebanon, VA |
| Koflach | Quakenbruck | Spain | Lorain, OH |
| Brazil | Rietberg | Pamploma | Lordstown, OH |
| Belo Horizonte | Hong Kong | | Louisville, KY |
| Sao Paulo | Wanchai | Sweden | Luray, VA |
| Canada | Indonesia | Bengtstors | Madisonville, KY |
| Ajax | Jakarta | Trollhattan | Marlette, MI |
| Kitchener | | | Marshall, MI |
| Maple | | Thailand | Mendon, MI |
| Oakville | Italy | Bangkok | Mequon, MI |
| St. Thomas | Bruino | | Midland, MI |
| Whitby | Caivano | Turkey | Morristown, TN |
| Woodstock | Frosinone | Bursa | Rochester Hills, MI |
| England | Grugliasco | United States | Romulus, MI |
| Coventry | Melfi | | Sheboygan, WI |
| Lancashire | Novara | Allen Park, MI | Southfield, MI |
| Nottingham | Orbassano | Atlanta, GA | Strasburg, VA |
| Tipton | Pozzilli | Bowling Green, OH | Warren, MI |
| France | | | Warren, OH |
| Meaux | | Bridgeton, MO | Wentzville, MO |
| Paris | Mexico | Clawson, MI | Winchester, VA |
| | | | |
| | Cuautitlan | Dearborn, MI | |
| | Hermosillo | Detroit, MI | |
| | La Cuesta | Duncan, SC | |
| | Naucalpan | El Paso, TX | |
| | | | |
| | Puebla | Fair Haven, MI | |
| | Ramos Arizpe | Fenton, MI | |
| | Rio Bravo | Flint, MI | |
| | Saltillo | Frankfort, IN | |
| | San Lorenzo | Fremont, OH | |
| | Tlahuac | Grand Rapids, MI | |

ITEM 3 LEGAL PROCEEDINGS

The Company is involved in certain legal actions and claims arising in the ordinary course of business. Management of the Company does not believe that any of the litigation in which the Company is currently engaged, either individually or in the aggregate, will have a material effect on the Company's consolidated financial position or future results of operations.

The Company has been identified as a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("CERCLA" or "Superfund"), for the cleanup of contamination from hazardous substances at three Superfund sites where liability has not been determined. The Company has also been identified as a PRP at three additional sites. Management believes that the Company is, or may be, responsible for less than one percent, if any, of total costs at the three Superfund sites. Expected liability, if any, at the three additional sites is not material. The Company has set aside reserves which management believes are adequate to cover any such liabilities. Management believes that such matters will not result in liabilities that will have a material adverse effect on the Company's consolidated financial position or future results of operations.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 1995.

PART II

ITEM 5 - MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "LEA." The Transfer Agent and Registrar for the Company's Common Stock is The Bank of New York, located in New York, New York. On March 1, 1996, there were 241 holders of record of the Company's Common Stock.

To date, the Company has never paid a cash dividend on its Common Stock. Any payment of dividends in the future is dependent upon the financial condition, capital requirements, earnings of the Company and other factors. However, the Company currently intends to retain all future earnings, if any, to fund the development and growth of its business and, therefore, does not anticipate paying any cash dividends in the foreseeable future. Also, the Company is subject to certain contractual restrictions on the payment of dividends. See Note 10, "Long-Term Debt," of the notes to the consolidated financial statements included in this Report for information concerning such restrictions.

The following table sets forth the high and low sales prices per share of Common Stock, as reported by the New York Stock Exchange, for the periods indicated:

| Year Ended December 31, 1995: | Price Range of Common Stock | |
|-------------------------------|--------------------------------|--------|
| | High | Low |
| 1st Quarter | 20 7/8 | 16 5/8 |
| 2nd Quarter | 24 1/4 | 17 7/8 |
| 3rd Quarter | 31 1/8 | 23 |
| 4th Quarter | 32 1/2 | 26 1/4 |

| Year Ended December 31, 1994 | Price Range of Common Stock | |
|------------------------------|--------------------------------|--------|
| | High | Low |
| 1st Quarter | N/A | N/A |
| 2nd Quarter | 20 1/4 | 16 1/4 |
| 3rd Quarter | 19 5/8 | 16 |
| 4th Quarter | 21 1/8 | 17 |

ITEM 6 SELECTED FINANCIAL DATA

The following income statement and balance sheet data were derived from the consolidated financial statements of the Company. The consolidated financial statements of the Company for the years ended December 31, 1995, 1994 and 1993, for the six months ended December 31, 1993 and for the years ended June 30, 1993, 1992, and 1991 have been audited by Arthur Andersen LLP. In February 1994, the Company changed its fiscal year end from June 30 to December 31 effective December 31, 1993. The selected financial data below should be read in conjunction with the consolidated financial statements of the Company and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company" included in this Report.

| | YEAR ENDED DECEMBER 31, 1995 (1) | YEAR ENDED DECEMBER 31, 1994 (1) | YEAR ENDED DECEMBER 31, 1993 (1) | SIX MONTHS ENDED DECEMBER 31, 1993 (1) | YEAR ENDED JUNE 30, 1993 | YEAR ENDED JUNE 30, 1992 | YEAR ENDED JUNE 30, 1991 |
|---|---|---|---|---|-----------------------------------|-----------------------------------|-----------------------------------|
| (DOLLARS IN MILLIONS) (2) | | | | | | | |
| OPERATING DATA: | | | | | | | |
| Net sales | \$4,714.4 | \$3,147.5 | \$1,950.3 | \$1,005.2 | \$1,756.5 | \$1,422.7 | \$1,085.3 |
| Gross profit | 403.1 | 263.6 | 170.2 | 72.2 | 152.5 | 115.6 | 101.4 |
| Selling, general and administrative expenses | 139.0 | 82.6 | 62.7 | 27.7 | 61.9 | 50.1 | 41.6 |
| Incentive stock and other compensation expense (3) | -- | -- | 18.0 | 18.0 | -- | -- | 1.3 |
| Amortization | 19.3 | 11.4 | 9.9 | 4.7 | 9.5 | 8.7 | 13.8 |
| Operating income | 244.8 | 169.6 | 79.6 | 21.8 | 81.1 | 56.8 | 44.7 |
| Interest expense, net | 75.5 | 46.7 | 45.6 | 24.8 | 47.8 | 55.2 | 61.7 |
| Other expense, net (4) | 12.0 | 8.1 | 9.2 | 6.6 | 5.4 | 5.8 | 2.2 |
| Income (loss) before income taxes and extraordinary items | 157.3 | 114.8 | 24.8 | (9.6) | 27.9 | (4.2) | (19.2) |
| Income taxes | 63.1 | 55.0 | 26.9 | 13.4 | 17.8 | 12.9 | 14.0 |
| Income (loss) before extraordinary items | 94.2 | 59.8 | (2.1) | (23.0) | 10.1 | (17.1) | (33.2) |
| Extraordinary items (5) | 2.6 | -- | 11.7 | 11.7 | -- | 5.1 | -- |
| Net income (loss) | \$91.6 | \$59.8 | \$ (13.8) | \$ (34.7) | \$10.1 | \$ (22.2) | \$ (33.2) |
| Income (loss) per share before extraordinary items | \$1.79 | \$1.26 | \$ (.06) | \$ (.65) | \$.25 | \$ (.62) | \$ (2.01) |
| Net income (loss) per share | \$1.74 | \$1.26 | \$ (.39) | \$ (.98) | \$.25 | \$ (.80) | \$ (2.01) |
| Weighted average shares outstanding (6) | 52,642,672 | 47,560,436 | 35,500,014 | 35,500,014 | 40,049,064 | 27,768,312 | 16,493,499 |
| BALANCE SHEET DATA: | | | | | | | |
| Current assets | \$1,207.2 | \$818.3 | \$433.6 | | \$325.2 | \$282.9 | \$213.8 |
| Total assets | 3,061.3 | 1,715.1 | 1,114.3 | | 820.2 | 799.9 | 729.7 |
| Current liabilities | 1,276.0 | 981.2 | 505.8 | | 375.0 | 344.2 | 287.1 |
| Long-term debt | 1,038.0 | 418.7 | 498.3 | | 321.1 | 348.3 | 386.7 |
| Common stock subject to limited redemption rights, net | -- | -- | 12.4 | | 3.9 | 3.5 | 1.8 |
| Stockholders' equity | 580.0 | 213.6 | 43.2 | | 75.1 | 49.4 | 4.4 |
| OTHER DATA: | | | | | | | |
| EBITDA (7) | \$336.8 | \$225.7 | \$122.2 | | \$121.8 | \$91.8 | \$81.4 |
| Capital expenditures | \$110.7 | \$103.1 | \$45.9 | | \$31.6 | \$27.9 | \$20.9 |
| Number of facilities (8) | 107 | 79 | 61 | | 48 | 45 | 40 |
| North American Content per Vehicle (9) | \$227 | \$169 | \$112 | | \$98 | \$94 | \$84 |
| North American vehicle production (in millions) (10) | 14.9 | 15.2 | 13.7 | | 13.6 | 12.2 | 11.2 |

(1) On July 1, 1993, the Company adopted SFAS 106 (as defined herein). As a result, the year and six months ended December 31, 1993 represents the first periods during which the Company began to incur additional expense associated with the adoption of SFAS 106. The additional expense for each of these periods was \$3.3 million. The additional expense in 1995 and 1994 was \$6.4 million and \$7.3 million, respectively.

(2) Except per share data and North American Content per Vehicle.

(3) Includes a one-time charge of \$18.0 million, of which \$14.5 million is non-cash, for the year and six months ended December 31, 1993 for incentive stock and other compensation expense (see Note 15 "Stock Options and Warrants" in the consolidated financial statements included elsewhere in this Report).

(4) Consists of foreign currency exchange gain or loss, minority interest in net income (loss) of subsidiaries, equity (income) loss of affiliates, state and local taxes and other expense.

(5) The extraordinary items resulted from the prepayment of debt.

(6) Weighted average shares outstanding is calculated on a fully-diluted basis.

(7) "EBITDA" is operating income plus depreciation and amortization. EBITDA does not represent and should not be considered as an alternative to net income or cash flows from operations as determined by generally accepted accounting principles.

- (8) Includes facilities operated by the Company's less than majority-owned affiliates and facilities under construction.
- (9) "North American Content per Vehicle" is the Company's net sales in North America divided by total North American vehicle production.
- (10) "North American vehicle production" includes car and light truck production in the United States, Canada and Mexico estimated from industry sources.

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

RESULTS OF OPERATIONS

Year Ended December 31, 1995 Compared With Year Ended December 31, 1994.

Net sales of \$4,714.4 million in the year ended December 31, 1995 represents the Company's fourteenth consecutive year of record sales and increased by \$1,566.9 million or 49.8% over net sales for the year ended December 31, 1994. Net sales in the current year benefited from the acquisitions of Automotive Industries Holding, Inc. (AI) on August 17, 1995 and the Fiat Seat Business (FSB) on December 15, 1994 which together accounted for \$795.3 million of the increase. Further contributing to the growth in sales were incremental volumes on new seating programs in North America and increased production in Europe.

Gross profit (net sales less cost of sales) and gross margin (gross profit as a percentage of net sales) were \$403.1 million and 8.6% in 1995 as compared to \$263.6 million and 8.4% in 1994. Gross profit in the current year benefited from the overall increase in North American and European sales activity, including the acquisitions of AI and FSB, and production of certain new seat programs in the United States and Mexico. Partially offsetting the increase in gross profit were new program start-up expenses of \$32.1 million versus \$23.1 million in the prior year, and costs associated with new business opportunities in the Pacific Rim, South America and South Africa.

Selling, general and administrative expenses, including research and development, as a percentage of net sales increased to 2.9% in 1995 as compared to 2.6% in the previous year. Actual expenditures in 1995 increased in comparison to prior year primarily due to the inclusion of AI and FSB engineering and administrative expenses in 1995. In addition, research and development costs increased at the United States and European customer focused technical centers in support of existing and potential business opportunities.

Operating income and operating margin (operating income as a percentage of net sales) were \$244.8 million and 5.2% in the year ended December 31, 1995 as compared to \$169.6 million and 5.4% in the year ended December 31, 1994. The increase in operating income was primarily due to increased volumes on new and existing light truck seating programs, improved performance at the Company's European operations and the incremental operating income derived from acquisitions. Partially offsetting the increase in operating income and contributing to the decline in operating margins were design and development costs associated with the expansion of business and program start-up expenses for new seat programs to be introduced worldwide within the next twelve months. Also contributing to the decline in operating margin were the increased sales in Europe caused by the FSB which had lower margins. Non-cash depreciation and amortization charges were \$92.0 million and \$56.1 million for the years ended December 31, 1995 and 1994, respectively.

Interest expense in the year ended December 31, 1995 increased in comparison to prior year as a result of interest incurred on additional debt utilized to finance the AI and FSB acquisitions as well as higher interest rates in 1995 under the Company's credit facility.

Other expenses in 1995 increased in comparison to prior year as foreign exchange losses incurred at the Company's North American and European operations, along with increased state and local taxes associated with the AI acquisition, more than offset income derived from joint ventures accounted for under the equity method.

Net income for the year ended December 31, 1995 was \$91.6 million, or \$1.74 per share, as compared to \$59.8 million, or \$1.26 per share in the year ended December 31, 1994. The provision for income taxes in fiscal 1995 was \$63.1 million, or an effective tax rate of 40.1%, versus \$55.0 million and 47.9% for the previous year. The decrease in rate is largely the result of changes in operating performance and related income levels among the various tax jurisdictions. Earnings per share increased in 1995 by 38.1% despite an increase in the number of shares outstanding and an extraordinary loss of \$2.6 million (\$.05 per share) for the early retirement of debt.

The following chart shows operating results of the Company by principal geographic area:

GEOGRAPHIC OPERATING RESULTS

| | YEAR ENDED | | |
|--------------------------|----------------------|----------------------|----------------------|
| | DECEMBER 31, 1995 | DECEMBER 31, 1994 | DECEMBER 31, 1993 |
| | (in millions) | | |
| NET SALES: | | | |
| United States and Canada | \$3,108.0 | \$2,378.7 | \$1,357.0 |
| Europe | 1,325.4 | 572.5 | 403.8 |
| Mexico and other | 281.0 | 196.3 | 189.5 |
| Net Sales | \$4,714.4 | \$3,147.5 | \$1,950.3 |
| OPERATING INCOME: | | | |
| United States and Canada | \$204.8 | \$155.6 | \$86.9 |
| Europe | 26.5 | 4.4 | (9.6) |
| Mexico and other | 13.5 | 9.6 | 20.3 |
| Unallocated | - | - | (18.0) |
| Operating Income | \$244.8 | \$169.6 | \$79.6 |

United States and Canadian Operations

Net sales in the United States and Canada were \$3,108.0 million and \$2,378.7 million in the years ended December 31, 1995 and 1994, respectively. Sales in 1995 benefited from new Ford and General Motors passenger car programs, the contribution of \$248.1 million in sales from the AI acquisition and incremental volume on light truck seating for previously existing programs.

Operating income and operating margin were \$204.8 million and 6.6% in 1995 as compared to \$155.6 million and 6.5% in 1994. Operating income in 1995 increased primarily due to increased volumes at certain of the Company's car and light-truck seating facilities, the benefits derived from the AI acquisition and increased productivity and cost reduction programs at existing seat and seat component facilities. Partially offsetting this increase in operating margin were engineering and administrative support expenses along with preproduction costs at new business operations.

European Operations

Net sales in Europe were \$1,325.4 million in the year ended December 31, 1995 and \$572.5 million in the year ended December 31, 1994. Sales in the current year benefited from \$547.2 million in sales from the FSB and AI acquisitions, incremental volume on existing programs in Sweden and England and favorable exchange rate fluctuations in Germany and Sweden.

Operating income and operating margin were \$26.5 million and 2.0% in 1995 as compared to \$4.4 million and 0.8% in 1994. Operating income in 1995 benefited from incremental volume on mature Scandinavian and German seat programs and the benefits derived from the FSB and AI acquisitions. Partially offsetting the increase in operating income were engineering, preproduction and facility costs associated with the start-up of a new seat program in Germany.

Mexico and other Operations

Net sales of \$281.0 million in 1995 in the Company's remaining geographic regions, consisting of Mexico, Pacific Rim, South Africa and South America increased by \$84.7 million or 43.1% as compared to \$196.3 million in the comparable period in the prior year. Sales in the year ended December 31, 1995 benefited from the overall growth in Mexican sales activity, including the production of new General Motors and Ford passenger car and truck seat programs. Further contributing to the increase in sales was the addition of new business operations in Australia, South Africa, Brazil and Argentina.

Operating income and operating margin were \$13.5 million and 4.8% in the year ended December 31, 1995 and \$9.6 million and 4.9% in the previous year. The increase in operating income was largely the result of the benefits derived from increased market demand for new and ongoing seat programs in Mexico. Partially offsetting the increase in operating income were engineering and preproduction costs for recently opened manufacturing facilities in the Pacific Rim, South Africa and South America.

Year Ended December 31, 1994 Compared With Year Ended December 31, 1993

Net sales of \$3,147.5 million in the year ended December 31, 1994 represented the thirteenth consecutive year of record sales and surpassed sales of \$1,950.3 million in the year ended December 31, 1993 by \$1,197.2 million or 61.4%. Sales in 1994 benefited from internal growth from new programs and increased seat content per vehicle, higher automotive production in the United States and Europe and the acquisition of the North American seat and seat cover business (NAB) from Ford Motor Company on November 1, 1993 which accounted for \$421 million of the increase.

Gross profit and gross margin were \$263.6 million and 8.4% in the year ended December 31, 1994 as compared to \$170.2 million and 8.7% in the year ended December 31, 1993. Gross profit in fiscal 1994 surpassed prior year due to the benefit of higher sales volume including the effect of the NAB acquisition and the Company's cost reduction programs. Partially offsetting the increase in gross profit was \$23.1 million of expense for engineering and preproduction costs for new facilities in the United States, Canada and Europe, lower margin contribution in Mexico and the \$3.9 million increase in post-retirement health care expenses (SFAS 106).

Selling, general and administrative expenses as a percentage of net sales declined to 2.6% for the year ended December 31, 1994 as compared to 3.2% in the prior year. The increase in actual expenditures was largely the result of administration support expenses and research and development costs associated with the expansion of domestic and foreign business and expenses related to new business opportunities.

Operating income and operating margin were \$169.6 million and 5.4% in the year ended December 31, 1994 and \$79.6 million and 4.1% in the year ended December 31, 1993. The 113% increase in operating income was attributable to the benefits of higher sales volume, including the effect of the NAB acquisition, non-recurring incentive stock and other compensation expense of \$18 million in 1993 and the Company's cost reduction programs. Partially offsetting the increase in operating income were new facility and engineering costs for future seat programs, reduced margins in Mexico and SFAS 106. Non-cash depreciation and amortization charges were \$56.1 million and \$42.6 million for the years ended December 31, 1994 and 1993, respectively.

Other expense for the year ended December 31, 1994, including state and local taxes, foreign exchange gains and losses, minority interests and equity in income of affiliates, decreased in comparison to the prior year as the non-recurring write-off of equipment associated with a discontinued program in Germany and non-seating related assets in the United States, along with a foreign exchange gain, offset state and local tax expense associated with the NAB acquisition.

Interest expense in 1994 increased in relation to the year ended December 31, 1993 as additional debt incurred to finance the NAB acquisition and higher short-term interest expense in Europe offset the benefits derived from the refinancing of subordinated debt at a lower interest rate and the Company's equity offering in April, 1994.

Net income for the year ended December 31, 1994 was \$59.8 million, or \$1.26 per share, as compared to a net loss of \$13.8 million, or \$.39 per share, realized in the year ended December 31, 1993. The net income of \$59.8 million in 1994 reflects a \$55.0 million provision for national income taxes of which \$26.0 million relates to foreign operations. Further contributing to the improvement in 1994 net income was the extraordinary expense in 1993 of \$11.7 million for the early extinguishment of debt.

United States and Canadian Operations

Net sales in the United States and Canada increased by 75.3% from \$1,357.0 million in the year ended December 31, 1993 to \$2,378.7 million for the year ended December 31, 1994. Sales for the year ended December 31, 1994 benefited from the full year contribution of the NAB acquisition, vehicle production increases on mature seating programs, incremental volume on new Chrysler truck, Ford truck and Ford passenger car programs and sales generated by a lead vendor program under which the Company assumed management of components for a seat program with Ford.

Operating income and operating margin were \$155.6 million and 6.5% in the year ended December 31, 1994 and \$86.9 million and 6.4% in the year ended December 31, 1993. Operating income and operating margin in 1994 as compared to the prior year benefited from the NAB acquisition, the overall increase in vehicle production and cost reduction programs which offset new program costs for new facilities, administrative expenses associated with the expansion of business and increased research and development expenses.

European Operations

Net sales in Europe increased by 41.8% to \$572.5 million for the year ended December 31, 1994 compared to \$403.8 million for 1993. The sales increase was due primarily to the addition of new seat programs in Germany and England and vehicle production increases on established programs in Germany, Sweden and Austria.

Operating income in Europe was \$4.4 million in the year ended December 31, 1994 as compared to an operating loss of \$9.6 million sustained in the year ended December 31, 1993. Operating income in 1994 as compared to the prior year benefited from higher sales levels and cost reduction programs at existing seat and seat component facilities. Partially offsetting the increase in operating income were incremental costs associated with the start-up of a new seat facility in England and the introduction of a replacement component program within an established facility in Germany.

Mexican and Other Operations

Net sales in Mexico and other regions were \$196.3 million in the year ended December 31, 1994 and \$189.5 million in the year ended December 31, 1993. Sales for the year ended December 31, 1994 surpassed the comparable period in the prior year due to new Chrysler truck and Ford passenger car seat programs and incremental volume on mature Ford programs. Partially offsetting the increase in net sales was the product phase-out of a mature truck program and participation in customer cost reduction programs.

Operating income and operating margin were \$9.6 million and 4.9% in the year ended December 31, 1994 and \$20.3 million and 10.7% in the prior year. Operating income and operating margin in 1994 declined in relation to the prior year as a result of the Company's participation in customer cost reduction programs in Mexico and costs associated with the introduction of replacement products at new and established facilities.

LIQUIDITY AND FINANCIAL CONDITION

On August 17, 1995, the Company entered into a \$1.5 billion secured revolving credit agreement with a syndicate of financial institutions (the "Credit Agreement"). Borrowings under the Credit Agreement were used to finance a portion of the AI acquisition, to refinance certain existing indebtedness of AI, to refinance the Company's prior \$500 million credit agreement (the "Prior Credit Facility") and for general corporate purposes. As of December 31, 1995, the Company had \$771.5 million outstanding under the Credit Agreement (\$54.4 million of which was outstanding under letters of credit), resulting in \$728.5 million unused and available. In addition the Company had \$60.8 million of long term debt outstanding with various governmental authorities, banks and other financial institutions as well as \$270.0 million of subordinated debt. As of December 31, 1995, the Company had \$34.1 million in net cash and cash equivalents.

Amounts available under the Credit Agreement will be reduced by an aggregate amount of \$650.0 million prior to maturity on September 30, 2001. The Company's scheduled principal payments on long-term debt are \$9.9, \$10.5, \$6.6, \$5.5 and \$128.2 million in 1996, 1997, 1998, 1999 and 2000 respectively.

Net cash provided by operating activities was \$134.6 million during 1995 compared to \$155.7 million in 1994. Net income excluding a non-cash extraordinary loss of \$2.6 million (the write-off of deferred finance fees associated with the prior credit facility) increased 58%, from \$59.8 million in 1994 to \$94.2 million in 1995, as a result of increased activity resulting from the acquisitions of AI and FSB, new business awarded, cost reduction programs and increased production levels on existing programs. Total working capital declined from a source of \$30.4 million in 1994 to a use of \$57.4 million in 1995. The use of working capital was the result of increases in receivable and inventory levels consistent with the 33% increase in net sales (25% excluding AI and FSB sales), timing of the AI acquisition, and factored European receivables in 1994, offset by the associated increase in accounts payable, and accrued liabilities. This working capital use was further offset by a \$42.2 million increase in cash overdrafts (outstanding checks).

Net cash used by investing activities was \$987.6 million and \$195.6 million for years ended December 31, 1995 and 1994, respectively. As discussed in Notes 5 and 6 of the Notes to Consolidated Financial Statements, the Company acquired AI for \$883.1 million cash plus assumed liabilities in August, 1995 and the FSB in December, 1994 for \$88.0 million cash plus assumed liabilities. Capital expenditures increased from \$103.1 million in 1994 to \$110.7 million to support the new programs under production in 1995.

The Company's total debt as a percentage of total capitalization decreased to 64.7% at December 31, 1995 from 70.3% at December 31, 1994. On September 25, 1995, the Company received net proceeds of \$281.5 million from the issuance of 10.0 million shares of common stock at \$29.25 per share. On April 13, 1994, the Company received net proceeds of \$103.7 million from the initial public offering of 7,187,500 shares of its common stock at \$15.50. The proceeds of both public stock offerings were used to reduce the amount outstanding under the Company's senior credit facility. The AI acquisition in August, 1995 and FSB Acquisition in December, 1994 were both financed with borrowings under the senior credit facility and in the case of FSB with \$66.7 million of short-term debt. As a result, net cash provided by financing activities increased to \$841.9 million in 1995 from \$17.6 million in 1994.

In February, 1994, the Company took advantage of the favorable interest rate environment by refinancing \$135.0 million in aggregate principal amount of its 14% Subordinated Debentures due 2000 by issuing \$145.0 million aggregate principal amount of 8 1/4% Subordinated Notes due 2002. The additional proceeds were used to pay a 5.4% call premium and a portion of the accrued interest due on the redemption of the 14% Subordinated Debentures. In addition, the Company has \$125.0 million of Senior Subordinated Notes, due 2000, outstanding.

In the fourth quarter of 1995, Moody's Investors Services upgraded its rating of the Company's \$125.0 million 11 1/4% Senior Subordinated Notes from B2 to B1 and affirmed its B2 rating of the \$145.0 million 8 1/4% Subordinated Notes. Standard and Poor's affirmed its B rating for both subordinated debt issues.

During the years ended December 31, 1994 and 1995, cash generated from operations and funds available under the Credit Agreement were sufficient to meet the company's debt service and capital expenditure requirements. The Company believes that cash flows from operations and funds available under existing credit facilities (principally the Credit Agreement) will be sufficient to meet its future debt service obligations, projected capital expenditures and working capital requirements, as well as to provide the flexibility to fund future acquisitions.

CAPITAL EXPENDITURES

During the year ending December 31, 1995, capital expenditures aggregated approximately \$110.7 million, of which approximately \$43.9 million related to the addition of new facilities and other expenditures for new programs, with the remainder spent for increased capacity at existing facilities and ongoing maintenance requirements. For the years ended December 31, 1994 and 1993, capital expenditures of the Company were \$103.1 million and \$45.9 million, respectively. For 1996, the Company anticipates capital expenditures of approximately \$160 million.

The Company is subject to local, state, federal and foreign laws, regulations and ordinances (i) which govern activities or operations that may have adverse environmental effects and (ii) that impose liability for the costs of cleaning up certain damages resulting from sites of past spills, disposal or other releases of hazardous substances. The Company currently is engaged in the cleanup of hazardous substances at certain sites owned, leased or operated by the Company, including soil and groundwater cleanup at its facility in Mendon, Michigan. Management believes that the Company will not incur compliance costs or cleanup cost at its facilities with known contamination that would have a material adverse effect on the Company's consolidated financial position or future results of operations.

The Company has been identified as a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA" or "Superfund"), for the cleanup of contamination from hazardous substances at three Superfund sites where liability has not been completely determined. The Company has also been identified as a PRP at three additional sites. Management believes that the Company is, or may be, responsible for less than one percent, if any, of the total costs at the three Superfund sites. Expected liability, if any, at the three additional sites is not material.

INFLATION AND ACCOUNTING POLICIES

Lear's contracts with its major customers generally provide for an annual productivity price reduction and provide for the recovery of increases in material and labor costs in some contracts. Cost reduction through design changes, increased productivity and similar programs with the Company's suppliers generally have offset changes in selling prices. The Company's cost structure is comprised of a high percentage of variable costs. The Company believes that this structure provides it with additional flexibility during economic cycles.

During 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 121, "Recognition of Impairment of Long-lived Assets", which specifies when and how impairment of virtually all long-lived assets should be measured and recorded. In general, the statement requires that whenever circumstances raise doubt about the recoverability of long-lived assets, the Company should analyze the future cash flows expected from such assets to determine if impairment exists. This statement will be adopted prospectively on January 1, 1996, and the Company does not expect the effects of adoption to be significant.

Also during 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation", which must be adopted by the Company in 1996 and requires that stock compensation, including compensation in the form of stock options, be calculated using a measure of fair value, compared with intrinsic value required under current accounting principles. The new method may be either reflected in the financial statements or disclosed in the notes to the statements. The Company expects to adopt the statement by disclosing the effects of the fair value method in the notes to its 1996 financial statements.

ITEM 8 CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Lear Seating Corporation:

We have audited the accompanying consolidated balance sheets of LEAR SEATING CORPORATION AND SUBSIDIARIES ("the Company") as of December 31, 1995 and 1994 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 1995 and 1994 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

As discussed in Note 13 to the consolidated financial statements, as of July 1, 1993, the Company changed its method of accounting for post-retirement benefits other than pensions.

/s/ ARTHUR ANDERSEN LLP

Detroit, Michigan,
February 6, 1996.

CONSOLIDATED BALANCE SHEETS
LEAR SEATING CORPORATION AND SUBSIDIARIES

| | December 31, | |
|---|--------------|-----------|
| | 1995 | 1994 |
| ----- (In millions, except share data) | | |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$34.1 | \$32.0 |
| Accounts receivable, net of reserves of \$4.0 in 1995 and \$3.1 in 1994 | 831.9 | 579.8 |
| Inventories | 196.2 | 126.6 |
| Recoverable customer engineering and tooling | 91.9 | 53.5 |
| Other | 53.1 | 26.4 |
| ----- | | |
| Total current assets | 1,207.2 | 818.3 |
| ----- | | |
| Property, plant and equipment, net | 642.8 | 354.2 |
| Goodwill, net | 1,098.4 | 499.5 |
| Other | 112.9 | 43.1 |
| ----- | | |
| | \$3,061.3 | \$1,715.1 |
| ----- | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Short-term borrowings | \$16.9 | \$84.1 |
| Cash overdrafts | 70.4 | 27.6 |
| Accounts payable | 786.6 | 656.7 |
| Accrued liabilities | 392.2 | 210.9 |
| Current portion of long-term debt | 9.9 | 1.9 |
| ----- | | |
| Total current liabilities | 1,276.0 | 981.2 |
| ----- | | |
| Long-Term Liabilities: | | |
| Deferred national income taxes | 37.3 | 25.3 |
| Long-term debt | 1,038.0 | 418.7 |
| Other | 130.0 | 76.3 |
| ----- | | |
| Total long-term liabilities | 1,205.3 | 520.3 |
| ----- | | |
| Stockholders' Equity: | | |
| Common Stock, par value \$.01 per share, 150,000,000 shares authorized, 56,253,541 and 46,088,278 shares issued in 1995 and 1994, respectively | .6 | .5 |
| Additional paid-in capital | 559.1 | 274.3 |
| Notes receivable from sale of common stock | (.9) | (1.0) |
| Common stock held in treasury, 10,230 shares at cost | (.1) | (.1) |
| Retained earnings (deficit) | 42.2 | (49.4) |
| Minimum pension liability | (3.5) | (5.8) |
| Cumulative translation adjustment | (17.4) | (4.9) |
| ----- | | |
| Total stockholders' equity | 580.0 | 213.6 |
| ----- | | |
| | \$3,061.3 | \$1,715.1 |
| ----- | | |

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
LEAR SEATING CORPORATION AND SUBSIDIARIES

| | For the year ended December 31, | | |
|--|---|-----------|-----------|
| | 1995 | 1994 | 1993 |
| | ----- | ----- | ----- |
| | (In millions, except per share amounts) | | |
| Net sales | \$4,714.4 | \$3,147.5 | \$1,950.3 |
| Cost of sales | 4,311.3 | 2,883.9 | 1,780.1 |
| Selling, general and administrative expenses | 139.0 | 82.6 | 62.7 |
| Incentive stock and other compensation expense | - | - | 18.0 |
| Amortization of goodwill | 19.3 | 11.4 | 9.9 |
| | ----- | ----- | ----- |
| Operating income | 244.8 | 169.6 | 79.6 |
| Interest expense | 75.5 | 46.7 | 45.6 |
| Foreign currency exchange (gain) loss | 8.6 | (.3) | .1 |
| Other expense, net | 7.8 | 8.6 | 7.8 |
| | ----- | ----- | ----- |
| Income before provision for national income taxes, minority interests in net income (loss) of subsidiaries equity (income) loss of affiliates and extraordinary item | 152.9 | 114.6 | 26.1 |
| Provision for national income taxes | 63.1 | 55.0 | 26.9 |
| Minority interests in net income (loss) of subsidiaries | (1.7) | .5 | .3 |
| Equity (income) loss of affiliates | (2.7) | (.7) | 1.0 |
| | ----- | ----- | ----- |
| Income (loss) before extraordinary item | 94.2 | 59.8 | (2.1) |
| Extraordinary loss on early extinguishment of debt | 2.6 | - | 11.7 |
| | ----- | ----- | ----- |
| Net income (loss) | \$91.6 | \$59.8 | \$(13.8) |
| | ===== | ===== | ===== |
| Net income (loss) per common share, as adjusted (Note 1); Income (loss) before extraordinary item | \$1.79 | \$1.26 | \$(.06) |
| Extraordinary loss | (.05) | - | (.33) |
| | ----- | ----- | ----- |
| Net income (loss) per common share | \$1.74 | \$1.26 | \$(.39) |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
LEAR SEATING CORPORATION AND SUBSIDIARIES

| | | For the year ended December 31, | | |
|------------------------------------|--|---------------------------------|------------|------------|
| | | 1995 | 1994 | 1993 |
| | | (In millions) | | |
| COMMON STOCK | Balance at beginning of period | \$.5 | \$.4 | \$ - |
| | Thirty-three-for-one stock split | - | - | .4 |
| | Sale of common stock (Note 3) | .1 | .1 | - |
| | Balance at end of period | \$.6 | \$.5 | \$.4 |
| ADDITIONAL PAID-IN CAPITAL | Balance at beginning of period | \$ 274.3 | \$ 156.5 | \$ 151.0 |
| | Thirty-three-for-one stock split | - | - | (.4) |
| | Restate common stock subject to redemption to maximum redemption value | - | - | (8.6) |
| | Elimination of common stock subject to redemption | - | 13.5 | - |
| | Incentive stock option compensation | - | - | 14.5 |
| | Sale of common stock (Note 3) | 281.4 | 103.5 | - |
| | Sale of treasury stock (11,220 shares) | - | .1 | - |
| | Stock options exercised | .2 | .2 | - |
| | Tax benefit of stock options exercised | 1.3 | .5 | - |
| | Conversion of AI stock options | 1.9 | - | - |
| | Balance at end of period | \$ 559.1 | \$ 274.3 | \$ 156.5 |
| COMMON STOCK WARRANTS | Balance at beginning of period | \$ - | \$ 10.0 | \$ 10.0 |
| | Exercise of warrants | - | (10.0) | - |
| | Balance at end of period | \$ - | \$ - | \$ 10.0 |
| TREASURY STOCK | Balance at beginning of period | \$ (.1) | \$ (10.0) | \$ (10.0) |
| | Purchase of treasury stock (21,450 shares) | - | (.1) | - |
| | Exercise of warrants | - | 10.0 | - |
| | Balance at end of period | \$ (.1) | \$ (.1) | \$ (10.0) |
| NOTE RECEIVABLE FROM SALE OF STOCK | Balance at beginning of period | \$ (1.0) | \$ - | \$ - |
| | Elimination of common stock subject to redemption | - | (1.1) | - |
| | Repayment of stockholders' note receivable | .1 | .1 | - |
| | Balance at end of period | \$ (.9) | \$ (1.0) | \$ - |
| RETAINED EARNINGS (DEFICIT) | Balance at beginning of period | \$ (49.4) | \$ (109.2) | \$ (95.4) |
| | Net income (loss) | 91.6 | 59.8 | (13.8) |
| | Balance at end of period | \$ 42.2 | \$ (49.4) | \$ (109.2) |
| MINIMUM PENSION LIABILITY | Balance at beginning of period | \$ (5.8) | \$ (4.2) | \$ (2.8) |
| | Minimum pension liability adjustment | 2.3 | (1.6) | (1.4) |
| | Balance at end of period | \$ (3.5) | \$ (5.8) | \$ (4.2) |
| CUMULATIVE TRANSLATION ADJUSTMENT | Balance at beginning of period | \$ (4.9) | \$ (.3) | \$.7 |
| | Cumulative translation adjustment | (12.5) | (4.6) | (1.0) |
| | Balance at end of period | \$ (17.4) | \$ (4.9) | \$ (.3) |
| TOTAL STOCKHOLDERS' EQUITY | | \$ 580.0 | \$ 213.6 | \$ 43.2 |

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
LEAR SEATING CORPORATION AND SUBSIDIARIES

| | For the year ended December 31, | | |
|--|---------------------------------|----------------|----------------|
| | 1995 | 1994 | 1993 |
| | (In millions) | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income (loss) | \$ 91.6 | \$ 59.8 | \$ (13.8) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities- | | | |
| Depreciation and amortization of goodwill | 92.0 | 56.1 | 42.6 |
| Incentive stock option compensation | - | - | 14.5 |
| Amortization of deferred financing fees | 2.7 | 2.4 | 2.6 |
| Deferred national income taxes | (1.7) | (.3) | (12.3) |
| Post-retirement benefits accrued | 6.4 | 7.3 | 3.3 |
| Loss on retirement of property, plant and equipment | - | - | 6.8 |
| Extraordinary loss | 2.6 | - | 11.7 |
| Other, net | (1.6) | - | (.5) |
| Net change in working capital items | (57.4) | 30.4 | 58.4 |
| Net cash provided by operating activities | 134.6 | 155.7 | 113.3 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Additions to property, plant and equipment | (110.7) | (103.1) | (45.9) |
| Acquisitions (Notes 5, 6 and 7) | (883.1) | (88.0) | (172.1) |
| Proceeds from sale of property, plant and equipment | .3 | .5 | 1.0 |
| Other, net | 5.9 | (5.0) | 2.2 |
| Net cash used in investing activities | (987.6) | (195.6) | (214.8) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Long-term revolving credit borrowings, net (Note 10) | 595.2 | (108.8) | 225.5 |
| Additions to other long-term debt | 8.0 | 164.0 | - |
| Reductions in other long-term debt | (3.5) | (137.4) | (103.6) |
| Short-term borrowings, net | (72.2) | (10.7) | 12.8 |
| Proceeds from sale of common stock, net | 281.5 | 103.7 | - |
| Deferred financing fees | (9.6) | (.7) | (10.5) |
| Increase in cash overdrafts | 42.2 | 7.5 | 3.3 |
| Other, net | .3 | - | - |
| Net cash provided by financing activities | 841.9 | 17.6 | 127.5 |
| Effect of foreign currency translation | 13.2 | (.7) | (2.5) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 2.1 | (23.0) | 23.5 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 32.0 | 55.0 | 31.5 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 34.1 | \$ 32.0 | \$ 55.0 |
| CHANGES IN WORKING CAPITAL, NET OF EFFECTS OF ACQUISITIONS: | | | |
| Accounts receivable, net | \$ (156.4) | \$ (120.4) | \$ (83.5) |
| Inventories | (27.4) | (31.5) | 2.9 |
| Accounts payable | 42.6 | 183.3 | 94.0 |
| Accrued liabilities and other | 83.8 | (1.0) | 45.0 |
| | \$ (57.4) | \$ 30.4 | \$ 58.4 |
| SUPPLEMENTARY DISCLOSURE: | | | |
| Cash paid for interest | \$ 72.9 | \$ 35.5 | \$ 42.1 |
| Cash paid for income taxes | \$ 85.7 | \$ 44.1 | \$ 15.7 |

The accompanying notes are an integral part of these statements.

LEAR SEATING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Lear Seating Corporation, a Delaware corporation ("Lear"), and its wholly-owned and majority-owned subsidiaries (collectively "the Company"). Investments in less than majority-owned businesses are generally accounted for under the equity method (Note 8).

The Company and its affiliates are involved in the design and manufacture of interior components for automobiles. The Company's main customers are automotive original equipment manufacturers. The Company operates facilities worldwide (Note 17).

Prior to December 31, 1993, Lear was a wholly-owned subsidiary of Lear Holdings Corporation ("Holdings"). On December 31, 1993, Holdings was merged with and into Lear and the separate corporate existence of Holdings ceased (the "Merger"). The Merger has been accounted for and reflected in the accompanying consolidated financial statements as a merger of companies under common control. As such, the consolidated financial statements of the Company have been restated as if the post-Merger structure had existed for all periods presented.

Effective December 31, 1993, the Company changed its fiscal year-end from June 30 to December 31. Certain foreign subsidiaries are consolidated as of November 30.

Certain merchant banking partnerships affiliated with Lehman Brothers Holdings, Inc. ("the Lehman Funds"), are the largest shareholders of the Company. The Lehman Funds held approximately 29% of the outstanding common stock of the Company as of December 31, 1995.

A 33-for-1 split of the Company's common stock was effective as of the Company's initial public offering ("IPO") date (Note 3). All references to the numbers of shares of common stock, stock options, warrants and income (loss) per share in the accompanying consolidated financial statements and notes thereto have been adjusted to give effect to the split.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Significant transactions and balances among the Company and its subsidiaries have been eliminated in the consolidated financial statements.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally using the first-in, first-out method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs.

Inventories are comprised of the following (in millions):

| | December 31, | |
|-----------------|---------------|---------------|
| | ----- 1995 | 1994 ----- |
| Raw materials | \$139.4 | \$93.4 |
| Work-in-process | 18.0 | 13.9 |
| Finished goods | 38.8 | 19.3 |
| | ----- | ----- |
| | \$196.2 | \$126.6 |
| | ===== | ===== |

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Recoverable Customer Engineering and Tooling

Costs incurred by the Company for certain engineering and tooling projects for which customer reimbursement is anticipated are capitalized and classified as either recoverable customer engineering and tooling or other long-term assets dependent upon when reimbursement is anticipated. Provisions for losses are provided at the time the Company anticipates engineering and tooling costs to exceed anticipated customer reimbursement.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciable property is depreciated over the estimated useful lives of the assets, using principally the straight-line method as follows:

| | |
|----------------------------|----------------|
| Buildings and improvements | 20 to 25 years |
| Machinery and equipment | 5 to 15 years |

A summary of property, plant and equipment is shown below (in millions):

| | December 31, | |
|-------------------------------------|--------------|---------|
| | 1995 | 1994 |
| Land | \$45.5 | \$36.6 |
| Buildings and improvements | 254.3 | 141.1 |
| Machinery and equipment | 532.2 | 310.6 |
| Construction in progress | 28.4 | 16.2 |
| Total property, plant and equipment | 860.4 | 504.5 |
| Less accumulated depreciation | (217.6) | (150.3) |
| Net property, plant and equipment | \$642.8 | \$354.2 |

Goodwill

Goodwill consists of the excess of the purchase price and related acquisition costs over the fair value of identifiable net assets acquired. Goodwill is amortized on a straight-line basis over 40 years. The Company evaluates the carrying value of goodwill for potential impairment on an ongoing basis. Such evaluations compare operating income before amortization of goodwill of the operations to which goodwill relates to the amortization recorded. The Company also considers future anticipated operating results, trends and other circumstances in making such evaluations. Accumulated amortization of goodwill amounted to \$81.3 million and \$62.3 million at December 31, 1995 and 1994, respectively.

Research and Development

Costs incurred in connection with the development of new products and manufacturing methods to the extent not recoverable from the Company's customers are charged to operations as incurred. Such costs amounted to \$53.3 million, \$21.9 million and \$16.2 million for the years ended December 31, 1995, 1994 and 1993, respectively.

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at the exchange rates in effect at the end of the period. Revenue and expense accounts are translated using an average of exchange rates in effect during the period. Translation adjustments that arise from translating a foreign subsidiary's financial statements from the functional currency to U.S. dollars are reflected as cumulative translation adjustment in the consolidated balance sheets.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency, except those transactions which operate as a hedge of a foreign currency investment position, are included in the results of operations as incurred.

Income Taxes

The consolidated financial statements reflect the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", for all periods presented. Since the year ended December 31, 1993 did not constitute a fiscal year, the consolidated national income tax provision for this period was determined based upon the provisions of APB Opinion No. 28, "Interim Financial Reporting."

Deferred national income taxes represent the effect of cumulative temporary differences between income and expense items reported for financial statement and tax purposes, and between the bases of various assets and liabilities for financial statement and tax purposes. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence, it is deemed more likely than not that the asset will not be realized.

Weighted Average Shares Outstanding

The weighted average number of common shares outstanding for the years ended December 31, 1995, 1994 and 1993, were as follows:

| | 1995 | 1994 | 1993 |
|----------------------|------------|------------|------------|
| | ----- | ----- | ----- |
| Primary shares | 52,488,938 | 47,438,477 | 35,500,014 |
| Fully-diluted shares | 52,642,672 | 47,560,436 | 35,500,014 |

Shares exercisable pursuant to stock options and warrants (Note 15) are included in the weighted average share calculation for all years presented.

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although no single asset or liability subject to estimation is material to the Company's consolidated financial position, in aggregate such items are material. Generally, assets and liabilities subject to estimation and judgment include amounts related to unsettled pricing discussions with customers and suppliers, pension and post-retirement costs (Notes 12 and 13), plant closing reserves (Note 6), self-insurance accruals, asset valuation reserves, and accruals related to litigation and environmental remediation costs. Management does not believe that the ultimate settlement of any such assets or liabilities will materially affect the Company's financial position or future results of operations.

Reclassifications

Certain items in prior years' financial statements have been reclassified to conform with the presentation used in the year ended December 31, 1995.

(3) PUBLIC STOCK OFFERINGS

In September 1995, the Company issued 10,000,000 shares of common stock in a public offering ("the 1995 offering"). Concurrent with this issuance, 11,500,000 shares were sold by certain stockholders of the Company. The total proceeds to the Company from the stock issuance were \$292.5 million. Fees and expenses related to the 1995 offering totaled \$11.0 million, including approximately \$3.9 million paid to Lehman Brothers, Inc. Net of issuance costs, the Company received \$281.5 million, which was used to repay debt incurred in connection with the purchase of AI (Note 5). See Note 19 for pro forma information.

In April 1994, the Company completed an initial public offering of its common stock (the "IPO"), pursuant to which the Company sold 7,187,500 shares of its common stock for total proceeds of approximately \$111.4 million. Fees and expenses related to the IPO totaled \$7.8 million, including approximately \$.9 million paid to Lehman Brothers, Inc. The net proceeds of the offering were used to reduce outstanding borrowings under the Company's existing senior credit facility (Note 10). In the same offering, FIMA Finance Management Inc., ("FIMA") a wholly-owned subsidiary of EXOR Group S.A. (formerly IFINT S.A.), sold 3,125,000 shares of the Company's common stock in the public market. The Company received no proceeds from the sale of these shares. See Note 19 for pro forma information.

(4) SUBORDINATED NOTES OFFERING

On February 3, 1994, the Company completed a public offering of \$145.0 million of 8 1/4% Subordinated Notes due 2002 (the "8 1/4% Notes"). The 8 1/4% Notes require interest payments semi-annually on February 1 and August 1. Fees and expenses related to the issuance of the 8 1/4% Notes were approximately \$5.0 million, including underwriting fees of \$2.4 million paid to Lehman Brothers, Inc.

The net proceeds from the sale of the 8 1/4% Notes were used to finance the redemption of the 14% Subordinated Debentures. Simultaneous with the sale of the 8 1/4% Notes, the Company called the 14% Subordinated Debentures for redemption on March 4, 1994, at a redemption price equal to 105.4% of the outstanding principal amount of \$135.0 million, plus accrued interest to the redemption date. The premium for early extinguishment of the 14% Subordinated Debentures and the accelerated amortization

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

of deferred financing fees totaled approximately \$10.7 million. This amount has been reflected as an extraordinary loss in the year ended December 31, 1993. The deferred tax benefit related to this extraordinary loss was offset by a valuation allowance. See Note 19 for pro forma information.

(5) AI ACQUISITION

On August 17, 1995, the Company purchased the issued and outstanding shares of common stock of Automotive Industries Holding, Inc. ("AI") for an aggregate purchase price of approximately \$885.0 million, including the retirement of \$250.5 million of AI's existing indebtedness and \$18.1 million in fees and expenses, including \$4.8 million paid to Lehman Brothers, Inc. ("the AI acquisition"). AI is a leading designer and manufacturer of high quality interior trim systems and blow molded products principally for North American and European car and light truck manufacturers.

The acquisition was accounted for as a purchase, and accordingly, the assets purchased and liabilities assumed in the acquisition have been reflected in the accompanying consolidated balance sheet as of December 31, 1995 and the operating results of AI have been included in the consolidated financial statements since the date of acquisition. The purchase price was allocated as follows (in millions):

| | |
|---|---------|
| Cash consideration paid to stockholders, net of cash acquired of \$9.1 million | \$614.5 |
| Stock options issued to former AI option holders | 1.9 |
| Retirement of debt assumed | 250.5 |
| Fees and expenses | 18.1 |
| | ----- |
| Cost of acquisition | \$885.0 |
| | ===== |
| Property, plant and equipment | \$257.1 |
| Net non-cash working capital | 49.6 |
| Other assets purchased and liabilities assumed, net | 1.6 |
| Debt assumed | (33.9) |
| Goodwill | 610.6 |
| | ----- |
| Total cost allocation | \$885.0 |
| | ===== |

The purchase price and related allocation may be revised in the next year based on revisions of preliminary estimates of fair values made at the date of purchase. Such changes are not expected to be significant. See Note 19 for pro forma information.

(6) FSB ACQUISITION

On December 15, 1994, the Company purchased from Gilardini S.p.A., an Italian Corporation, all of the outstanding common stock of Sepi S.p.A., an Italian Corporation, all of the outstanding common stock of Sepi Poland S.p. Z o.o. and a 35% interest in a Turkish joint venture (collectively, the "Fiat Seat Business", or "FSB"). The FSB is engaged in the design and manufacture of automotive seating, with its principal customers being Fiat S.p.A. and its affiliates ("Fiat"). In connection with this transaction, the Company and Fiat entered into a long-term supply agreement for certain products produced by the FSB.

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The acquisition was accounted for as a purchase, and accordingly, the assets purchased and liabilities assumed in the acquisition have been reflected in the accompanying consolidated balance sheet as of December 31, 1994. The operations of the FSB from the acquisition date to December 31, 1994 were not material to the consolidated statement of operations of the Company for the year ended December 31, 1994. The FSB's results of operations have been included in the consolidated financial statements in 1995. The purchase price was allocated as follows (in millions):

| | |
|---|---------|
| Cash consideration paid to seller, net of cash acquired of \$6.9 million | \$85.3 |
| Deferred purchase price, due 1998 | 12.3 |
| Short-term borrowings from Fiat assumed | 66.7 |
| Fees and expenses | 4.2 |
| Receivable from seller | (1.2) |
| | ----- |
| Cost of acquisition | \$167.3 |
| | ===== |
| Property, plant and equipment | \$72.2 |
| Investment in Industrias Cousin Freres, S.L. (Note 8) | 4.9 |
| Employee termination indemnities assumed | (17.8) |
| Net non-cash working capital | 9.3 |
| Other assets purchased and liabilities assumed, net | (12.5) |
| Goodwill | 111.2 |
| | ----- |
| Total cost allocation | \$167.3 |
| | ===== |

The deferred portion of the purchase price is included in the accompanying consolidated balance sheet as of December 31, 1995 and 1994 in other long-term liabilities. See Note 19 for pro forma information.

At the time of the FSB acquisition, management made the decision to close certain facilities of the FSB. During 1995, the plans to close these plants were completed, and reserves for the related costs were adjusted. Included in the final purchase price allocation are approximately \$6.1 million of such reserves, \$2.6 million of which relate to valuation reserves on property, plant and equipment, \$2.4 million for expected severance costs, and an additional \$1.1 million for other plant closings and relocation costs. Any plant closings do not represent a loss of business to the Company as the production would be relocated to other Lear facilities.

(7) NAB ACQUISITION

On November 1, 1993, the Company purchased certain assets of the Plastics and Trim Products Division of Ford Motor Company ("Ford") consisting of (i) the U.S. operations that supply seat trim and trimmed seat assemblies to Ford which are manufactured by Favesa, S.A. de C.V.; (ii) all of the shares of Favesa, a maquiladora operation located in Juarez, Mexico; and (iii) certain inventories and assets employed in the operation of the NAB (collectively, the "North American Business" or the "NAB"). In connection with this transaction, the Company and Ford entered into a long-term supply agreement for certain products produced by these operations at agreed upon prices.

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

This acquisition was accounted for as a purchase, and accordingly, the operating results of the NAB have been included in the accompanying consolidated financial statements since the date of acquisition. The purchase price, after giving effect to an adjustment related to changes in the NAB working capital, consisted of the following and has been allocated as follows (in millions):

| | |
|---|----------|
| Cash consideration paid to seller, net of cash acquired of \$2.7 million | \$170.7 |
| Execution of promissory notes | 10.5 |
| Fees and expenses | 1.4 |
| | ----- |
| Cost of acquisition | \$182.6 |
| | ===== |
| Property, plant and equipment | \$ 79.8 |
| Net non-cash working capital | 1.7 |
| Other assets purchased and liabilities assumed, net | (.3) |
| Goodwill | 101.4 |
| | ----- |
| Total cost allocation | \$ 182.6 |
| | ===== |

As part of the NAB acquisition, the Company acquired and has exercised an option to cause Ford to purchase two facilities in consideration of Ford canceling a \$19.9 million note payable. The Company exercised this option, and the sale of these facilities occurred in March 1994. The Company leased one of these facilities until August 1994. Fees and expenses related to the acquisition include \$.5 million paid to Lehman Brothers, Inc.

Assuming the acquisition had taken place as of the beginning of 1993, the consolidated pro forma results of operations of the Company would have been as follows, after giving effect to certain adjustments, including certain operations adjustments consisting principally of management's estimates of the effects of product pricing adjustments negotiated in connection with the acquisition and incremental ongoing NAB engineering, overhead and administrative expenses, increased interest expense and goodwill amortization and the related income tax effects (Unaudited; in millions, except per share data):

| | Year Ended December 31, 1993 |
|--|------------------------------------|
| | ----- |
| Net sales | \$2,361.4 |
| Income before extraordinary item | 5.1 |
| Net loss | (6.6) |
| Income per common share before extraordinary item | .12 |
| Net loss per common share | (.16) |

The pro forma information above does not purport to be indicative of the results that actually would have been achieved if the operations were combined during the periods presented, and is not intended to be a projection of future results or trends.

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(8) INVESTMENTS IN AFFILIATES

The investments in affiliates are as follows:

| | Percent Beneficial Ownership as of December 31, | | |
|---|--|------|------|
| | 1995 | 1994 | 1993 |
| Industrias Cousin Freres, S.L. (Spain) | 49% | 49% | -% |
| Lear Seating Thailand Corporation | 49 | 49 | - |
| Interiores Automotrices Summa, S.A. de C.V. (Mexico) | 40 | - | - |
| Markol Otomotiv Yan Sanayi Ve Ticart (Turkey) | 35 | 35 | - |
| General Seating of America, Inc. | 35 | 35 | 35 |
| General Seating of Canada, Ltd. | 35 | 35 | 35 |
| Guildford Kast Plastifol Ltd. (U.K.) | 33 | - | - |
| Probel, S.A. (Brazil) | 31 | 31 | 31 |
| Pacific Trim Corporation Ltd. (Thailand) | 20 | 20 | 20 |

The above businesses are generally involved in the manufacture of automotive interiors and interior components.

All of the above investments in affiliates are accounted for using the equity method, except Probel. In June 1993, the Company revalued its investment in Probel, which was previously accounted for using the cost method, to zero due to continued operating losses and other factors impacting its potential recoverability. A charge of approximately \$1.7 million was recorded and is reflected in equity income of affiliates in the consolidated statement of operations for the year ended December 31, 1993. The investments in Industrias Cousin Freres, S.L. and Markol Otomotiv Yan Sanayi Ve Ticart were acquired as part of the FSB acquisition (Note 6). The investments in Guildford Kast Plastifol Ltd., and Interiores Automotrices Summa, S.A. de C.V. were acquired as part of the AI acquisition (Note 5).

Summarized group financial information for affiliates accounted for under the equity method is as follows (Unaudited; in millions):

| | December 31, | |
|-------------------------|--------------|--------|
| | 1995 | 1994 |
| Balance sheet data: | | |
| Current assets | \$57.6 | \$36.8 |
| Non-current assets | 42.0 | 25.6 |
| Current liabilities | 35.6 | 24.3 |
| Non-current liabilities | 16.9 | 14.5 |

| | Year Ended December 31, | | |
|--|-------------------------|---------|---------|
| | 1995 | 1994 | 1993 |
| Income statement data: | | | |
| Net sales | \$201.6 | \$140.4 | \$122.4 |
| Gross profit | 37.9 | 14.1 | 12.6 |
| Income before provision for income taxes | 14.2 | 6.0 | 7.3 |
| Net income | 10.0 | 3.9 | 5.0 |

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The aggregate investment in affiliates was \$20.6 million and \$11.0 million as of December 31, 1995 and 1994, respectively. The Company had sales to affiliates of approximately \$12.8 million, \$14.0 million and \$11.1 million for the years ended December 31, 1995, 1994 and 1993, respectively. Dividends of approximately \$1.3 million, \$.9 million and \$1.0 million were received by the Company for the years ended December 31, 1995, 1994 and 1993, respectively. The Company has guaranteed certain obligations of its affiliates. The Company's share of amounts outstanding under guaranteed obligations as of December 31, 1995 amounted to \$6.1 million.

(9) SHORT-TERM BORROWINGS

Short-term borrowings are comprised of the following (in millions):

| | December 31, | |
|---|---------------|---------------|
| | ----- 1995 | 1994 ----- |
| Note payable to bank, LIBOR + 3/4% | \$ 11.5 | \$ 15.0 |
| Revolving credit facility, Base + 1 3/4% | 2.8 | - |
| Note payable to bank, LIBOR + 3% | 2.6 | 1.0 |
| Short-term borrowing, Fiat S.p.A., 9 3/4% (Note 6) | - | 66.7 |
| Unsecured notes payable -- | | |
| NAB acquisition note payable, non-interest bearing (Note 7) | - | 1.2 |
| Trade acceptance payable, 6% at December 31, 1994 | - | .2 |
| | ----- | ----- |
| | \$ 16.9 | \$ 84.1 |
| | ===== | ===== |

At December 31, 1995, the Company has lines of credit available with foreign banks of approximately \$79.7 million, subject to certain restrictions imposed by the Credit Agreement (Note 10). Weighted average interest rates under these agreements at December 31, 1995 and 1994 were 7.4% and 9.1%, respectively.

(10) LONG-TERM DEBT

Long-term debt is comprised of the following (in millions):

| | December 31, | |
|------------------------------------|---------------|---------------|
| | ----- 1995 | 1994 ----- |
| Domestic revolver | \$717.1 | \$121.9 |
| Industrial revenue bonds | 20.9 | 19.0 |
| Capital lease obligations | 12.1 | - |
| German term loan | 6.3 | 7.1 |
| Loans from government agencies | 5.0 | 2.0 |
| Other | 16.5 | .6 |
| | ----- | ----- |
| | 777.9 | 150.6 |
| Less -- Current portion | (9.9) | (1.9) |
| | ----- | ----- |
| | 768.0 | 148.7 |
| | ----- | ----- |
| 8 1/4% Subordinated Notes (Note 4) | 145.0 | 145.0 |
| 11 1/4% Senior Subordinated Notes | 125.0 | 125.0 |
| | ----- | ----- |
| | 270.0 | 270.0 |
| | ----- | ----- |
| | \$1,038.0 | \$418.7 |
| | ===== | ===== |

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

In August, 1995, the Company entered into a \$1.5 billion secured revolving credit agreement with a syndicate of financial institutions (the "Credit Agreement"), the purpose of which was to finance the AI acquisition (Note 5), to refinance a portion of the existing indebtedness of AI, to refinance the Company's prior \$500 million credit agreement (the "Prior Credit Facility"), and for general corporate purposes, including acquisitions. See Note 19 for pro forma information. The accelerated amortization of deferred financing fees related to the Prior Credit Facility totaled approximately \$4.0 million. This amount, net of the related tax benefit of \$1.4 million, has been reflected as an extraordinary loss in the consolidated results of operations for the year ended December 31, 1995. Availability under the Credit Agreement decreases semi-annually, in an aggregate amount of \$650 million by the expiration date of September 30, 2001. Lehman Commercial Paper, Inc., an affiliate of the Lehman Funds, is a managing agent of the Credit Agreement and received fees of \$.5 million in connection with this transaction.

In October, 1993 and again in November, 1994, the Company amended and restated its prior credit agreement with a syndicate of banks to increase available credit and modify certain other provisions under the agreement. The accelerated amortization of deferred financing fees related to the 1993 refinancing totaled approximately \$1.5 million. This amount, net of the related tax benefit of \$.5 million, has been reflected as an extraordinary loss in the year ended December 31, 1993. In connection with these transactions, the Company paid \$.5 million to Lehman Brothers, Inc. for consulting fees. In addition, Lehman Commercial Paper Inc., received fees of \$.7 million as managing agent under the credit agreement.

Loans under the Credit Agreement bear interest, at the election of the Company, at a floating rate equal to (i) the higher of Chemical Bank's prime rate and the federal funds rate plus 0.5% or (ii) the Eurodollar rate plus 1/2% to 1%. The Company pays a commitment fee on the unused balance of the facility of 1/5% to 3/8%, depending on a certain financial ratio.

The Company had available unused long-term revolving credit commitments of \$728.5 million at December 31, 1995, net of \$54.4 million of outstanding letters of credit. Borrowings on revolving credit loans were \$4,979.5 million, \$495.2 million, and \$986.3 million for the years ended December 31, 1995, 1994, and 1993, respectively. Repayments on revolving credit loans were \$4,384.3 million, \$604.0 million and \$760.8 million for the years ended December 31, 1995, 1994 and 1993, respectively. At December 31, 1995, interest was being charged at the Eurodollar rate plus 3/4% for loans under the Credit Agreement and 1/4% for the commitment fee on the unused portion of the Credit Agreement.

The City of Hammond and Development Authority of Clayton County Industrial Revenue Bonds (IRBs), at \$9.5 million each, are payable in 2024, and bear interest at variable rates which are reset periodically. At the Company's option, the rates can be reset weekly or monthly, or can be fixed for a period of time or through maturity. As of December 31, 1995, the City of Hammond IRB and the Development Authority of Clayton County IRB bore interest rates of 4.25% and 4.55%, respectively. The remaining IRBs amortize annually, mature in 1998 and 2004, and as of December 31, 1995 bore interest of between 2.5% and 2.0%

The 8 1/4% Subordinated Notes, due in 2002, require interest payments semi-annually on February 1 and August 1. The 11 1/4% Senior Subordinated Notes, due in 2000, require interest payments semi-annually on January 15 and July 15.

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The Credit Agreement and Subordinated Debt Indentures contain restrictive covenants. The most restrictive of these covenants are financial covenants related to maintenance of certain levels of net worth, operating profit and interest coverage. These agreements also, among other things, restrict the Company's ability to incur additional indebtedness, declare dividends, create liens, make investments and advances, sell assets and limit capital expenditures to specified amounts. The German Term Loan agreement also contains certain restrictive covenants.

The Company uses interest rate swap contracts to hedge against interest rate risks in future periods. As of December 31, 1995, the Company has entered into five one-year swap contracts with an aggregate notional value of \$215.0 million which go into effect between August 1996 and August 1997. Pursuant to each of the contracts, the Company will make payments calculated at a fixed rate of between 5.9% and 6.3% of the notional value and will receive payments calculated at the Eurodollar rate. This effectively fixes the Company's interest rate on the portion of the indebtedness under the Credit Agreement covered by the contracts at the fixed rates in the contracts plus a margin of 1/2% to 1% during the time the contracts are effective. The fair value of these contracts as of December 31, 1995 is negative \$1.9 million.

As of December 31, 1995, the Company is able to declare limited dividends of up to \$2.5 million per quarter. Loans under the Credit Agreement are collateralized by substantially all assets of the Company.

The scheduled maturities of long-term debt at December 31, 1995 for the five succeeding years are as follows (in millions):

| | |
|------|-------|
| 1996 | \$9.9 |
| 1997 | 10.5 |
| 1998 | 6.6 |
| 1999 | 5.5 |
| 2000 | 128.2 |

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(11) NATIONAL INCOME TAXES

A summary of income (loss) before provision for national income taxes and components of the provision for national income taxes is as follows (in millions):

| | Year Ended December 31, | | |
|---|-------------------------|----------|----------|
| | 1995 | 1994 | 1993 |
| Income (loss) before provision for national income taxes, minority interests in net income (loss) of subsidiaries, equity (income) loss of affiliates and extraordinary item: | | | |
| Domestic | \$ 51.0 | \$ 56.4 | \$ (3.4) |
| Foreign | 101.9 | 58.2 | 29.5 |
| | \$ 152.9 | \$ 114.6 | \$ 26.1 |
| Domestic provision for national income taxes: | | | |
| Current provision | \$ 31.6 | \$ 31.2 | \$ 7.4 |
| Deferred -- | | | |
| Deferred provision | (12.2) | - | 1.0 |
| Benefit of previously unbenefitted net operating loss carryforwards | (.4) | (2.2) | (3.0) |
| | (12.6) | (2.2) | (2.0) |
| Total domestic provision | 19.0 | 29.0 | 5.4 |
| Foreign provision for national income taxes | | | |
| Current provision | 41.2 | 25.1 | 22.5 |
| Deferred -- | | | |
| Deferred provision | 5.3 | .9 | (1.0) |
| Benefit of previously unbenefitted net operating loss carryforwards | (2.4) | - | - |
| | 2.9 | .9 | (1.0) |
| Total foreign provision | 44.1 | 26.0 | 21.5 |
| Provision for national income taxes | \$ 63.1 | \$ 55.0 | \$ 26.9 |

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The differences between tax provisions calculated at the United States Federal statutory income tax rate of 35% for the years ended December 31, 1995, 1994 and 1993 and the actual consolidated national income tax provision are summarized as follows (in millions):

| | Year Ended December 31, | | |
|--|-------------------------|----------------|----------------|
| | 1995 | 1994 | 1993 |
| Income before provision for national income taxes, minority interests in net income (loss) of subsidiaries, equity (income) loss of affiliates and extraordinary item multiplied by the United States Federal statutory rate | \$ 53.5 | \$ 40.1 | \$ 9.1 |
| Utilization of domestic net operating loss carryforwards | (.4) | (2.2) | (3.0) |
| Utilization of foreign net operating loss carryforwards | (2.4) | - | - |
| Differences between domestic and effective foreign tax rates | (3.3) | 1.3 | 3.7 |
| Operating losses not tax benefited | 11.4 | 3.0 | 4.9 |
| Increase (decrease) in valuation allowance | (4.2) | 3.3 | 8.8 |
| Domestic income taxes provided on foreign earnings | 2.6 | 6.4 | .9 |
| Amortization of goodwill | 5.8 | 3.0 | 3.3 |
| Other, net | .1 | .1 | (.8) |
| | <u>\$ 63.1</u> | <u>\$ 55.0</u> | <u>\$ 26.9</u> |

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Deferred national income taxes represent temporary differences in the recognition of certain items for income tax and financial reporting purposes. The components of the net deferred national income tax liability are summarized as follows (in millions):

| | December 31, | |
|---|---------------|---------------|
| | ----- 1995 | 1994 ----- |
| Deferred national income tax liabilities: | | |
| Property, plant and equipment basis differences | \$ 23.9 | \$ 22.1 |
| Financing and intercompany transactions | - | 8.8 |
| Taxes provided on unremitted foreign earnings | 15.6 | 19.4 |
| Benefit plans | 3.1 | 2.0 |
| Other | 7.5 | 5.4 |
| | ----- | ----- |
| | \$ 50.1 | \$ 57.7 |
| | ===== | ===== |
| Deferred national income tax assets: | | |
| Tax credit carryforwards | \$ (3.5) | \$ (8.7) |
| Tax loss carryforwards | (53.3) | (46.8) |
| Benefit plans | (14.1) | (9.6) |
| Accruals | (9.7) | (15.9) |
| Minimum pension liability | (1.7) | (1.8) |
| Deferred compensation | (6.2) | (6.3) |
| Other | (5.4) | (4.8) |
| | ----- | ----- |
| | (93.9) | (93.9) |
| Valuation allowance | 57.4 | 58.1 |
| | ----- | ----- |
| | (36.5) | (35.8) |
| | ----- | ----- |
| Net deferred national income tax liability | \$ 13.6 | \$ 21.9 |
| | ===== | ===== |

Deferred national income tax assets have been fully offset by a valuation allowance in certain foreign tax jurisdictions due to a history of operating losses. The classification of the net deferred national income tax liability is summarized as follows (in millions):

| | December 31, | |
|--|---------------|---------------|
| | ----- 1995 | 1994 ----- |
| Deferred national income tax assets: | | |
| Current | \$(13.2) | \$(1.8) |
| Long-term | (15.8) | (1.6) |
| Deferred national income tax liability: | | |
| Current | 5.3 | - |
| Long-term | 37.3 | 25.3 |
| | ----- | ----- |
| Net deferred national income tax liability | \$ 13.6 | \$21.9 |
| | ===== | ===== |

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Deferred national income taxes and withholding taxes have been provided on earnings of the Company's Canadian subsidiary to the extent it is anticipated that the earnings will be remitted in the form of future dividends. Deferred national income taxes and withholding taxes have not been provided on the undistributed earnings of the Company's other foreign subsidiaries as such amounts are considered to be permanently reinvested. The cumulative undistributed earnings at December 31, 1995 on which the Company had not provided additional national income taxes and withholding taxes were approximately \$41.2 million.

As of December 31, 1995, the Company had tax loss carryforwards of \$142.6 million which relate to certain foreign subsidiaries. Of the total loss carryforwards, \$50.3 million have no expiration and \$92.3 million expire in 1996 through 2002. As of December 31, 1995 the Company had tax credit carryforwards of \$3.5 million which expire in 2000.

(12) RETIREMENT PLANS

The Company has noncontributory defined benefit pension plans covering substantially all domestic employees and certain employees in foreign countries. The Company's salaried plans provide benefits based on a career average earnings formula. Hourly pension plans provide benefits under flat benefit formulas. The Company also has contractual arrangements with certain employees which provides for supplemental retirement benefits. In general, the Company's policy is to fund these plans based on legal requirements, tax considerations, and local practices.

Components of the Company's pension expense are as follows (in millions):

| | Year Ended December 31, | | |
|---|-------------------------|--------|--------|
| | 1995 | 1994 | 1993 |
| Service cost | \$ 6.2 | \$ 4.3 | \$ 3.5 |
| Interest cost on projected benefit obligation | 7.4 | 6.3 | 6.1 |
| Actual return on assets | (12.1) | (.1) | (7.8) |
| Net amortization and deferral | 6.9 | (4.6) | 3.1 |
| Net pension expense | \$ 8.4 | \$ 5.9 | \$ 4.9 |

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The following table sets forth a reconciliation of the funded status of the Company's defined benefit pension plans to the related amounts recorded in the consolidated balance sheets (in millions):

| | December 31, 1995 | | December 31, 1994 | |
|---|-------------------------------|--------------------------------|-------------------------------|--------------------------------|
| | Plans Whose Assets Exceed ABO | Plans Whose ABO Exceeds Assets | Plans Whose Assets Exceed ABO | Plans Whose ABO Exceeds Assets |
| Actuarial present value of: | | | | |
| Vested benefit obligation | \$14.4 | \$82.6 | \$16.8 | \$54.8 |
| Non-vested benefit obligation | 1.0 | 5.2 | 1.3 | 2.2 |
| Accumulated benefit obligation (ABO) | 15.4 | 87.8 | 18.1 | 57.0 |
| Effects of anticipated future compensation increases | 2.5 | 13.7 | 10.2 | 1.0 |
| Projected benefit obligation | 17.9 | 101.5 | 28.3 | 58.0 |
| Plan assets at fair value | 23.1 | 59.2 | 22.7 | 38.0 |
| Projected benefit obligation in excess of (less than) plan assets | (5.2) | 42.3 | 5.6 | 20.0 |
| Unamortized net loss | (.8) | (10.6) | (3.9) | (9.5) |
| Unrecognized prior service cost | (.4) | (4.3) | .2 | (3.0) |
| Unamortized net asset (obligation) at transition | 3.0 | (1.2) | 3.1 | (1.0) |
| Unamortized plan amendment obligation | - | (11.2) | - | - |
| Adjustment required to recognize minimum liability | - | 21.4 | - | 12.0 |
| Accrued pension (asset) liability recorded in the consolidated balance sheets | \$ (3.4) | \$ 36.4 | \$ 5.0 | \$ 18.5 |

The actuarial assumptions used in determining pension expense and the funded status information shown above were as follows:

| | Year Ended December 31, | | |
|-------------------------------------|-------------------------|--------|--------|
| | 1995 | 1994 | 1993 |
| Discount rate: | | | |
| Domestic plans | 7.25-7.5% | 7.5-8% | 7.5-8% |
| Foreign plans | 7-8% | 7-8% | 7-9% |
| Rate of salary progression: | | | |
| Domestic plans | 5.6% | 5% | 6% |
| Foreign plans | 3-5% | 3-5% | 3-5% |
| Long-term rate of return on assets: | | | |
| Domestic plans | 7.75-9% | 9% | 9% |
| Foreign plans | 8% | 8% | 8-9% |

Plan assets include cash equivalents, common and preferred stock, and government and corporate debt securities.

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," required the Company to record a minimum liability as of December 31, 1995 and 1994. As of December 31, 1995, the Company recorded a long-term liability of \$21.4 million, an intangible asset of \$16.2 million, which is included with other assets, and a reduction in stockholders' equity of \$3.5 million, net of income taxes of \$1.7 million.

The Company also sponsors defined contribution plans and participates in government sponsored programs in certain foreign countries. Contributions are determined as a percentage of each covered employee's salary. The Company also participates in multi-employer pension plans for certain of its hourly employees and contributes to those plans based on collective bargaining agreements. The aggregate cost of the defined contribution and multi-employer pension plans charged to operations was \$2.6 million, \$2.1 million and \$1.7 million for the years ended December 31, 1995, 1994 and 1993, respectively.

(13) POST-RETIREMENT BENEFITS

On July 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions" ("SFAS No. 106") for its domestic plans. On January 1, 1995, the Company adopted SFAS No. 106 for its foreign plans. This standard requires that the expected cost of post-retirement benefits be charged to expense during the years in which the employees render service to the Company.

The Company's post-retirement plans cover a majority of the Company's domestic employees and a portion of the Company's Canadian employees. The plans generally provide for the continuation of medical benefits for all employees who complete 10 years of service after age 45 and retire from the Company at age 55 or older. The Company does not fund its post-retirement benefit obligation. Rather, payments are made as costs are incurred by covered retirees.

As of July 1, 1993, the Company's accumulated post-retirement benefit obligation was approximately \$32.0 million. Because the Company had previously recorded a liability of \$6.3 million related to these benefits, the net transition obligation was \$25.7 million and is being amortized over 20 years. As of January 1, 1995, the Company's APBO for its foreign plans was approximately \$9.7 million which is being amortized over approximately 11 years, representing the average remaining service life of the eligible employees. The following table sets forth a reconciliation of the funded status of the accrued post-retirement benefit obligation to the related amounts recorded in the consolidated financial statements as of December 31, 1995 and 1994 (in millions):

| | December 31, | |
|---|---------------|---------------|
| | ----- 1995 | 1994 ----- |
| Accumulated Post-retirement Benefit Obligation ("APBO"): | | |
| Retirees | \$18.0 | \$11.8 |
| Fully eligible active plan participants | 4.8 | 4.3 |
| Other active participants | 29.8 | 20.9 |
| Unrecognized net gain | 4.1 | 4.2 |
| Unamortized transition obligation | (31.6) | (23.7) |
| | ----- | ----- |
| Liability recorded in the consolidated balance sheet | \$25.1 | \$17.5 |
| | ===== | ===== |

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Components of the Company's post-retirement benefit expense under SFAS No. 106 were as follows (in millions):

| | Years Ended December 31, | | |
|---------------------------------------|--------------------------|-------|-------|
| | 1995 | 1994 | 1993 |
| Service cost | \$3.6 | \$3.5 | \$1.7 |
| Interest cost on APBO | 3.5 | 2.8 | 1.3 |
| Unrecognized net gain | .4 | - | - |
| Amortization of transition obligation | 1.8 | 1.3 | .7 |
| Net post-retirement benefit expense | \$9.3 | \$7.6 | \$3.7 |

For the domestic plans, the APBO was calculated using an assumed discount rate of 7.5% and 8.0% as of December 31, 1995 and 1994, respectively. Domestic post-retirement benefit expense was calculated using an assumed discount rate of 8.0% in 1995, and 7.5% in 1994 and 1993. Domestic health care costs were assumed to increase 10.0% in 1995, grading down over time to 5.5% in 11 years. For the foreign plans, 1995 expense and the APBO as of December 31, 1995 were calculated using an assumed discount rate of 8.0%. Foreign health care costs were assumed to increase 8.5% per year for the next three years, grading down over time to 5.5% in 10 years and 5.0% in 20 years. To illustrate the significance of these assumptions, a rise in the assumed rate of health care cost increases of 1% each year would increase the APBO as of December 31, 1995 by \$6.7 million and increase the net post-retirement benefit expense by \$1.1 million for the year ended December 31, 1995.

Prior to July 1, 1993, post-retirement benefit costs were expensed as incurred. Benefit payments were approximately \$.8 million for the year ended December 31, 1993.

In November 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 112, "Employers Accounting for Post-Employment Benefits." This statement requires that employers accrue the cost of post-employment benefits during the employees' active service. The Company adopted this statement effective January 1, 1994. The adoption of this statement did not have a material effect on the Company's financial position or results of operations.

(14) COMMITMENTS AND CONTINGENCIES

The Company is the subject of various lawsuits, claims and environmental contingencies. In addition, the Company has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA" or "Superfund"), for the cleanup of contamination from hazardous substances at three Superfund sites, and may incur indemnification obligations for cleanup at three additional sites. In the opinion of management, the expected liability resulting from these matters is adequately covered by amounts accrued, and will not have a material adverse effect on the Company's consolidated financial position or future results of operations.

Several of the Company's European subsidiaries factor their accounts receivable with financial institutions subject to limited recourse provisions and are charged a discount fee ranging from a fixed rate per annum of 11% to the current LIBOR rate plus 0.4%. The amount of such factored receivables, which is not included in accounts receivable in the consolidated balance sheet at December 31, 1995 was approximately \$64.4 million.

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Approximately 24,000 of the Company's workforce worldwide are subject to collective bargaining agreements. 14% of the Company's workforce are subject to collective bargaining agreements which expire within one year. Relationships with all unions are good and management does not anticipate any difficulties with respect to the agreements.

Lease commitments at December 31, 1995 under noncancelable operating leases with terms exceeding one year are as follows (in millions):

| | |
|---------------------|---------|
| 1996 | \$22.7 |
| 1997 | 19.1 |
| 1998 | 15.7 |
| 1999 | 14.0 |
| 2000 | 12.8 |
| 2001 and thereafter | 22.3 |
| | ----- |
| Total | \$106.6 |
| | ===== |

The Company's operating leases cover principally buildings and transportation equipment. Rent expense incurred under all operating leases and charged to operations was \$21.2 million, \$16.5 million and \$12.6 million for the years ended December 31, 1995, 1994 and 1993, respectively.

(15) STOCK OPTIONS AND WARRANTS

1988 Stock Option Plan

At December 31, 1995, 1,847,755 options granted under stock option agreements dated September 29, 1988 were issued and outstanding. The options vested over a three-year period and are currently exercisable at \$1.29 per share. The difference between the exercise price and the market value at the date of grant was amortized to expense over the vesting period.

1992 Stock Option Plan

Under the 1992 stock option plan, the Company may grant up to 1,914,000 stock options to the management investors and certain other management personnel. At December 31, 1995 there were 1,886,500 options issued and outstanding under this plan. Pursuant to a plan amendment effective December 31, 1993, all of the options became immediately vested and will generally become exercisable at \$5 per share on September 28, 1996.

Stock option expense for the year ended December 31, 1993 was approximately \$14.5 million, and is included in incentive stock and other compensation expense in the accompanying consolidated statements of operations. The expense recognized reflects the immediate vesting of the previously unvested options on December 31, 1993, based on the estimated market value of the common stock of the Company of \$13.64 per share.

In addition to the stock option expense, incentive stock and other compensation expense in the accompanying statements of operations includes \$3.5 million in special management bonuses approved by the Board of Directors in December 1993.

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

1994 Stock Option Plan

Concurrent with the IPO (Note 3), the Company granted 498,750 options which are exercisable at \$15.50 per share beginning three years after the date of grant. The options vest over a three year period and expire seven years after they become exercisable. No stock compensation expense was recognized related to these options as the exercise price was equal to the market price as of the grant date. In 1995, 36,000 options were granted under this plan at exercise prices ranging from \$19 5/8 to \$30 1/4. As of December 31, 1995 513,250 options were outstanding.

Options Issued to Former AI Optionholders

In connection with the AI Acquisition (Note 5), the Company converted, at the optionholder's discretion, certain AI stock options into options exercisable for Lear common stock under new plans. All of the options converted were fully vested and exercisable as of the date of acquisition of AI. At December 31, 1995, there were 58,446 options exercisable at \$14.06 per share which expire July 24, 2002, 89,975 options exercisable at \$20.41 per share which expire August 5, 2003, and 80,984 options exercisable at \$23.12 per share which expire August 7, 2004. The value of these options as of the date of the AI Acquisition was \$1.9 million and was included in the purchase price of AI.

The changes in the number of options outstanding are as follows:

| | Year Ended December 31, | | |
|--|-------------------------|-----------|-----------|
| | 1995 | 1994 | 1993 |
| Options outstanding at beginning of period | 4,425,768 | 4,045,272 | 3,507,372 |
| Options granted | 265,405 | 498,750 | 537,900 |
| Options exercised | (165,263) | (100,797) | - |
| Options revoked | (49,000) | (17,457) | - |
| Options outstanding at end of period | 4,476,910 | 4,425,768 | 4,045,272 |

Warrants

In 1988, the Company sold warrants exercisable into 3,300,000 shares of common stock. The warrants, which entitled the holder to receive one share of common stock for no additional consideration, became exercisable on December 1, 1993. All warrants were exercised or expired in 1994.

(16) FINANCIAL INSTRUMENTS

The Company hedges certain foreign currency risks through the use of forward foreign exchange contracts and options. Such contracts are generally deemed as and are effective as hedges of the related transactions. As such, gains and losses from these contracts are deferred and are recognized on the settlement date, consistent with the related transactions. As of December 31, 1995, the Company and its subsidiaries have contracted to exchange up to 26.8 million Canadian dollars and 60.0 million German marks for fixed amounts of U. S. dollars. The contracts mature during 1996. As of December 31, 1995, the unrealized deferred gain on such contracts was \$.4 million and \$1.5 million, respectively.

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The carrying values of the Company's subordinated notes vary from the fair values of these instruments. The fair values were determined by reference to market prices of the securities in recent public transactions. As of December 31, 1995, the carrying value of the Company's subordinated notes was \$270.0 million compared to an estimated fair value of \$275.4 million. The carrying values of cash, accounts receivable, accounts payable and notes payable approximate the fair values of these instruments due to the short-term, highly liquid nature of these instruments. The carrying value of the Company's senior indebtedness approximates its fair value which was determined based on rates currently available to the Company for similar borrowings with like maturities.

(17) GEOGRAPHIC SEGMENT DATA

Worldwide operations are divided into four geographic segments -- United States, Canada, Europe and Mexico and other. The Mexico and other segment includes operations in Mexico, South America, South Africa and the Pacific Rim. Geographic segment information is as follows (in millions):

| | Year Ended December 31, | | |
|----------------------|-------------------------|-----------|-----------|
| | 1995 | 1994 | 1993 |
| Net Sales: | | | |
| United States | \$2,431.8 | \$1,916.5 | \$1,060.6 |
| Canada | 874.5 | 603.8 | 397.5 |
| Europe | 1,328.5 | 575.5 | 407.5 |
| Mexico and other | 307.4 | 222.7 | 208.6 |
| Intersegment sales | (227.8) | (171.0) | (123.9) |
| | ----- | ----- | ----- |
| | \$4,714.4 | \$3,147.5 | \$1,950.3 |
| | ===== | ===== | ===== |
| Operating Income: | | | |
| United States | \$108.4 | \$109.3 | \$61.3 |
| Canada | 96.4 | 46.3 | 25.6 |
| Europe | 26.5 | 4.4 | (9.6) |
| Mexico and other | 13.5 | 9.6 | 20.3 |
| Unallocated (a) | - | - | (18.0) |
| | ----- | ----- | ----- |
| | \$244.8 | \$169.6 | \$79.6 |
| | ===== | ===== | ===== |
| Identifiable Assets: | | | |
| United States | \$1,859.6 | \$784.7 | \$680.7 |
| Canada | 254.2 | 249.6 | 180.1 |
| Europe | 815.3 | 595.4 | 170.8 |
| Mexico and other | 116.5 | 72.5 | 68.3 |
| Unallocated (b) | 15.7 | 12.9 | 14.4 |
| | ----- | ----- | ----- |
| | \$3,061.3 | \$1,715.1 | \$1,114.3 |
| | ===== | ===== | ===== |

(a) Unallocated Operating Income primarily includes the impact of incentive stock and other compensation expense (Note 15).

(b) Unallocated Identifiable Assets primarily consist of deferred financing fees.

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The net assets of foreign subsidiaries were \$326.8 million and \$323.7 million at December 31, 1995 and 1994, respectively. The Company's share of foreign net income was \$58.6 million, \$32.2 million, and \$6.0 million, for the years ended December 31, 1995, 1994 and 1993, respectively.

A majority of the Company's sales are to automobile manufacturing companies. The following is a summary of the percentage of net sales to major customers:

| | Year Ended December 31, | | |
|----------------------------|-------------------------|------|------|
| | 1995 | 1994 | 1993 |
| Ford Motor Company | 33% | 39% | 28% |
| General Motors Corporation | 34 | 36 | 45 |

In addition, a significant portion of remaining sales are to the above automobile manufacturing companies through various other automotive suppliers or to affiliates of these automobile manufacturing companies.

(18) QUARTERLY FINANCIAL DATA (Unaudited; in millions, except per share data)

| | Thirteen Weeks Ended | | | |
|---|----------------------|-----------------|-----------------------|----------------------|
| | April 1, 1995 | July 1, 1995 | September 30, 1995 | December 31, 1995 |
| Net sales | \$1,043.5 | \$1,142.6 | \$1,080.6 | \$1,447.7 |
| Gross profit | 76.6 | 94.8 | 83.3 | 148.4 |
| Net income before extraordinary item | 17.0 | 28.9 | 11.1 | 37.2 |
| Net income | 17.0 | 28.9 | 8.5 | 37.2 |
| Net income before extraordinary item per common share | .34 | .58 | .22 | .62 |
| Net income per common share | .34 | .58 | .17 | .62 |

| | Thirteen Weeks Ended | | | |
|-----------------------------|----------------------|-----------------|--------------------|----------------------|
| | April 2, 1994 | July 2, 1994 | October 1, 1994 | December 31, 1994 |
| Net sales | \$ 686.7 | \$ 822.2 | \$ 698.5 | \$ 940.1 |
| Gross profit | 50.0 | 78.6 | 48.9 | 86.1 |
| Net income | 6.5 | 21.2 | 6.3 | 25.8 |
| Net income per common share | .16 | .43 | .13 | .52 |

LEAR SEATING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(19) PRO FORMA FINANCIAL DATA

The following pro forma unaudited financial data is presented to illustrate the estimated effects of (i) the 1995 offering (Note 3), (ii) the AI acquisition (Note 5), (iii) the refinancing of the Company's credit facility (Note 10), (iv) certain acquisitions completed by AI prior to the acquisition of AI by Lear, (v) the FSB Acquisition (Note 6), (vi) the initial public offering of common stock by the Company (Note 3), and (vii) the refinancing of the 14% Subordinated Debentures with the net proceeds from the issuance of the 8 1/4% Subordinated Notes (Note 4) as if these transactions had occurred as of the beginning of each year presented. These pro forma results give effect to certain adjustments, including certain operations adjustments consisting principally of management's estimates of the effects of product pricing adjustments negotiated in connection with the acquisitions, estimated engineering savings, the estimated effects on interest, depreciation and goodwill amortization expense and the related income tax effects of these adjustments.

| | Year Ended December 31, 1995 | | | | Year Ended December 31, 1994 | | | | |
|--|------------------------------|-------------------|---|--------------|------------------------------|--------------------|-------------------|---|--------------|
| | Company Historical | AI Acquisition | Operating and Financing Adjustments | Pro Forma | Company Historical | FSB Acquisition | AI Acquisition | Operating and Financing Adjustments | Pro Forma |
| Net sales | \$4,714.4 | \$523.7 | \$ - | \$5,238.1 | \$3,147.5 | \$455.9 | \$ 752.2 | \$ - | \$4,355.6 |
| Income before extraordinary item | 94.2 | 23.5 | (15.5) | 102.2 | 59.8 | (24.2) | 39.9 | (15.9) | 59.6 |
| Net income | 91.6 | 23.5 | (12.9) | 102.2 | 59.8 | (24.2) | 39.9 | (15.9) | 59.6 |
| Income per share before extraordinary item | 1.79 | | | 1.71 | 1.26 | | | | 1.00 |
| Net income per share | 1.74 | | | 1.71 | 1.26 | | | | 1.00 |

The pro forma information above does not purport to be indicative of the results that actually would have been achieved if these transactions had occurred prior to the years presented, and is not intended to be a projection of future results or trends.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Lear Seating Corporation:

We have audited in accordance with generally accepted auditing standards the consolidated financial statements of LEAR SEATING CORPORATION AND SUBSIDIARIES ("the Company") included in this Form 10-K and have issued our report thereon dated February 6, 1996. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule on page 55 is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

Detroit, Michigan
February 6, 1996.

LEAR SEATING CORPORATION AND SUBSIDIARIES
 SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
 (IN MILLIONS)

| DESCRIPTION ----- | BALANCE AT BEGINNING OF PERIOD | ADDITIONS | RETIREMENTS | OTHER CHANGES | BALANCE END OF PERIOD |
|---|--------------------------------------|-----------|-------------|------------------|-----------------------------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| FOR THE YEAR ENDED DECEMBER 31, 1993: | | | | | |
| Valuation of accounts deducted from related assets: | | | | | |
| Allowance for doubtful accounts | \$.5 | \$.3 | \$ (.1) | \$ (.1) | \$.6 |
| Reserve for unmerchantable inventories | 1.7 | .6 | (.2) | (.2) | 1.9 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$2.2 | \$.9 | \$ (.3) | \$ (.3) | \$2.5 |
| | ===== | ===== | ===== | ===== | ===== |
| FOR THE YEAR ENDED DECEMBER 31, 1994: | | | | | |
| Valuation of accounts deducted from related assets: | | | | | |
| Allowance for doubtful accounts | \$.6 | \$.6 | \$ (.1) | \$2.0 | \$3.1 |
| Reserve for unmerchantable inventories | 1.9 | 4.0 | (1.7) | (.1) | 4.1 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$2.5 | \$4.6 | \$ (1.8) | \$1.9 | \$7.2 |
| | ===== | ===== | ===== | ===== | ===== |
| FOR THE YEAR ENDED DECEMBER 31, 1995: | | | | | |
| Valuation of accounts deducted from related assets: | | | | | |
| Allowance for doubtful accounts | \$3.1 | \$.5 | \$ (.5) | \$.9 | \$4.0 |
| Reserve for unmerchantable inventories | 4.1 | 3.2 | (2.1) | 1.1 | 6.3 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$7.2 | \$3.7 | \$ (2.6) | \$2.0 | \$10.3 |
| | ===== | ===== | ===== | ===== | ===== |

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON
ACCOUNTING AND FINANCIAL DISCLOSURE

There has been no disagreement between the management of the Company and the Company's accountants on any matter of accounting principles or practices or financial statement disclosure.

PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS

Incorporated by reference from the Proxy Statement sections entitled "Election of Directors," and "Management."

ITEM 11 - EXECUTIVE COMPENSATION

Incorporated by reference from the Proxy Statement sections entitled "Executive Compensation," "Compensation Committee Interlocks and Insider Participation," and "Report of Compensation Committee - Annual Incentives."

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference from the Proxy Statement section entitled "Management - Security Ownership of Certain Beneficial Owners and Management."

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference from the Proxy Statement section entitled "Certain Transactions."

PART IV

ITEM 14 EXHIBITS, FINANCIAL SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this Form 10-K.

1. Consolidated Financial Statements:

Report of Independent Public Accountants

Consolidated Balance Sheets as of December 31, 1995 and 1994.

Consolidated Statements of Operations for the years ended December 31, 1995, 1994 and 1993.

Consolidated Statements of Stockholders' Equity for the years ended December 31, 1995, 1994 and 1993.

Consolidated Statements of Cash Flows for the years ended December 31, 1995, 1994 and 1993.

Notes to Consolidated Financial Statements

2. Financial Statements Schedules:

Report of Independent Public Accountants

Schedule II - Valuation and Qualifying Accounts

All other financial statement schedules are omitted because such schedules are not required or the information required has been presented in the aforementioned financial statements.

3. The exhibits listed on the "Index to Exhibits" on pages 59 through 61 are filed with this Form 10-K or incorporated by reference as set forth below.

(b) The following reports on Form 8-K were filed during the quarter ended December 31, 1995.

None.

(c) The exhibits listed on the "Index to Exhibits" on pages 59 through 61 are filed with this Form 10-K or incorporated by reference as set forth below.

(d) Additional Financial Statement Schedules.

None.

INDEX TO EXHIBITS

EXHIBIT
NUMBER EXHIBIT

- 3.1 Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.3 to the Company's Transition Report on Form 10-K filed March 31, 1994).
- 3.2 Amended and Restated By-laws of Lear (incorporated by reference to Exhibit 3.4 to Lear's Registration Statement on Form S-1 (No. 33-52565)).
- 3.3 Merger Agreement dated December 31, 1993, by and between Lear and Holdings (incorporated by reference to Exhibit 3.4 to Lear's Registration Statement on Form S-1 (No. 33-51317)).
- 4.1 Indenture dated as of February 1, 1994 by and between Lear and The First National Bank of Boston, as Trustee, relating to the 8 1/4% Subordinated Notes (incorporated by reference to Exhibit 4.1 to the Company's Transition Report on Form 10-K filed on March 31, 1994).
- 4.2 Indenture dated as of July 15, 1992 by and between Lear and The Bank of New York, as Trustee, relating to the 11 1/4% Senior Subordinated Notes (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (No. 33-47867)).
- 10.1 \$1,500,000 Credit Agreement dated as of August 17, 1995 (the "Credit Agreement") among the Company, the several financial institutions party thereto (collectively, the "Banks"), Chemical Bank, a New York banking corporation, as administrative agent for the Banks and the Managing Agents, Co-Agents and Lead Managers identified therein (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, dated August 17, 1995).
- 10.2 First Amendment and Consent to the Credit Agreement dated as of December 8, 1995, filed herewith.
- 10.3 \$9,500,000 Loan Agreement dated as of July 1, 1994 between the Company and the City of Hammond, Indiana (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994).
- 10.4 \$9,500,000 Loan Agreement dated as of September 1, 1994 between the Company and the Development Authority of Clayton County, Georgia (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994).
- 10.5 Cdn. \$25,000,000 Credit Agreement dated April 19, 1995 between Lear Seating Canada, Ltd. and the Bank of Nova Scotia (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 1, 1995).
- 10.6 Employment Agreement dated March 20, 1995 between the Company and Kenneth L. Way (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994).
- 10.7 Employment Agreement dated March 20, 1995 between the Company and Robert E. Rossiter (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994).
- 10.8 Employment Agreement dated March 20, 1995 between the Company and James H. Vandenberghe (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994).
- 10.9 Employment Agreement dated March 20, 1995 between the Company and James A. Hollars (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994).

EXHIBIT
NUMBER EXHIBIT

- 10.10 Employment Agreement dated July 12, 1995 between Automotive Industries, Inc. and Frederick F. Sommer (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 1995).
- 10.11 Employment Agreement dated June 1, 1992 between Lear and Donald J. Stebbins (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 (No. 33-51317)).
- 10.12 Stock Option Agreement dated as of September 29, 1988 between the Company and certain management investors (the "Management Investors") (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (No. 33-25256)).
- 10.13 Amendment to Stock Option Agreement dated as of March 2, 1995 between the Company and Kenneth L. Way (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 1995).
- 10.14 Amendment to Stock Option Agreement dated as of March 2, 1995 between the Company and Robert E. Rossiter (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 1995).
- 10.15 Amendment to Stock Option Agreement dated as of March 2, 1995 between the Company and James H. Vandenberghe (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 1995).
- 10.16 Amendment to Stock Option Agreement dated as of March 2, 1995 between the Company and James A. Hollars (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 1995).
- 10.17 Amendment to Stock Option Agreement dated as of March 2, 1995 between the Company and Randal T. Murphy (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 1995).
- 10.18 Lear's 1992 Stock Option Plan (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended June 30, 1993).
- 10.19 Amendment to Lear's 1992 Stock Option Plan (incorporated by reference to Exhibit 10.26 to the Company's Transition Report on Form 10-K filed on March 31, 1994).
- 10.20 Lear's 1994 Stock Option Plan (incorporated by reference to Exhibit 10.27 to the Company's Transition Report on Form 10-K filed on March 31, 1994).
- 10.21 Senior Executive Incentive Compensation Plan of Lear (incorporated by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-1 (No. 33-47867)).
- 10.22 Management Incentive Compensation Plan of Lear (incorporated by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 (No. 33-47867)).
- 10.23 Lear's Supplemental Executive Retirement Plan, dated as of January 1, 1995, (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K, for the year ended December 31, 1994).

EXHIBIT
NUMBER EXHIBIT

- 10.24 Amended and Restated Stockholders and Registration Rights Agreement dated as of September 27, 1991 by and among the Company, the Lehman Funds, Lehman Brothers Merchant Banking Partners Inc., as representative of the Lehman Partnerships, FIMA Finance Management Inc., a British Virgin Islands corporation, and the Management Investors (incorporated by reference to Exhibit 2.2 to Lear Holdings Corporation's Current Report on Form 8-K dated September 24, 1991).
- 10.25 Amendment to Amended and Restated Stockholders and Registration Rights Agreement (incorporated by reference to Exhibit 10.24 to the Company's Transition Report on Form 10-K filed on March 31, 1994).
- 10.26 Waiver to Amended and Restated Stockholders and Registration Rights Agreement dated August 15, 1995 (incorporated by reference to Exhibit 99.4 to the Company's Registration Statement on Form S-3 (No. 33-61583)).
- 10.27 Waiver and Agreement dated September 27, 1991, by and among Lear Holdings Corporation, Kidder Peabody Group Inc., KP/Hanover Partners 1988, L.P. General Electric Capital Corporation, FIMA Finance Management Inc., a Panamanian corporation, FIMA Finance Management Inc., a British Virgin Islands corporation, MH Capital Partners Inc., successor by merger and name change to MH Equity Corp., SO.PA.F Societa Partecipazioni Finanziarie S.p.A., INVEST Societa Italiana Investimenti S.p.A., the Lehman Partnerships and the Management Investors (incorporated by reference to Exhibit 2.3 to Lear Holdings Corporation's Current Report on Form 8-K dated September 24, 1991).
- 10.28 Stock Purchase Agreement dated as of July 21, 1992 among the Company, the Lehman Funds and FIMA Finance Management Inc., a British Virgin Islands corporation (incorporated by reference to Exhibit 10.33 to the Company's Registration Statement on Form S-1 (No. 33-47867)).
- 10.29 Agreement and Plan of Merger dated as of July 16, 1995, among the Company, AIHI Acquisition Corp. and Automotive Industries Holding, Inc. (incorporated by reference to the Company's Current Report on Form 8-K dated August 17, 1995).
- 10.30 Stock Purchase Agreement, dated December 15, 1994, by and between Gilardini S.p.A. and the Company (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, dated December 15, 1994).
- 10.31 Purchase Agreement dated as of November 1, 1993 between the Company and Ford Motor Company (incorporated by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 2, 1993).
- 10.32 Asset Purchase and Supply Agreement dated as of November 18, 1991 between Lear Seating Sweden, AB and Volvo Car Corporation (incorporated by reference to Exhibit 10.34 to the Company's Registration Statement on Form S-1 (No. 33-47867)).
- 10.33 Automotive Industries Holding, Inc. 1992 Key Employee Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 (No. 33-61739)).
- 10.34 Option Assumption Agreement between the Company and Frederick F. Sommer dated August 21, 1995, filed herewith.
- 11.1 Computation of income (loss) per share, filed herewith.
- 21.1 List of subsidiaries of the Company, filed herewith.
- 23.1 Consent of independent public accountants, filed herewith.
- 27.1 Financial Data Schedule, filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 27, 1996.

Lear Seating Corporation

By: /s/ Kenneth L. Way

Kenneth L. Way
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Lear Seating Corporation and in the capacities indicated March 27, 1996.

| | |
|---|---|
| /s/ Kenneth L. Way ----- Kenneth L. Way Chairman of the Board and Chief Executive Officer | /s/ Larry McCurdy ----- Larry McCurdy a Director |
|---|---|

| | |
|---|---|
| /s/ James H. Vandenberghe ----- James H. Vandenberghe Executive Vice President, Chief Financial Officer and a Director | /s/ Jeffrey P. Hughes ----- Jeffrey P. Hughes a Director |
|---|---|

| | |
|---|---|
| /s/ Robert E. Rossiter ----- Robert E. Rossiter President, Chief Operating Officer and a Director | /s/ Gian Andrea Botta ----- Gian Andrea Botta a Director |
|---|---|

| | |
|---|---|
| /s/ David P. Spalding ----- David P. Spalding a Director | /s/ Robert Shower ----- Robert Shower a Director |
|---|---|

| | |
|---|---|
| /s/ Eliot Fried ----- Eliot Fried a Director | /s/ James A. Stern ----- James A. Stern a Director |
|---|---|

| | |
|---|--|
| /s/ Alan Washkowitz ----- Alan Washkowitz a Director | |
|---|--|

FIRST AMENDMENT AND CONSENT

FIRST AMENDMENT AND CONSENT, dated as of December 8, 1995 (this "Amendment"), to the Credit Agreement, dated as of August 17, 1995 (as amended, supplemented or otherwise modified, the "Credit Agreement"), among Lear Seating Corporation, a Delaware corporation (the "Borrower"), the several financial institutions parties thereto (the "Banks"), Chemical Bank, as administrative agent for the Banks (in such capacity, the "Agent"), and the Managing Agents, Co-Agents and Lead Managers identified therein.

W I T N E S S E T H :

WHEREAS, pursuant to the Credit Agreement, the Banks have agreed to make, and have made, extensions of credit to the Borrower; and

WHEREAS, the Borrower has requested that certain provisions of the Credit Agreement and other Loan Documents be modified in the manner provided for in this Amendment, and the Banks are willing to agree to such modifications as provided for in this Amendment;

NOW, THEREFORE, in consideration of the premises and mutual agreements contained herein, and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Defined Terms. Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

2. Amendments to Credit Agreement. (a) Subsection 1.1 of the Credit Agreement is hereby amended by (i) deleting the definition of "Security Documents" contained therein in its entirety and (ii) adding the following new definitions in correct alphabetical order:

"Additional Subsidiary Guarantee": the Additional Subsidiary Guarantee made by Lear Operations Corporation and NAB Corporation in favor of the Agent, substantially in the form of Exhibit A of the First Amendment and Consent, dated December 8, 1995, to this Agreement, as the same may be amended, supplemented or otherwise modified from time to time.

"Security Documents": the collective reference to the Security Agreements, the Pledge Agreements, the Mortgages, the Subsidiary Guarantee and the Additional Subsidiary Guarantee."

(b) Subsection 8.4(a) of the Credit Agreement is hereby amended by deleting it in its entirety and inserting in lieu thereof the following:

"(a) Guarantee Obligations in respect of the Subsidiary Guarantee and the Additional Subsidiary Guarantee;"

(c) Subsection 8.5 of the Credit Agreement is hereby amended by adding the following sentence to the end of such subsection:

"Notwithstanding any provision contained in paragraphs (a) and (c) of this subsection, no Subsidiary of the Borrower may (i) be merged or consolidated with or into either Lear Operations Corporation or NAB Corporation or any Subsidiary thereof or (ii) sell, lease, transfer or otherwise dispose of any or all of its assets (upon voluntary liquidation or otherwise) to either Lear Operations Corporation or NAB Corporation or any Subsidiary thereof unless, in each case, (A) the Additional Subsidiary Guarantee shall have been amended in writing to remove the limitation on such transferee's liability thereunder contained in clause (ii) of paragraph 2(b) of the Additional Subsidiary Guarantee or (B) the Agent shall have received a certificate of a Responsible Officer of the Borrower in form and substance satisfactory to the Agent describing such sale, lease, transfer or other disposition and certifying the fair market value of the assets to be so sold, leased, transferred or otherwise disposed. Upon the Agent's approval of the certificate described in clause (B) of the preceding sentence, the limitation on the transferee's liability under clause (ii) of paragraph 2(b) of the Additional Subsidiary Guarantee shall automatically increase by an amount equal to the fair market value of the assets described in such certificate. For purposes of the preceding two sentences, if the transferee is a Subsidiary of either Lear Operations Corporation or NAB Corporation, the term transferee in such two sentences shall refer to either Lear Operations Corporation or NAB Corporation, whichever is the parent of such Subsidiary."

(d) Subsection 8.6 of the Credit Agreement is hereby amended by (i) deleting the word "and" at the end of paragraph (e) thereof, (ii) deleting the period at the end of paragraph (f) thereof and inserting in lieu thereof the word "; and" and (iii) adding the following to the end of such subsection:

"(g) the transfer or other disposition of assets permitted pursuant to subsection 8.9(e) to any Subsidiary."

(e) Subsection 8.8 of the Credit Agreement is hereby amended by deleting the table contained therein in its entirety and inserting in lieu thereof the following table:

| "Fiscal Year ----- | Amount ----- |
|-----------------------|-----------------|
| 1995 | \$150,000,000 |
| 1996 | 160,000,000 |
| 1997 | 125,000,000 |
| 1998 | 125,000,000 |
| 1999 | 100,000,000 |
| 2000 | 100,000,000 |
| 2001 | 100,000,000;" |

(f) Subsection 8.9 of the Credit Agreement is hereby amended by (i) deleting paragraph (d) thereof in its entirety and inserting in lieu thereof the following:

"(d) investments, loans and advances listed on Schedule 8.9, together with any replacements, substitutions or refinancings thereof that do not increase the amount thereof;"

(ii) deleting the word "and" at the end of paragraph (s) thereof, (iii) deleting the period at the end of paragraph (t) thereof and inserting in lieu thereof the word "; and" and (iv) adding the following to the end of such subsection:

"(u) the contribution by the Borrower to a Subsidiary of the Borrower formed under the laws of the Cayman Islands of loans or participating interests in loans made to Lear Italia and permitted pursuant to paragraph (o) of this subsection 8.9."

3. Consents and Waivers. (a) Notwithstanding any provision contained in subsections 8.5 and 8.6 of the Credit Agreement, paragraph 5(j) of the Security Agreement or any Mortgage to which the Borrower is a party, the Banks consent to the Borrower's transfer of (i) substantially all of its non-Michigan assets to Lear Operations Corporation, a Delaware corporation and a newly formed, Wholly Owned Subsidiary of the Borrower ("LOC"), (ii) all of its assets obtained in connection with the November 1993 acquisition of Ford Motor Company's North American seat cover and seat systems business, and assets currently used in the operation of such business, to NAB Corporation, a Delaware corporation and a newly formed and Wholly Owned Subsidiary of the Borrower ("NAB Co."), (iii) the Borrower's existing participating interest in loans made to Lear Italia to a direct Subsidiary of the Borrower to be formed under the laws of the Cayman Islands ("Cayman Co."), provided that simultaneously with such transfer described in this clause (iii), (A) the Borrower shall have executed and delivered a pledge agreement in form and substance reasonably satisfactory to the Agent whereby the Borrower shall have pledged 65% of the stock of Cayman Co. to the Agent, (B) the Agent shall have received certificates of Cayman Co. representing such pledged stock together with related executed stock transfer forms and (C) the Agent shall have received, with a copy for each Bank, (I) the

opinion of Cayman Islands counsel in form and substance reasonably satisfactory to the Agent and (II) the opinion of Winston & Strawn in form and substance reasonably satisfactory to the Agent.

(b) Notwithstanding any provision contained in any Loan Document, but subject to the adjustments provided in subsection 8.5 of the Credit Agreement, the maximum liability of each of LOC and NAB Co. under the Additional Subsidiary Guarantee and, without duplication, the maximum amount of Obligations secured pursuant to the Security Agreements or Mortgages to which either LOC or NAB Co. is a party or by assets owned or held by LOC or NAB Co. (including, without limitation, any real property transferred by the Borrower to either LOC or NAB Co., whether or not subject to a Mortgage) shall in no event exceed \$54,000,000, in the case of LOC, and \$59,000,000, in the case of NAB Co.

(c) Notwithstanding any provision contained in subsection 8.5 of the Credit Agreement or any provision of the Pledge Agreements, AIHI and any of its Subsidiaries may merge, in one or more transactions, into Automotive Industries Manufacturing Inc., a Delaware corporation and a newly formed and Wholly Owned Subsidiary of the Borrower ("AII"), which shall be the surviving corporation of such mergers.

(d) The Banks hereby waive compliance with the provisions of subsection 8.18 of the Credit Agreement with respect to (i) each of LOC and NAB Co. being parties to a Guarantee Supplement and (ii) having the stock of each of LOC and NAB Co. pledged to the Agent, for the ratable benefit of the Banks; provided that such waiver is given subject to the condition that the Borrower, LOC and NAB Co., as applicable, execute and deliver the Additional Subsidiary Guarantee, the First Amendment to the Domestic Pledge Agreement and the Additional Security Agreement (as such documents are described in Section 5(b), (c) and (e) hereof).

(e) Notwithstanding any provision contained in the Lear Seating Canada Ltd. Share Pledge Agreement, dated as of August 17, 1995, made by the Borrower in favor of the Agent, the Banks consent to the amalgamation of Lear Seating Canada Ltd. and 115335 Ontario Inc., a newly formed Subsidiary of the Borrower ("Holdco"), provided that such consent is given subject to the condition that upon the amalgamation of Lear Seating Canada Ltd. and Holdco (the continuing corporation after such amalgamation being referred to herein as "Lear Canada"), the Borrower and Lear Canada shall deliver the First Amendment to the Lear Seating Canada Ltd. Share Pledge Agreement in substantially the form of Exhibit E hereto, and the Borrower shall deliver to the Agent share certificates in the name of the Agent representing 65% of the issued and outstanding shares of each class of capital stock of Lear Canada.

4. Agreements of Banks. The Banks hereby consent to (a) the First Amendment to Domestic Pledge Agreement in substantially the form of Exhibit D hereto, (b) the First Amendment to Lear Seating Canada Ltd. Share Pledge Agreement in substantially the form of Exhibit E hereto and (c) after the contribution of the capital stock of Lear Seating (U.K.) Limited into Automotive Industries Holdings Limited ("AIHL"), the release of the charge over 65% of the stock of Lear Seating (U.K.) Limited pursuant to the Charge Over Shares, dated August 17, 1995 (the "Old Charge"), between the Borrower and the Agent, provided that simultaneously with such release (i) AII and the Agent shall have executed and delivered a new Charge Over Shares in substantially the form of the Old Charge whereby AII shall have pledged 65% of the stock of AIHL to the Agent, (ii) the Agent shall have received certificates of AIHL representing such pledged stock, together with related executed stock transfer forms and (iii) the Agent shall have received, with a copy for each Bank, (A) the opinion of English counsel to the Agent in form and substance reasonably satisfactory to the Agent and (B) the opinion of Winston & Strawn in form and substance reasonably satisfactory to the Agent.

5. Conditions to Effectiveness. This Amendment shall become effective on the date (the "Amendment Effective Date") on which all of the following conditions precedent have been satisfied or waived:

(a) execution and delivery of this Amendment by the Borrower, the Agent and the Required Banks;

(b) receipt by the Agent, with a counterpart for each Bank, of the Additional Subsidiary Guarantee in substantially the form of Exhibit A hereto duly executed by each of LOC and NAB Co.;

(c) receipt by the Agent, with a counterpart for each Bank, of the Additional Security Agreement in substantially the form of Exhibit B hereto duly executed by each of LOC and NAB Co.;

(d) receipt by the Agent, with a counterpart for each Bank, of the Second Additional Security Agreement in substantially the form of Exhibit C hereto, duly executed by AII;

(e) receipt by the Agent, with a counterpart for each Bank, the First Amendment to Domestic Pledge Agreement in substantially the form of Exhibit D hereto duly executed by the Borrower and consented to by AII, LOC and NAB Co.;

(f) receipt by the Agent of certificates representing shares pledged pursuant to the First Amendment to Domestic Pledge Agreement, together with an undated stock power for

each such certificate executed in blank by a duly authorized officer of the Borrower;

(g) receipt by the Agent of evidence in form and substance satisfactory to it that all filings, recordings, registrations and other actions, including, without limitation, the filing of duly executed financing statements on form UCC-1, necessary or, in the opinion of the Agent, desirable to perfect the Liens created by the Additional Security Agreement, the Second Additional Security Agreement and the First Amendment to Domestic Pledge Agreement shall have been completed;

(h) receipt by the Agent of the results of a recent search by a Person satisfactory to the Agent, of the Uniform Commercial Code, judgment and the tax lien filings which may have been filed with respect to personal property of each of LOC, NAB Co. and AII, and the results of such search shall be reasonably satisfactory to the Agent;

(i) receipt by the Agent, with a counterpart for each Bank, of a certificate of the Secretary or Assistant Secretary of each of the Borrower, LOC, NAB Co. and AII, dated the Amendment Effective Date, as to the incumbency and signature of their respective officers executing each of this Amendment, the Additional Subsidiary Guarantee, the Additional Security Agreement, the Second Additional Security Agreement and the First Amendment to Domestic Pledge Agreement, as applicable, together with satisfactory evidence of the incumbency of such Secretary or Assistant Secretary;

(j) receipt by the Agent, with a counterpart for each Bank, of a copy of the resolutions in form and substance satisfactory to the Agent, of the Board of Directors of each of the Borrower, LOC, NAB Co., and AII authorizing (i) the execution, delivery and performance of this Amendment and the other documents being executed and delivered in connection herewith and (ii) the granting by it of the pledge and security interest granted by it pursuant to such documents, certified by their respective Secretary or an Assistant Secretary as of the Amendment Effective Date, which certificate shall state that the resolutions therein certified have not been amended, modified revoked or rescinded as of the date of such certificate; and

(k) receipt by the Agent, with a copy for each Bank, of an opinion, dated the Amendment Effective Date, of Winston & Strawn in substantially the form of Exhibit F hereto.

6. Representations and Warranties. The Borrower represents and warrants that the representations and warranties made by the Borrower in the Loan Documents are true and correct

in all material respects on and as of the Amendment Effective Date, before and after giving effect to the effectiveness of this Amendment, as if made on and as of the Amendment Effective Date, except to the extent such representations and warranties expressly relate to an earlier date.

7. Payment of Expenses. The Borrower agrees to pay or reimburse the Agent for all of its out-of-pocket costs and reasonable expenses incurred in connection with this Amendment and any other documents prepared in connection herewith and the transactions contemplated hereby, including, without limitation, the reasonable fees and disbursements of counsel to the Agent.

8. No Other Amendments; Confirmation. Except as expressly amended, modified and supplemented hereby, the provisions of the Credit Agreement, the Notes and the other Loan Documents are and shall remain in full force and effect.

9. Governing Law; Counterparts. (a) This Amendment and the rights and obligations of the parties hereto shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

(b) This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Amendment signed by all the parties shall be lodged with the Borrower and the Agent. This Amendment may be delivered by facsimile transmission of the relevant signature pages hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective proper and duly authorized officers as of the day and year first above written.

LEAR SEATING CORPORATION

By: _____
Title:

CHEMICAL BANK, as Agent and as a Bank

By: _____
Title:

ABN AMRO BANK N.V.

By: _____
Title:

By: _____
Title:

THE ASAHI BANK, LTD.

By: _____
Title:

BANKERS TRUST COMPANY

By: _____
Title:

BANK OF AMERICA ILLINOIS

By: _____
Title:

BANK OF MONTREAL

By: _____
Title:

THE BANK OF NEW YORK

By: _____
Title:

THE BANK OF NOVA SCOTIA

By: _____
Title:

THE BANK OF TOKYO TRUST COMPANY

By: _____
Title:

BANQUE PARIBAS

By: _____
Title:

By: _____
Title:

CAISSE NATIONALE DE CREDIT AGRICOLE

By: _____
Title:

CIBC INC.

By: _____
Title:

CITICORP USA, INC.

By: _____
Title:

COMERICA BANK

By: _____
Title:

COMPAGNIE FINANCIERE DE CIC ET DE
L'UNION EUROPEENNE

By: _____
Title:

By: _____
Title:

COOPERATIEVE CENTRALE RAIFFEISEN -
BOERENLEENBANK B.A., "RABOBANK
NEDERLAND", NEW YORK BRANCH

By: _____
Title:

By: _____
Title:

CREDITANSTALT CORPORATE FINANCE,
INC.

By: _____
Title:

By: _____
Title:

CREDIT LYONNAIS CHICAGO BRANCH

By: _____
Title:

CREDIT LYONNAIS CAYMAN ISLANDS
BRANCH

By: _____
Title:

THE DAI-ICHI KANGYO BANK, LTD.

By: _____
Title:

DEUTSCHE BANK AG, CHICAGO AND/OR
CAYMAN ISLANDS BRANCHES

By: _____
Title:

By: _____
Title:

DRESDNER BANK AG, CHICAGO AND GRAND
CAYMAN BRANCHES

By: _____
Title:

By: _____
Title:

FIRST AMERICAN NATIONAL BANK

By: _____
Title:

FIRST BANK NATIONAL ASSOCIATION

By: _____
Title:

THE FIRST NATIONAL BANK OF BOSTON

By: _____
Title:

FIRST UNION NATIONAL BANK OF NORTH
CAROLINA

By: _____
Title:

THE FUJI BANK, LIMITED

By: _____
Title:

THE INDUSTRIAL BANK OF JAPAN, LTD.,
CHICAGO BRANCH

By: _____
Title:

ISTITUTO BANCARIO SAN PAOLO
DI TORNIO SPA

By: _____
Title:

By: _____
Title:

KREDIETBANK N.V.

By: _____
Title:

By: _____
Title:

LEHMAN COMMERCIAL PAPER INC.

By: _____
Title:

THE LONG-TERM CREDIT BANK OF JAPAN,
LTD., CHICAGO BRANCH

By: _____
Title:

THE MITSUBISHI BANK, LIMITED
(CHICAGO BRANCH)

By: _____
Title:

THE MITSUBISHI TRUST & BANKING
CORPORATION, CHICAGO BRANCH

By: _____
Title:

NATIONAL BANK OF CANADA

By: _____
Title:

By: _____
Title:

NATIONSBANK, N.A. (CAROLINAS)

By: _____
Title:

NBD BANK

By: _____
Title:

THE NIPPON CREDIT BANK, LTD.

By: _____
Title:

ROYAL BANK OF CANADA

By: _____
Title:

THE ROYAL BANK OF SCOTLAND, PLC.

By: _____
Title:

THE SAKURA BANK, LIMITED

By: _____
Title:

THE SANWA BANK, LIMITED, CHICAGO
BRANCH

By: _____
Title:

SOCIETE GENERALE, CHICAGO BRANCH

By: _____
Title:

SOCIETY NATIONAL BANK

By: _____
Title:

THE SUMITOMO BANK, LIMITED,
CHICAGO BRANCH

By: _____
Title:

By: _____
Title:

THE SUMITOMO TRUST & BANKING CO.,
LTD., NEW YORK BRANCH

By: _____
Title:

THE TOKAI BANK, LTD. (CHICAGO
BRANCH)

By: _____
Title:

VIA BANQUE

By: _____
Title:

By: _____
Title:

WESTPAC BANKING CORPORATION

By: _____
Title:

THE YASUDA TRUST & BANKING COMPANY,
LTD.

By: _____
Title:

VAN KAMPEN AMERICAN CAPITAL PRIME
RATE INCOME TRUST

By: _____
Title:

MITSUI TRUST & BANKING COMPANY,
LIMITED, NEW YORK BRANCH

By: _____
Title:

THE TOYO TRUST AND BANKING
COMPANY, LIMITED

By: _____
Title:

ACKNOWLEDGEMENT AND CONSENT

Each of the undersigned corporations as guarantors under the Subsidiary Guarantee, dated as of August 17, 1995, made by LS Acquisition Corp. No. 14, Lear Seating Holdings Corp. No. 50, Progress Pattern Corp., Lear Plastics Corp., LS Acquisition Corporation No. 24, Fair Haven Industries, Inc. and Automotive Industries Holding, Inc. (as successor by merger to AIHI Acquisition Corp.) in favor of the Agent as supplemented by the Guarantor Supplements, each dated September 12, 1995, by ASAA, Inc., Gulfstream Automotive, Inc. and Automotive Industries, Inc. hereby (a) consents to the transaction contemplated by this Amendment and (b) acknowledges and agrees that the guarantees contained in such Subsidiary Guarantee as supplemented by such Guarantor Supplements (and all collateral security therefor) are, and shall remain, in full force and effect after giving effect to this Amendment and all prior modifications to the Credit Agreement.

LS ACQUISITION CORP., NO. 14

By: _____
Title:

LEAR SEATING HOLDINGS CORP.
No. 50

By: _____
Title:

PROGRESS PATTERN CORP.

By: _____
Title:

LEAR PLASTICS CORP.

By: _____
Title:

LS ACQUISITION CORPORATION
NO. 24

By: _____
Title:

FAIR HAVEN INDUSTRIES, INC.

By: _____
Title:

AUTOMOTIVE INDUSTRIES HOLDING,
INC. (as successor by merger to
AIHI Acquisition Corp.)

By: _____
Title:

ASSA, INC.

By: _____
Title:

GULFSTREAM AUTOMOTIVE, INC.

By: _____
Title:

AUTOMOTIVE INDUSTRIES, INC.

By: _____
Title:

FORM OF ADDITIONAL SUBSIDIARY GUARANTEE

ADDITIONAL SUBSIDIARY GUARANTEE, dated as of _____, 199_ (this "Guarantee"), made by each of the corporations that are signatories hereto other than Chemical Bank (the "Guarantors"), in favor of CHEMICAL BANK, as administrative agent (in such capacity, the "Agent") for the Banks parties to the Credit Agreement referred to below.

W I T N E S S E T H:

WHEREAS, Lear Seating Corporation (the "Borrower") is a party to the Credit Agreement, dated as of August 17, 1995 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement") with the financial institutions parties thereto (the "Banks"), the Agent and the Managing Agents, Co-Agents and Lead Managers identified therein;

WHEREAS, pursuant to the Credit Agreement and the other Loan Documents (as defined in the Credit Agreement), the Banks have agreed to make certain Loans (as defined in the Credit Agreement) to or for the benefit of the Borrower and, in the case of the Issuing Bank (as defined in the Credit Agreement), issue and, in the case of the Participating Banks (as defined in the Credit Agreement), participate in certain Letters of Credit (as defined in the Credit Agreement);

WHEREAS, it is a condition precedent to the effectiveness of the First Amendment and Consent, dated as of December 8, 1995 (the "First Amendment"), to the Credit Agreement that each Guarantor shall have executed and delivered this Guarantee to the Agent for the ratable benefit of the Banks; and

WHEREAS, the Borrower and the Guarantors are engaged in related businesses and each Guarantor will derive substantial direct and indirect benefits from the making of the Loans and issuances of the Letters of Credit;

NOW, THEREFORE, in consideration of the premises contained herein and to induce the Agent, and the Banks to enter into the First Amendment and to induce the Banks to make the Loans and to issue and participate in the Letters of Credit under the Credit Agreement, each Guarantor hereby agrees with the Agent, for the ratable benefit of the Banks, as follows:

1. Defined Terms. (a) Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

(b) The words "hereof," "herein" and "hereunder" and words of similar import when used in this Guarantee shall refer to this Guarantee as a whole and not to any particular provision

of this Guarantee, and Section and paragraph references are to this Guarantee unless otherwise specified.

(c) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

2. Guarantee. (a) Subject to the provisions of paragraph 2(b), each of the Guarantors hereby, jointly and severally, unconditionally and irrevocably, guarantees to the Agent, for the ratable benefit of the Banks and their respective successors, indorsees, transferees and assigns, the prompt and complete payment and performance by the Borrower when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations.

(b) Anything herein or in any other Loan Document to the contrary notwithstanding, the maximum liability of each Guarantor hereunder and under the other Loan Documents, and, without duplication, the maximum amount of Obligations secured pursuant to the Security Documents by assets of such Guarantor, shall in no event exceed the lesser of (i) the amount which can be guaranteed by such Guarantor under applicable federal and state laws relating to the insolvency of debtors and (ii) in the case of Lear Operations Corporation, \$54,000,000, and, in the case of NAB Corporation, \$59,000,000, provided that the amounts contained in this clause (ii) shall automatically increase in accordance with subsection 8.5 of the Credit Agreement.

(c) Subject to the provisions of paragraph 2(b), each Guarantor further agrees to pay any and all expenses (including, without limitation, all fees and disbursements of counsel) which may be paid or incurred by the Agent or any Bank in enforcing, or obtaining advice of counsel in respect of, any rights with respect to, or collecting, any or all of the Obligations and/or enforcing any rights with respect to, or collecting against, such Guarantor under this Guarantee. This Guarantee shall remain in full force and effect until the Obligations are paid in full and the Commitments are terminated, notwithstanding that from time to time prior thereto the Borrower may be free from any Obligations.

(d) Each Guarantor agrees that the Obligations may at any time and from time to time exceed the amount of the liability of such Guarantor hereunder without impairing this Guarantee or affecting the rights and remedies of the Agent or any Bank hereunder.

(e) No payment or payments made by the Borrower, any of the Guarantors, any other guarantor or any other Person or received or collected by the Agent or any Bank from the Borrower, any of the Guarantors, any other guarantor or any other Person by virtue of any action or proceeding or any set-off or appropriation or application at any time or from time to time in reduction of or in payment of the Obligations shall be deemed to

modify, reduce, release or otherwise affect the liability of any Guarantor hereunder which shall, notwithstanding any such payment or payments other than payments made by such Guarantor in respect of the Obligations or payments received or collected from such Guarantor in respect of the Obligations, remain liable for the Obligations up to the maximum liability of such Guarantor hereunder until the Obligations are paid in full and the Commitments are terminated.

(f) Each Guarantor agrees that whenever, at any time, or from time to time, it shall make any payment to the Agent or any Bank on account of its liability hereunder, it will notify the Agent in writing that such payment is made under this Guarantee for such purpose.

3. Right of Contribution. Each Guarantor hereby agrees that to the extent that a Guarantor shall have paid more than its proportionate share of any payment made hereunder, such Guarantor shall be entitled to seek and receive contribution from and against any other Guarantor hereunder who has not paid its proportionate share of such payment. Each Guarantor's right of contribution shall be subject to the terms and conditions of Section 5 hereof. The provisions of this Section shall in no respect limit the obligations and liabilities of any Guarantor to the Agent and the Banks, and each Guarantor shall remain liable to the Agent and the Banks for the full amount guaranteed by such Guarantor hereunder.

4. Right of Set-off. Upon the occurrence of any Event of Default, each Guarantor hereby irrevocably authorizes each Bank at any time and from time to time without notice to such Guarantor or any other Guarantor, any such notice being expressly waived by each Guarantor, to set-off and appropriate and apply any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Bank to or for the credit or the account of such Guarantor, or any part thereof in such amounts as such Bank may elect, against and on account of the obligations and liabilities of such Guarantor to such Bank hereunder and claims of every nature and description of such Bank against such Guarantor, in any currency, whether arising hereunder, under the Credit Agreement, any Note, any other Loan Documents or otherwise, as such Bank may elect, whether or not the Agent or any Bank has made any demand for payment and although such obligations, liabilities and claims may be contingent or unmatured. The Agent and each Bank shall notify such Guarantor promptly of any such set-off and the application made by the Agent or such Bank, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Agent and each Bank under this Section are in addition to other rights and remedies (including,

without limitation, other rights of set-off) which the Agent or such Bank may have.

5. No Subrogation. Notwithstanding any payment or payments made by any of the Guarantors hereunder or any set-off or application of funds of any of the Guarantors by any Bank, no Guarantor shall be entitled to be subrogated to any of the rights of the Agent or any Bank against the Borrower or any other Guarantor or any collateral security or guarantee or right of offset held by the Agent or any Bank for the payment of the Obligations, nor shall any Guarantor seek or be entitled to seek any contribution or reimbursement from the Borrower or any other Guarantor in respect of payments made by such Guarantor hereunder, until all amounts owing to the Agent and the Banks by the Borrower on account of the Obligations are paid in full and the Commitments are terminated. If any amount shall be paid to any Guarantor on account of such subrogation rights at any time when all of the Obligations shall not have been paid in full, such amount shall be held by such Guarantor in trust for the Agent and the Banks, segregated from other funds of such Guarantor, and shall, forthwith upon receipt by such Guarantor, be turned over to the Agent in the exact form received by such Guarantor (duly indorsed by such Guarantor to the Agent, if required), to be applied against the Obligations, whether matured or unmatured, in such order as the Agent may determine.

6. Amendments, etc. with respect to the Obligations; Waiver of Rights. Each Guarantor shall remain obligated hereunder and under any other Loan Document to which it is a party notwithstanding that, without any reservation of rights against any Guarantor and without notice to or further assent by any Guarantor, any demand for payment of any of the Obligations made by the Agent or any Bank may be rescinded by such party and any of the Obligations continued, and the Obligations, or the liability of any other party upon or for any part thereof, or any collateral security or guarantee therefor or right of offset with respect thereto, may, from time to time, in whole or in part, be renewed, extended, amended, modified, accelerated, compromised, waived, surrendered or released by the Agent or any Bank, and the Credit Agreement, the Notes and the other Loan Documents and any other documents executed and delivered in connection therewith may be amended, modified, supplemented or terminated, in whole or in part, as the Agent, the Required Banks or all the Banks, as the case may be, may deem advisable from time to time, and any collateral security, guarantee or right of offset at any time held by the Agent or any Bank for the payment of the Obligations may be sold, exchanged, waived, surrendered or released. Neither the Agent nor any Bank shall have any obligation to protect, secure, perfect or insure any Lien at any time held by it as security for the Obligations or for this Guarantee or any property subject thereto. When making any demand hereunder against any of the Guarantors, the Agent or any Bank may, but shall be under no obligation to, make a similar demand on the Borrower or any other Guarantor or guarantor, and any failure by

the Agent or any Bank to make any such demand or to collect any payments from the Borrower or any such other Guarantor or guarantor or any release of the Borrower or such other Guarantor or guarantor shall not relieve any of the Guarantors in respect of which a demand or collection is not made or any of the Guarantors not so released of their several obligations or liabilities hereunder, and shall not impair or affect the rights and remedies, express or implied, or as a matter of law, of the Agent or any Bank against any of the Guarantors. For the purposes hereof "demand" shall include the commencement and continuance of any legal proceedings.

7. Guarantee Absolute and Unconditional. Each Guarantor waives any and all notice of the creation, renewal, extension or accrual of any of the Obligations and notice of or proof of reliance by the Agent or any Bank upon this Guarantee or acceptance of this Guarantee; the Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred, or renewed, extended, amended or waived, in reliance upon this Guarantee; and all dealings between the Borrower and any of the Guarantors, on the one hand, and the Agent and the Banks, on the other hand, likewise shall be conclusively presumed to have been had or consummated in reliance upon this Guarantee. Each Guarantor waives diligence, presentment, protest, demand for payment and notice of default or nonpayment to or upon the Borrower or any of the Guarantors with respect to the Obligations. Each Guarantor understands and agrees that this Guarantee shall be construed as a continuing, absolute and unconditional guarantee of payment without regard to (a) the validity, regularity or enforceability of the Credit Agreement, any Note or any other Loan Document, any of the Obligations or any other collateral security therefor or guarantee or right of offset with respect thereto at any time or from time to time held by the Agent or any Bank, (b) any defense, set-off or counterclaim (other than a defense of payment or performance) which may at any time be available to or be asserted by the Borrower against the Agent or any Bank, or (c) any other circumstance whatsoever (with or without notice to or knowledge of the Borrower or such Guarantor) which constitutes, or might be construed to constitute, an equitable or legal discharge of the Borrower for the Obligations, or of such Guarantor under this Guarantee, in bankruptcy or in any other instance. When pursuing its rights and remedies hereunder against any Guarantor, the Agent and any Bank may, but shall be under no obligation to, pursue such rights and remedies as it may have against the Borrower or any other Person or against any collateral security or guarantee for the Obligations or any right of offset with respect thereto, and any failure by the Agent or any Bank to pursue such other rights or remedies or to collect any payments from the Borrower or any such other Person or to realize upon any such collateral security or guarantee or to exercise any such right of offset, or any release of the Borrower or any such other Person or any such collateral security, guarantee or right of offset, shall not relieve such Guarantor of any liability

hereunder, and shall not impair or affect the rights and remedies, whether express, implied or available as a matter of law, of the Agent and the Banks against such Guarantor. This Guarantee shall remain in full force and effect and be binding in accordance with and to the extent of its terms upon each Guarantor and the successors and assigns thereof, and shall inure to the benefit of the Agent and the Banks, and their respective successors, indorsees, transferees and assigns, until all the Obligations and the obligations of each Guarantor under this Guarantee shall have been satisfied by payment in full and the Commitments shall be terminated, notwithstanding that from time to time during the term of the Credit Agreement the Borrower may be free from any Obligations.

8. Reinstatement. This Guarantee shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Obligations is rescinded or must otherwise be restored or returned by the Agent or any Bank upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Borrower or any Guarantor, or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, the Borrower or any Guarantor or any substantial part of its property, or otherwise, all as though such payments had not been made.

9. Payments. Each Guarantor hereby guarantees that payments hereunder will be paid to the Agent without set-off or counterclaim in Dollars at the office of the Agent located at 270 Park Avenue, New York, New York 10017.

10. Representations and Warranties. Each Guarantor hereby represents and warrants that:

(a) it is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has the corporate power and authority and the legal right to own and operate its property, to lease the property it operates and to conduct the business in which it is currently engaged;

(b) it has the corporate power and authority and the legal right to execute and deliver, and to perform its obligations under, this Guarantee and each other Loan Document to which it is a party, and has taken all necessary corporate action to authorize the execution, delivery and performance of this Guarantee and each other Loan Document to which it is a party;

(c) this Guarantee and each other Loan Document to which it is a party constitutes a legal, valid and binding obligation of such Guarantor enforceable in accordance with its terms, except as affected by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting the enforcement of creditors' rights

generally, general equitable principles and an implied covenant of good faith and fair dealing;

(d) the execution, delivery and performance of this Guarantee and each other Loan Document to which it is a party will not violate any provision of any Requirement of Law or Contractual Obligation of such Guarantor and will not result in or require the creation or imposition of any Lien on any of the properties or revenues of such Guarantor pursuant to any Requirement of Law or Contractual Obligation of the Guarantor; and

(e) no consent or authorization of, filing with, or other act by or in respect of, any arbitrator or Governmental Authority and no consent of any other Person (including, without limitation, any stockholder or creditor of such Guarantor) is required in connection with the execution, delivery, performance, validity or enforceability of this Guarantee and each other Loan Document to which it is a party.

Each Guarantor agrees that the foregoing representations and warranties shall be deemed to have been made by such Guarantor on the date of each borrowing or issuance of a Letter of Credit under the Credit Agreement and as of such date of borrowing or issuance, as the case may be, as though made hereunder on and as of such date. Each Guarantor hereby confirms that each of the Mortgages and each other Security Document to which such Guarantor is a party stands as collateral security for the payment and performance of such Guarantor's obligations and liabilities under this Guarantee.

11. Authority of Agent. Each Guarantor acknowledges that the rights and responsibilities of the Agent under this Guarantee with respect to any action taken by the Agent or the exercise or non-exercise by the Agent of any option, right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Guarantee shall, as between the Agent and the Banks, be governed by the Credit Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, as between the Agent and such Guarantor, the Agent shall be conclusively presumed to be acting as agent for the Banks with full and valid authority so to act or refrain from acting, and no Guarantor shall be under any obligation, or entitlement, to make any inquiry respecting such authority.

12. Notices. All notices, requests and demands to or upon the Agent, any Bank or any Guarantor to be effective shall be in writing (or by telex or telecopy confirmed in writing) and shall be deemed to have been duly given or made (1) when delivered by hand or (2) if given by mail, five days after being deposited in the mails by certified mail, return receipt requested or (3) if by telex or telecopy, when sent and receipt has been confirmed, addressed as follows:

(a) if to the Agent or any Bank, at its address or transmission number for notices provided in subsection 11.2 of the Credit Agreement; and

(b) if to any Guarantor, at its address or transmission number for notices set forth under its signature below.

The Agent, each Bank and each Guarantor may change its address and transmission numbers for notices by notice in the manner provided in this Section.

13. Counterparts. This Guarantee may be executed by one or more of the parties to this Guarantee on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the counterparts of this Guarantee signed by all the parties hereto shall be lodged with the Agent.

14. Severability. Any provision of this Guarantee which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

15. Integration. This Guarantee represents the agreement of each Guarantor with respect to the subject matter hereof and there are no promises or representations by the Agent or any Bank relative to the subject matter hereof not reflected herein.

16. Amendments in Writing; No Waiver; Cumulative Remedies.

(a) None of the terms or provisions of this Guarantee may be waived, amended, supplemented or otherwise modified except by a written instrument executed by each Guarantor and the Agent in accordance with subsection 11.1 of the Credit Agreement, provided that any provision of this Guarantee may be waived by the Agent and the Banks in a letter or agreement executed by the Agent or by telecopy from the Agent.

(b) Neither the Agent nor any Bank shall by any act (except by a written instrument pursuant to paragraph 16.(a) hereof), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default or Event of Default or in any breach of any of the terms and conditions hereof. No failure to exercise, nor any delay in exercising, on the part of the Agent or any Bank, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by the Agent or any Bank of any right or remedy

hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Agent or such Bank would otherwise have on any future occasion.

(c) The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any other rights or remedies provided by law.

17. Section Headings. The section headings used in this Guarantee are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

18. Successors and Assigns. This Guarantee shall be binding upon the successors and assigns of each Guarantor and shall inure to the benefit of the Agent and the Banks and their successors and assigns.

19. GOVERNING LAW. THIS GUARANTEE SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

20. Submission to Jurisdiction; Waivers. Each Guarantor hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Guarantee or any other Loan Document to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the courts of the State of New York, the courts of the United States of America for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives trial by jury and any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such Guarantor at its address set forth under its signature below or at such other address of which the Agent shall have been notified pursuant to Section 12; and

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner

permitted by law or shall limit the right to sue in any other jurisdiction.

IN WITNESS WHEREOF, each of the undersigned has caused this Guarantee to be duly executed and delivered as of the day and year first above written.

LEAR OPERATIONS CORPORATION

By: _____
Title:

NAB CORPORATION

By: _____
Title:

Address for Notices:

c/o Lear Seating Corporation
21557 Telegraph Road
Southfield, Michigan 48034
Attention: Donald J. Stebbins
Telecopy: (810) 746-1593

FORM OF ADDITIONAL SECURITY AGREEMENT

ADDITIONAL SECURITY AGREEMENT, dated as of _____, 199_, made by each of the corporations that are signatories hereto other than Chemical Bank (the "Grantors"), in favor of CHEMICAL BANK, as administrative agent (in such capacity, the "Agent") for the Banks parties to the Credit Agreement referred to below.

W I T N E S S E T H :

WHEREAS, Lear Seating Corporation (the "Borrower") is a party to the Credit Agreement, dated as of August 17, 1995 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement") with the financial institutions parties thereto (the "Banks"), the Agent and the Managing Agents, Co-Agents and Lead Managers identified therein;

WHEREAS, pursuant to the Credit Agreement and the other Loan Documents (as defined in the Credit Agreement), the Banks have agreed to make certain Loans (as defined in the Credit Agreement) to or for the benefit of the Borrower and, in the case of the Issuing Bank (as defined in the Credit Agreement), issue and, in the case of the Participating Banks (as defined in the Credit Agreement), participate in certain Letters of Credit (as defined in the Credit Agreement); and

WHEREAS, it is a condition precedent to the effectiveness of the First Amendment and Consent, dated as of December 8, 1995 (the "First Amendment"), to the Credit Agreement that the Grantors shall have executed and delivered this Security Agreement to the Agent for the ratable benefit of the Banks;

NOW, THEREFORE, in consideration of the premises contained herein and to induce the Agent, and the Banks to enter into the First Amendment and to induce the Banks to make the Loans and to issue and participate in the Letters of Credit under the Credit Agreement, the Grantors hereby agree with the Agent, for the ratable benefit of the Banks, as follows:

1. Defined Terms. (a) Unless otherwise defined herein, terms which are defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement; the following terms which are defined in the Uniform Commercial Code in effect in the State of New York on the date hereof are used herein as so defined: Accounts, Chattel Paper, Documents, Farm Products, General Intangibles, Instruments, Inventory and Proceeds; and the following terms shall have the following meanings:

"Code" shall mean the Uniform Commercial Code as from time to time in effect in the State of New York.

"Collateral" shall have the meaning assigned to it in Section 2 of this Security Agreement.

"Contracts" shall mean each of the agreements listed on Schedules I-A through B, as the same may from time to time be amended, supplemented or otherwise modified, including, without limitation, (a) all rights for each Grantor to receive monies due and to become due to it thereunder or in connection therewith, (b) all rights of each Grantor to damages arising out of, or for, breach or default in respect thereof and (c) all rights of each Grantor to perform and to exercise all remedies thereunder.

"Equipment" shall mean all equipment, as such term is defined in Section 9-109(2) of the Code, now or hereafter acquired by each Grantor, and, in any event, shall mean and include, but shall not be limited to, all machinery, equipment, furnishings and fixtures now or hereafter used in connection with the businesses of each Grantor or located at the locations set forth on Schedules IV-A through B, and any and all additions, substitutions and replacements of any of the foregoing, together with all attachments, components, parts (including spare parts), equipment and accessories installed thereon or affixed thereto.

"Security Agreement" shall mean this Additional Security Agreement, as amended, supplemented or otherwise modified from time to time.

(b) The words "hereof," "herein" and "hereunder" and words of similar import when used in this Security Agreement shall refer to this Security Agreement as a whole and not to any particular provision of this Security Agreement, and Section, paragraph and Schedule references are to this Security Agreement unless otherwise specified.

(c) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

2. Grant of Security Interest. As collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations (subject to the limitations set forth in paragraph 2(b) of the Additional Subsidiary Guarantee) and in order to induce the Agent and the Banks to enter into the Credit Agreement, each Grantor hereby sells, assigns, conveys, mortgages, pledges, hypothecates and transfers to the Agent, and hereby grants to the Agent, for the ratable benefit of the Banks, a security interest in all of the following property now owned or at any time hereafter acquired by such Grantor or in which such Grantor now has or at any time in the future may acquire any right, title or interest (collectively, the "Collateral"):

- (i) all Accounts;
- (ii) all Chattel Papers;
- (iii) all Contracts;
- (iv) all Documents;
- (v) all Equipment;
- (vi) all General Intangibles;
- (vii) all Instruments;
- (viii) all Inventory; and

(ix) to the extent not otherwise included, all Proceeds, products, substitutions and replacements of any and all of the foregoing.

3. Rights of Agent and Banks; Limitations on Agent's and Banks' Obligations. (a) Anything herein to the contrary notwithstanding, each Grantor shall remain liable under each of its respective Accounts and the Contracts to observe and perform all the conditions and obligations to be observed and performed by it thereunder, all in accordance with the terms of any agreement giving rise to each such Account and in accordance with and pursuant to the terms and provisions of the Contracts. Neither the Agent nor any Bank shall have any obligation or liability under any Account (or any agreement giving rise thereto) or under the Contracts by reason of or arising out of this Security Agreement or the receipt by the Agent or any such Bank of any payment relating to such Account or the Contracts pursuant hereto, nor shall the Agent or any Bank be obligated in any manner to perform any of the obligations of any Grantor under or pursuant to any Account (or any agreement giving rise thereto), or under or pursuant to the Contracts, to make any payment, to make any inquiry as to the nature or the sufficiency of any payment received by it or as to the sufficiency of any performance by any party under any Account (or any agreement giving rise thereto) or under the Contracts, to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

(b) At the Agent's request, each Grantor shall deliver to the Agent all original and other documents evidencing, and relating to, the sale and delivery of Inventory or the performance of labor or service which created the Accounts, including, but not limited to, all Chattel Paper, original purchase orders, invoices, shipping documents and delivery receipts and duplicate copies of credit memoranda.

(c) The Agent may at any time after the occurrence and during the continuance of an Event of Default notify account debtors and parties to Accounts that the Accounts have been assigned to the Agent, for the ratable benefit of the Banks, and that payments shall be made directly to the Agent. Upon the request of the Agent at any time after the occurrence and during the continuance of an Event of Default, each Grantor will so notify such account debtors and such parties to the Accounts. Upon prior notice to the Grantors, the Agent may in its own name or in the name of others communicate with account debtors and parties to Accounts in order to verify with them to the Agent's satisfaction the existence, amount and terms of any Accounts.

(d) Upon prior notice to the Grantors, the Agent shall have the right to make test verifications of the Collateral in any matter and through any medium that it considers advisable, and each Grantor agrees to furnish all such assistance and information as the Agent may require in connection therewith. Each Grantor at its expense will furnish, or will cause independent public accountants satisfactory to the Agent to furnish, to the Agent at any time and from time to time promptly upon the Agent's request, the following reports: (i) reconciliation of all Collateral, (ii) an aging of all Collateral, (iii) trial balances, (iv) a test verification of such Collateral and (v) a physical inventory of the Collateral by certified accountants reasonably satisfactory to the Agent.

4. Representations and Warranties. Each Grantor hereby represents and warrants that:

(a) Title; No Other Liens. Except for the Lien granted to the Agent for the ratable benefit of the Banks pursuant to this Security Agreement, such Grantor owns each item of the Collateral free and clear of any and all Liens or claims of others other than Liens permitted under subsection 8.3 of the Credit Agreement. No security agreement, financing statement or other public notice with respect to all or any part of such Collateral is on file or of record in any public office, except (i) such as may have been filed in favor of the Agent, for the ratable benefit of the Banks, pursuant to this Security Agreement, (ii) financing statements filed with respect to equipment leases or (iii) as may otherwise be permitted pursuant to the Credit Agreement.

(b) Perfected First Priority Liens. Appropriate financing statements having been filed in the jurisdictions listed on Schedules II-A through B and all other appropriate action having been duly taken, the Liens granted pursuant to this Security Agreement constitute perfected Liens on the Collateral in favor of the Agent, for the ratable benefit of the Banks, which are prior to all other Liens on such Collateral created by such Grantor other than Liens permitted under subsection 8.3 of the Credit Agreement and

which are enforceable as such against all creditors of and purchasers from such Grantor and against any owner or purchaser of the real property where any of the Equipment or Inventory is located and any present or future creditor obtaining a Lien on such real property.

(c) Accounts. The amount represented by such Grantor to the Banks from time to time as owing by each account debtor or by all account debtors in respect of the Accounts will at such time be the correct amount actually owing by such account debtor or debtors thereunder. No amount in excess of \$100,000 payable to such Grantor under or in connection with any of the Accounts is evidenced by any Instrument or Chattel Paper which has not been delivered to the Agent. The place where such Grantor keeps its records concerning the Accounts is set forth on Schedule III-A through B.

(d) Consents. Except as previously disclosed to the Banks in writing: (i) no consent of any party (other than such Grantor) to each Contract is required, or purports to be required, in connection with the execution, delivery and performance of this Security Agreement by such Grantor; (ii) each Contract is in full force and effect and constitutes a valid and legally enforceable obligation of the parties thereto, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally; (iii) no consent or authorization of, filing with or other act by or in respect of any Governmental Authority is required in connection with the execution, delivery, performance, validity or enforceability of any Contract by any party thereto other than those which have been duly obtained, made or performed, are in full force and effect and do not subject the scope of any Contract to any material adverse limitation, either specific or general in nature; (iv) neither such Grantor nor (to the best of such Grantor's knowledge) any other party to any Contract is in default or is likely to become in default in the performance or observance of any of the terms thereof; (v) such Grantor has fully performed all its obligations under each Contract; (vi) the right, title and interest of such Grantor in, to and under each Contract is not subject to any defense, offset, counterclaim or claim which could materially adversely affect the value of such Contract as Collateral, nor have any of the foregoing been asserted or alleged against such Grantor as to each Contract; (vii) such Grantor has delivered to the Agent a complete and correct copy of each Contract, including all amendments, supplements and other modifications thereto; and (viii) no amount payable to such Grantor under or in connection with any Contract is evidenced by any Instrument or Chattel Paper which has not been delivered to the Agent.

(e) Inventory and Equipment. The Inventory and the Equipment are kept only at the locations listed on Schedules IV-A through B.

(f) Chief Executive Office. Such Grantor's chief executive office and chief place of business is located at the address listed on Schedules V-A through B.

(g) Farm Products. None of the Collateral constitutes, or is the Proceeds of, Farm Products.

5. Covenants. Each Grantor covenants and agrees with the Agent and the Banks that, from and after the date of this Security Agreement until the Obligations have been paid in full:

(a) Further Documentation; Pledge of Instruments and Chattel Paper. At any time and from time to time, upon the reasonable request of any Bank, and at the sole expense of such Grantor, such Grantor will promptly and duly execute and deliver such further instruments and documents and take such further action as such Bank may reasonably request for the purpose of obtaining or preserving the full benefits of this Security Agreement and of the rights and powers herein granted, including, without limitation, the filing of any financing or continuation statements under the Uniform Commercial Code in effect in any jurisdiction with respect to the Liens created hereby. Such Grantor also hereby authorizes the Agent to file any such financing or continuation statement without the signature of such Grantor to the extent permitted by applicable law. A carbon, photographic or other reproduction of this Security Agreement shall be sufficient as a financing statement for filing in any jurisdiction.

(b) Pledge of Instruments and Chattel Paper. If any amount in excess of \$100,000 payable under or in connection with any of the Collateral shall be or become evidenced by any Instrument or Chattel Paper, such Instrument or Chattel Paper shall be immediately delivered to the Agent, duly endorsed by such Grantor in a manner satisfactory to the Agent, to be held as Collateral pursuant to this Security Agreement.

(c) Indemnification. Such Grantor agrees to pay, and to save the Agent and the Banks harmless from, any and all liabilities, costs and expenses (including, without limitation, legal fees and expenses) (i) with respect to, or resulting from, any delay in paying, any and all excise, sales or other taxes which may be payable or determined to be payable with respect to any of the Collateral, (ii) with respect to, or resulting from, any delay in complying with any Requirement of Law applicable to any of the Collateral or (iii) in connection with any of the transactions contemplated by this Security Agreement. In any suit,

proceeding or action brought by the Agent or any Bank under any of the Accounts for any sum owing thereunder, or to enforce any provisions of any such Account, such Grantor will save, indemnify and keep the Agent and such Bank harmless from and against all expense, loss or damage suffered by reason of any defense, setoff, counterclaim, recoupment or reduction or liability whatsoever of the account debtor or obligor thereunder, arising out of a breach by such Grantor of any obligation thereunder or arising out of any other agreement, indebtedness or liability at any time owing to or in favor of such account debtor or obligor or its successors from such Grantor.

(d) Maintenance of Records. Such Grantor will keep and maintain at its own cost and expense satisfactory and complete records of the Collateral, including, without limitation, a record of all payments received and all credits granted with respect to the Accounts. Such Grantor will mark its books and records pertaining to the Collateral to evidence this Security Agreement and the security interests granted hereby. For the Agent's and the Banks' further security, the Agent, for the ratable benefit of the Banks, shall have a security interest in all of such Grantor's books and records pertaining to the Collateral, and, subject to subsection 11.13 of the Credit Agreement, such Grantor shall turn over any such books and records to the Agent or to its representatives during normal business hours at the request of the Agent.

(e) Right of Inspection. The Agent and the Banks shall at all times, upon reasonable notice, have full and free access during normal business hours to all the books, correspondence and records of such Grantor, and the Agent and the Banks and their respective representatives may examine the same, take extracts therefrom and make photocopies thereof, and such Grantor agrees to render to the Agent and the Banks, at such Grantor's cost and expense, such clerical and other assistance as may be reasonably requested with regard thereto. The Agent and the Banks and their respective representatives shall, upon reasonable notice and at any reasonable time, also have the right to enter into and upon any premises where any of the Inventory or Equipment is located for the purpose of inspecting the same, observing its use or otherwise protecting its interests therein.

(f) Compliance with Laws, etc. Such Grantor will comply in all material respects with all Requirements of Law applicable to the Collateral or any part thereof or to the operation of such Grantor's business; provided that such Grantor may contest any Requirement of Law in any reasonable manner which shall not, in the sole opinion of the Agent, adversely affect the Agent's or the Banks' rights or the priority of their Liens on the Collateral.

(g) Compliance with Terms of Contracts, etc. Such Grantor will perform and comply in all material respects with all its obligations under the Contracts and all its other Contractual Obligations relating to the Collateral.

(h) Payment of Obligations. Such Grantor will pay promptly when due all taxes, assessments and governmental charges or levies imposed upon the Collateral or in respect of its income or profits therefrom, as well as all claims of any kind (including, without limitation, claims for labor, materials and supplies) against or with respect to such Collateral, except that no such charge need be paid if (i) the validity thereof is being contested in good faith by appropriate proceedings, and such charge is adequately reserved against on such Grantor's books in accordance with GAAP or (ii) such proceedings do not involve any danger of the sale, forfeiture or loss of any of such Collateral or any interest therein.

(i) Limitations on Liens on Collateral. Such Grantor will not create, incur or permit to exist, will defend the Collateral against, and will take such other action as is necessary to remove, any Lien or claim on or to such Collateral, other than the Liens created hereby or Liens permitted under subsection 8.3 of the Credit Agreement, and will defend the right, title and interest of the Agent and the Banks in and to any of such Collateral against the claims and demands of all Persons whomsoever.

(j) Limitations on Dispositions of Collateral. Such Grantor will not sell, transfer, lease or otherwise dispose of any of the Collateral, or attempt, offer or contract to do so except for dispositions of assets permitted by subsection 8.6 of the Credit Agreement.

(k) Limitations on Modifications, Waivers, Extensions of the Contracts and Agreements Giving Rise to Accounts. Such Grantor will not (i) amend, modify, terminate or waive any provision of any Contract or any agreement giving rise to any of the Accounts in any manner which could reasonably be expected to materially adversely affect the value of any such Contract or Account as Collateral, (ii) fail to exercise promptly and diligently each and every material right which it may have under each agreement giving rise to the Accounts (other than any right of termination) or (iii) fail to deliver to the Agent a copy of each material demand, notice or document received by it relating in any way to any Contract or any agreement giving rise to an Account.

(l) Limitations on Discounts, Compromises, Extensions of Accounts. Other than in the ordinary course of business as generally conducted by the Grantor over a period of time, such Grantor will not grant any extension of the time of payment of any of the Accounts, compromise, compound or

settle the same for less than the full amount thereof, release, wholly or partially, any Person liable for the payment thereof, or allow any credit or discount whatsoever thereon.

(m) Maintenance of Equipment. Such Grantor will maintain each material item of the Equipment useful and necessary in its business in good operating condition, ordinary wear and tear and immaterial impairments of value and damage by the elements excepted, and will provide all maintenance, service and repairs necessary for such purpose.

(n) Maintenance of Insurance. Such Grantor will maintain, with financially sound and reputable companies, insurance policies (i) insuring the Inventory and Equipment against loss by fire, explosion, theft and such other casualties customary for business of the same type and (ii) insuring such Grantor, the Agent and the Banks against liability for personal injury and property damage relating to the Inventory and Equipment, such policies to be in the form and amounts and having such coverage customary for business of the same type with losses payable to such Grantor and the Agent as their respective interests may appear. All such insurance shall (i) contain a breach of warranty clause in favor of the Agent, (ii) provide that no cancellation, material reduction in amount or material change in coverage thereof shall be effective until at least 30 days after receipt by the Agent and the Banks of written notice thereof, (iii) name the Agent and the Banks as insured parties and (iv) be reasonably satisfactory in all other respects to the Agent. Such Grantor shall deliver to the Agent and the Banks a report of a reputable insurance broker with respect to such insurance as the Agent may from time to time reasonably request.

(o) Further Identification of Collateral. Upon the reasonable request of the Agent, such Grantor will furnish to the Agent and the Banks from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral, all in reasonable detail.

(p) Notices. Such Grantor will advise the Agent and the Banks promptly, in reasonable detail, at their respective addresses set forth in the Credit Agreement, (i) of any Lien (other than Liens created hereby or permitted under the Credit Agreement) on, or claim asserted against, any of the Collateral and (ii) of the occurrence of any other event which could reasonably be expected to have a material adverse effect on the aggregate value of the Collateral or on the Liens created hereunder.

(q) Changes in Locations, Name, etc. Such Grantor will not (i) change the location of its chief executive

office/chief place of business from that specified in paragraph 4(f) or remove its books and records from the location specified in paragraph 4(c), (ii) permit any of the Inventory or Equipment to be kept at a location other than those listed in respect to such Grantor on Schedules IV-A through or (iii) change its name, identity or corporate structure to such an extent that any financing statement filed by the Agent in connection with this Security Agreement could become seriously misleading.

6. Agent's Appointment as Attorney-in-Fact. (a) Powers.

Each Grantor hereby irrevocably constitutes and appoints the Agent and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of such Grantor and in the name of such Grantor or in its own name, from time to time in the Agent's discretion, for the purpose of carrying out the terms of this Security Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Security Agreement, and, without limiting the generality of the foregoing, each Grantor hereby gives the Agent the power and right, on behalf of such Grantor, without notice to or assent by such Grantor, to do the following:

(i) upon the occurrence and during the continuance of any Event of Default, in the name of such Grantor or its own name, or otherwise, to take possession of and indorse and collect any checks, drafts, notes, acceptances or other instruments for the payment of moneys due under any Accounts, Instruments, General Intangibles or any Contract or with respect to any other of the Collateral and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by the Agent for the purpose of collecting any and all such moneys due under any such Account, Instrument or General Intangible or Contract or with respect to any other such Collateral whenever payable;

(ii) to pay or discharge taxes and Liens levied or placed on or threatened against the Collateral, to effect any repairs or any insurance called for by the terms of this Security Agreement and to pay all or any part of the premiums therefor and the costs thereof; and

(iii) upon the occurrence and during the continuance of any Event of Default, (A) to direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due or to become due thereunder directly to the Agent or as the Agent shall direct; (B) to ask or demand for, collect, receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of any of the Collateral; (C) to sign and indorse any invoices, freight or

express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications, notices and other documents in connection with any of the Collateral; (D) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any thereof and to enforce any other right in respect of any such Collateral; (E) to defend any suit, action or proceeding brought against such Grantor with respect to any Collateral; (F) to settle, compromise or adjust any suit, action or proceeding described in clause (E) above and, in connection therewith, to give such discharges or releases as the Agent may deem appropriate; and (G) generally, to sell, transfer, pledge and make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Agent were the absolute owner thereof for all purposes, and to do, at the Agent's option and such Grantor's expense, at any time, or from time to time, all acts and things which the Agent deems necessary to protect, preserve or realize upon the Collateral and the Agent's and the Banks' Liens thereon and to effect the intent of this Security Agreement, all as fully and effectively as the Grantor might do.

Each Grantor hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable.

(b) Other Powers. Each Grantor also authorizes the Agent and the Banks, at any time and from time to time, to execute, in connection with the sale provided for in Section 9 hereof, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral.

(c) No Duty on Agent or Banks' Part. The powers conferred on the Agent and the Banks hereunder are solely to protect the Agent's and the Banks' interests in the Collateral and shall not impose any duty upon the Agent or any Bank to exercise any such powers. The Agent and the Banks shall be accountable only for amounts that they actually receive as a result of the exercise of such powers, and neither they nor any of their officers, directors, employees or agents shall be responsible to any Grantor for any act or failure to act hereunder, except for their own gross negligence or willful misconduct.

7. Performance by Agent of Grantor's Obligations. If any Grantor fails to perform or comply with any of its agreements contained herein and the Agent, as provided for by the terms of this Security Agreement, shall itself perform or comply, or otherwise cause performance or compliance, with such agreement, the expenses of the Agent incurred in connection with such performance or compliance, together with interest thereon at a

rate per annum 2% above the ABR, shall be payable by such Grantor to the Agent on demand and shall constitute Obligations secured hereby.

8. Proceeds. If an Event of Default shall occur and be continuing:

(a) all Proceeds received by any Grantor consisting of cash, checks and other near-cash items shall be held by such Grantor in trust for the Agent and the Banks, segregated from other funds of the Grantor, and shall, forthwith upon receipt by such Grantor, be turned over to the Agent in the exact form received by such Grantor (duly indorsed by such Grantor to the Agent, if required) and

(b) any and all such Proceeds received by the Agent (whether from any Grantor or otherwise) may, in the sole discretion of the Agent, be held by the Agent for the ratable benefit of the Banks as collateral security for, and/or then or at any time thereafter may be applied by the Agent against, the Obligations (whether matured or unmatured), such application to be in such order as the Agent shall elect. Any balance of such Proceeds remaining after the Obligations shall have been paid in full and the Commitments shall have been terminated shall be paid over to the Grantors or to whomsoever may be lawfully entitled to receive the same.

9. Remedies. If an Event of Default shall occur and be continuing, the Agent, on behalf of the Banks, may exercise, in addition to all other rights and remedies granted to them in this Security Agreement and in any other instrument or agreement securing, evidencing or relating to the Obligations or any Obligations, all rights and remedies of a secured party under the Code. Without limiting the generality of the foregoing, the Agent, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon the Grantors or any other Person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon any Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give an option or options to purchase, or otherwise dispose of and deliver any Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange or broker's board or office of the Agent or any Bank or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Agent and each Bank shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of any Collateral so sold, free of any right or equity of redemption in

the Grantors, which right or equity is hereby waived or released. Each Grantor further agrees, at the Agent's request, to assemble the Collateral and make it available to the Agent at places which the Agent shall reasonably select, whether at the Grantor's premises or elsewhere. The Agent shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care or safekeeping of any of such Collateral or in any way relating to such Collateral or the rights of the Agent and the Banks hereunder, including, without limitation, attorneys' fees and disbursements, to the payment in whole or in part of the Obligations, in such order as the Agent may elect, and only after such application and after the payment by the Agent of any other amount required by any provision of law, including, without limitation, Section 9-504(1)(c) of the Code, need the Agent account for the surplus, if any, to the Grantors. To the extent permitted by applicable law, the Grantor waives all claims, damages and demands it may acquire against the Agent or any Bank arising out of the exercise by them of any rights hereunder. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least ten days before such sale or other disposition. Each Grantor shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay the Obligations and the fees and disbursements of any attorneys employed by the Agent or any Bank to collect such deficiency.

10. Limitation on Duties Regarding Preservation of Collateral. The Agent's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the Code or otherwise, shall be to deal with it in the same manner as the Agent deals with similar property for its own account. Neither the Agent, any Bank, nor any of their respective directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon all or any part of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of any Grantor or otherwise.

11. Powers Coupled with an Interest. All authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

12. Severability. Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

13. Section Headings. The Section headings used in this Security Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

14. No Waiver; Cumulative Remedies. Neither the Agent nor any Bank shall by any act (except by a written instrument pursuant to Section 15 hereof), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default or Event of Default or in any breach of any of the terms and conditions hereof. No failure to exercise, nor any delay in exercising, on the part of the Agent or any Bank, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by the Agent or any Bank of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Agent or such Bank would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any rights or remedies provided by law.

15. Waivers and Amendments; Successors and Assigns; Governing Law. None of the terms or provisions of this Security Agreement may be waived, amended, supplemented or otherwise modified except by a written instrument executed by each Grantor and the Agent in accordance with subsection 11.1 of the Credit Agreement; provided that any provision of this Security Agreement may be waived by the Agent and the Banks in a letter or agreement executed by the Agent or by telecopy from the Agent. This Security Agreement shall be binding upon the successors and assigns of each Grantor and shall inure to the benefit of the Agent and the Banks and their respective successors and assigns. THIS SECURITY AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

16. Notices. All notices, requests and demands to or upon the Agent, any Bank or any Grantor to be effective shall be in writing (or by telegraph or telecopy confirmed in writing) and shall be deemed to have been duly given or made (a) when delivered by hand or (b) if given by mail, when deposited in the mails by certified mail, return receipt requested or (c) if by telegraph or telecopy, when sent and receipt has been confirmed, addressed at its address or transmission number for notices provided in subsection 11.2 of the Credit Agreement or Section 12 of the Subsidiary Guarantee. The Agent, each Bank and the Grantor may change its address and transmission numbers for notices by notice in the manner provided in this Section.

17. Authority of Agent. Each Grantor acknowledges that the rights and responsibilities of the Agent under this

Security Agreement with respect to any action taken by the Agent or the exercise or non-exercise by the Agent of any option, right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Security Agreement shall, as between the Agent and the Banks, be governed by the Credit Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, as between the Agent and each Grantor, the Agent shall be conclusively presumed to be acting as agent for the Banks with full and valid authority so to act or refrain from acting, and each Grantor shall not be under any obligation, or entitlement, to make any inquiry respecting such authority.

18. Release of Liens. In the event that any Grantor conveys, sells, leases, assigns, transfers or otherwise disposes of any portion of the Collateral in accordance with subsection 8.6 of the Credit Agreement or grants a Lien with respect to any of the Collateral which Lien is permitted pursuant to subsection 8.3(m) of the Credit Agreement, and so long as no Default or Event of Default shall have occurred and be continuing, the Agent shall promptly take such action as may be reasonably requested by such Grantor to release, to the extent necessary, any Liens created by this Security Agreement in respect of such Collateral.

19. Counterparts. This Security Agreement may be executed by one or more of the parties to this Security Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the counterparts of this Security Agreement signed by all the parties hereto shall be lodged with the Agent.

IN WITNESS WHEREOF, each of the undersigned has caused this Security Agreement to be duly executed and delivered as of the date first above written.

LEAR OPERATIONS CORPORATION

By: _____
Title:

NAB CORPORATION

By: _____
Title:

SCHEDULE I-A

LEAR OPERATIONS CORPORATION
Contracts

None.

SCHEDULE I-B

NAB CORPORATION
Contracts

None.

SCHEDULE II-A

LEAR OPERATIONS CORPORATION
Financing Statements Filed

| State | Location |
|---------------------|---------------------|
| 1. [To be provided] | 1. [To be provided] |

SCHEDULE II-B

NAB CORPORATION
Financing Statements Filed

| State | Location |
|---------------------|---------------------|
| 1. [To be provided] | 1. [To be provided] |

SCHEDULE III-A

LEAR OPERATIONS CORPORATION
Location of Records Concerning Accounts

[To be provided]

SCHEDULE III-B

NAB CORPORATION
Location of Records Concerning Accounts

[To be provided]

LEAR OPERATIONS CORPORATION
Location of Inventory and Equipment

[To be provided]

NAB CORPORATION
Locations of Inventory and Equipment

[To be provided]

SCHEDULE V-A

LEAR OPERATIONS CORPORATION
Chief Executive Office

[21557 Telegraph Road
Southfield, Michigan 48034]

SCHEDULE V-B

NAB CORPORATION
Chief Executive Office

[21557 Telegraph Road
Southfield, Michigan 48034]

FORM OF SECOND ADDITIONAL SECURITY AGREEMENT

SECOND ADDITIONAL SECURITY AGREEMENT, dated as of _____, 199_, made by AUTOMOTIVE INDUSTRIES MANUFACTURING INC. (the "Grantor"), in favor of CHEMICAL BANK, as administrative agent (in such capacity, the "Agent") for the Banks parties to the Credit Agreement referred to below.

W I T N E S S E T H :

WHEREAS, Lear Seating Corporation (the "Borrower") is a party to the Credit Agreement, dated as of August 17, 1995 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement") with the financial institutions parties thereto (the "Banks"), the Agent and the Managing Agents, Co-Agents and Lead Managers identified therein;

WHEREAS, pursuant to the Credit Agreement and the other Loan Documents (as defined in the Credit Agreement), the Banks have agreed to make certain Loans (as defined in the Credit Agreement) to or for the benefit of the Borrower and, in the case of the Issuing Bank (as defined in the Credit Agreement), issue and, in the case of the Participating Banks (as defined in the Credit Agreement), participate in certain Letters of Credit (as defined in the Credit Agreement); and

WHEREAS, it is a condition precedent to the effectiveness of the First Amendment and Consent, dated as of December 8, 1995 (the "First Amendment"), to the Credit Agreement that the Grantor shall have executed and delivered this Security Agreement to the Agent for the ratable benefit of the Banks;

NOW, THEREFORE, in consideration of the premises contained herein and to induce the Agent, and the Banks to enter into the First Amendment and to induce the Banks to make the Loans and to issue and participate in the Letters of Credit under the Credit Agreement, the Grantor hereby agrees with the Agent, for the ratable benefit of the Banks, as follows:

1. Defined Terms. (a) Unless otherwise defined herein, terms which are defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement; the following terms which are defined in the Uniform Commercial Code in effect in the State of New York on the date hereof are used herein as so defined: Accounts, Chattel Paper, Documents, Farm Products, Instruments, Inventory and Proceeds; and the following terms shall have the following meanings:

"Code" shall mean the Uniform Commercial Code as from time to time in effect in the State of New York.

"Collateral" shall have the meaning assigned to it in Section 2 of this Security Agreement.

"Security Agreement" shall mean this Second Additional Security Agreement, as amended, supplemented or otherwise modified from time to time.

(b) The words "hereof," "herein" and "hereunder" and words of similar import when used in this Security Agreement shall refer to this Security Agreement as a whole and not to any particular provision of this Security Agreement, and Section, paragraph and Schedule references are to this Security Agreement unless otherwise specified.

(c) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

2. Grant of Security Interest. (a) As collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations, the Grantor hereby sells, assigns, conveys, mortgages, pledges, hypothecates and transfers to the Agent, and hereby grants to the Agent, for the ratable benefit of the Banks, a security interest in all of the following property now owned or at any time hereafter acquired by the Grantor or in which the Grantor now has or at any time in the future may acquire any right, title or interest (collectively, the "Collateral"):

(i) all Accounts;

(ii) all Chattel Paper evidencing or constituting Proceeds of an Account;

(iii) all Instruments evidencing or constituting Proceeds an Account; and

(iv) to the extent not otherwise included, all Proceeds, products, substitutions and replacements of any and all of the foregoing.

(b) Anything herein to the contrary notwithstanding, this Security Agreement shall terminate at such time the Additional Subsidiary Guarantee shall be amended to remove the limitation contained in clause (ii) of paragraph 2(b) thereof.

3. Rights of Agent and Banks; Limitations on Agent's and Banks' Obligations. (a) Anything herein to the contrary notwithstanding, the Grantor shall remain liable under each of its Accounts to observe and perform all the conditions and obligations to be observed and performed by it thereunder, all in accordance with the terms of any agreement giving rise to each such Account. Neither the Agent nor any Bank shall have any obligation or liability under any Account (or any agreement giving rise thereto) by reason of or arising out of this Security Agreement or the receipt by the Agent or any such Bank of any

payment relating to such Account pursuant hereto, nor shall the Agent or any Bank be obligated in any manner to perform any of the obligations of any Grantor under or pursuant to any Account (or any agreement giving rise thereto), to make any payment, to make any inquiry as to the nature or the sufficiency of any payment received by it or as to the sufficiency of any performance by any party under any Account (or any agreement giving rise thereto) to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

(b) At the Agent's request, the Grantor shall deliver to the Agent all original and other documents evidencing, and relating to, the sale and delivery of Inventory or the performance of labor or service which created the Accounts, including, but not limited to, all Chattel Paper, original purchase orders, invoices, shipping documents and delivery receipts and duplicate copies of credit memoranda.

(c) The Agent may at any time after the occurrence and during the continuance of an Event of Default notify account debtors and parties to Accounts that the Accounts have been assigned to the Agent, for the ratable benefit of the Banks, and that payments shall be made directly to the Agent. Upon the request of the Agent at any time after the occurrence and during the continuance of an Event of Default, the Grantor will so notify such account debtors and such parties to the Accounts. Upon prior notice to the Grantor, the Agent may in its own name or in the name of others communicate with account debtors and parties to Accounts in order to verify with them to the Agent's satisfaction the existence, amount and terms of any Accounts.

(d) Upon prior notice to the Grantor, the Agent shall have the right to make test verifications of the Collateral in any matter and through any medium that it considers advisable, and the Grantor agrees to furnish all such assistance and information as the Agent may require in connection therewith. The Grantor at its expense will furnish, or will cause independent public accountants satisfactory to the Agent to furnish, to the Agent at any time and from time to time promptly upon the Agent's request, the following reports: (i) reconciliation of all Collateral, (ii) an aging of all Collateral, (iii) trial balances, (iv) a test verification of such Collateral and (v) a physical inventory of the Collateral by certified accountants reasonably satisfactory to the Agent.

4. Representations and Warranties. The Grantor hereby represents and warrants that:

(a) Title; No Other Liens. Except for the Lien granted to the Agent for the ratable benefit of the Banks pursuant to this Security Agreement, the Grantor owns each item of the Collateral free and clear of any and all Liens

or claims of others other than Liens permitted under subsection 8.3 of the Credit Agreement. No security agreement, financing statement or other public notice with respect to all or any part of such Collateral is on file or of record in any public office, except (i) such as may have been filed in favor of the Agent, for the ratable benefit of the Banks, pursuant to this Security Agreement, (ii) financing statements filed with respect to equipment leases or (iii) as may otherwise be permitted pursuant to the Credit Agreement.

(b) Perfected First Priority Liens. Appropriate financing statements having been filed in the jurisdictions listed on Schedule I and all other appropriate action having been duly taken, the Liens granted pursuant to this Security Agreement constitute perfected Liens on the Collateral in favor of the Agent, for the ratable benefit of the Banks, which are prior to all other Liens on such Collateral created by the Grantor other than Liens permitted under subsection 8.3 of the Credit Agreement and which are enforceable as such against all creditors of and purchasers from the Grantor and against any owner or purchaser of the real property where any of the Equipment or Inventory is located and any present or future creditor obtaining a Lien on such real property.

(c) Accounts. The amount represented by the Grantor to the Banks from time to time as owing by each account debtor or by all account debtors in respect of the Accounts will at such time be the correct amount actually owing by such account debtor or debtors thereunder. No amount in excess of \$100,000 payable to the Grantor under or in connection with any of the Accounts is evidenced by any Instrument or Chattel Paper which has not been delivered to the Agent. The place where the Grantor keeps its records concerning the Accounts is set forth on Schedule III-A through B.

(d) Chief Executive Office. The Grantor's chief executive office and chief place of business is located at _____.

(e) Farm Products. None of the Collateral constitutes, or is the Proceeds of, Farm Products.

5. Covenants. The Grantor covenants and agrees with the Agent and the Banks that, from and after the date of this Security Agreement until the Obligations have been paid in full:

(a) Further Documentation; Pledge of Instruments and Chattel Paper. At any time and from time to time, upon the reasonable request of any Bank, and at the sole expense of the Grantor, the Grantor will promptly and duly execute and deliver such further instruments and documents and take such

further action as such Bank may reasonably request for the purpose of obtaining or preserving the full benefits of this Security Agreement and of the rights and powers herein granted, including, without limitation, the filing of any financing or continuation statements under the Uniform Commercial Code in effect in any jurisdiction with respect to the Liens created hereby. The Grantor also hereby authorizes the Agent to file any such financing or continuation statement without the signature of the Grantor to the extent permitted by applicable law. A carbon, photographic or other reproduction of this Security Agreement shall be sufficient as a financing statement for filing in any jurisdiction.

(b) Pledge of Instruments and Chattel Paper. If any amount in excess of \$100,000 payable under or in connection with any of the Collateral shall be or become evidenced by any Instrument or Chattel Paper, such Instrument or Chattel Paper shall be immediately delivered to the Agent, duly endorsed by the Grantor in a manner satisfactory to the Agent, to be held as Collateral pursuant to this Security Agreement.

(c) Indemnification. The Grantor agrees to pay, and to save the Agent and the Banks harmless from, any and all liabilities, costs and expenses (including, without limitation, legal fees and expenses) (i) with respect to, or resulting from, any delay in paying, any and all excise, sales or other taxes which may be payable or determined to be payable with respect to any of the Collateral, (ii) with respect to, or resulting from, any delay in complying with any Requirement of Law applicable to any of the Collateral or (iii) in connection with any of the transactions contemplated by this Security Agreement. In any suit, proceeding or action brought by the Agent or any Bank under any of the Accounts for any sum owing thereunder, or to enforce any provisions of any such Account, the Grantor will save, indemnify and keep the Agent and such Bank harmless from and against all expense, loss or damage suffered by reason of any defense, setoff, counterclaim, recoupment or reduction or liability whatsoever of the account debtor or obligor thereunder, arising out of a breach by the Grantor of any obligation thereunder or arising out of any other agreement, indebtedness or liability at any time owing to or in favor of such account debtor or obligor or its successors from the Grantor.

(d) Maintenance of Records. The Grantor will keep and maintain at its own cost and expense satisfactory and complete records of the Collateral, including, without limitation, a record of all payments received and all credits granted with respect to the Accounts. The Grantor will mark its books and records pertaining to the Collateral to evidence this Security Agreement and the security

interests granted hereby. For the Agent's and the Banks' further security, the Agent, for the ratable benefit of the Banks, shall have a security interest in all of the Grantor's books and records pertaining to the Collateral, and, subject to subsection 11.13 of the Credit Agreement, the Grantor shall turn over any such books and records to the Agent or to its representatives during normal business hours at the request of the Agent.

(e) Right of Inspection. The Agent and the Banks shall at all times, upon reasonable notice, have full and free access during normal business hours to all the books, correspondence and records of the Grantor, and the Agent and the Banks and their respective representatives may examine the same, take extracts therefrom and make photocopies thereof, and the Grantor agrees to render to the Agent and the Banks, at the Grantor's cost and expense, such clerical and other assistance as may be reasonably requested with regard thereto.

(f) Compliance with Laws, etc. The Grantor will comply in all material respects with all Requirements of Law applicable to the Collateral or any part thereof or to the operation of the Grantor's business; provided that the Grantor may contest any Requirement of Law in any reasonable manner which shall not, in the sole opinion of the Agent, adversely affect the Agent's or the Banks' rights or the priority of their Liens on the Collateral.

(g) Payment of Obligations. The Grantor will pay promptly when due all taxes, assessments and governmental charges or levies imposed upon the Collateral or in respect of its income or profits therefrom, as well as all claims of any kind (including, without limitation, claims for labor, materials and supplies) against or with respect to such Collateral, except that no such charge need be paid if (i) the validity thereof is being contested in good faith by appropriate proceedings, and such charge is adequately reserved against on the Grantor's books in accordance with GAAP or (ii) such proceedings do not involve any danger of the sale, forfeiture or loss of any of such Collateral or any interest therein.

(h) Limitations on Liens on Collateral. The Grantor will not create, incur or permit to exist, will defend the Collateral against, and will take such other action as is necessary to remove, any Lien or claim on or to such Collateral, other than the Liens created hereby or Liens permitted under subsection 8.3 of the Credit Agreement, and will defend the right, title and interest of the Agent and the Banks in and to any of such Collateral against the claims and demands of all Persons whomsoever.

(i) Limitations on Dispositions of Collateral. The Grantor will not sell, transfer, lease or otherwise dispose of any of the Collateral, or attempt, offer or contract to do so except for dispositions of assets permitted by subsection 8.6 of the Credit Agreement.

(j) Limitations on Modifications, Waivers, Extensions of Agreements Giving Rise to Accounts. The Grantor will not (i) amend, modify, terminate or waive any provision of any agreement giving rise to any of the Accounts in any manner which could reasonably be expected to materially adversely affect the value of any such Account as Collateral, (ii) fail to exercise promptly and diligently each and every material right which it may have under each agreement giving rise to the Accounts (other than any right of termination) or (iii) fail to deliver to the Agent a copy of each material demand, notice or document received by it relating in any way to any agreement giving rise to an Account.

(k) Limitations on Discounts, Compromises, Extensions of Accounts. Other than in the ordinary course of business as generally conducted by the Grantor over a period of time, the Grantor will not grant any extension of the time of payment of any of the Accounts, compromise, compound or settle the same for less than the full amount thereof, release, wholly or partially, any Person liable for the payment thereof, or allow any credit or discount whatsoever thereon.

(l) Further Identification of Collateral. Upon the reasonable request of the Agent, the Grantor will furnish to the Agent and the Banks from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral, all in reasonable detail.

(m) Notices. The Grantor will advise the Agent and the Banks promptly, in reasonable detail, at their respective addresses set forth in the Credit Agreement, (i) of any Lien (other than Liens created hereby or permitted under the Credit Agreement) on, or claim asserted against, any of the Collateral and (ii) of the occurrence of any other event which could reasonably be expected to have a material adverse effect on the aggregate value of the Collateral or on the Liens created hereunder.

(n) Changes in Locations, Name, etc. The Grantor will not (i) change the location of its chief executive office/chief place of business from that specified in paragraph 4(f) or remove its books and records from the location specified in paragraph 4(c) or (ii) change its name, identity or corporate structure to such an extent that any financing statement filed by the Agent in connection

with this Security Agreement could become seriously misleading.

6. Agent's Appointment as Attorney-in-Fact. (a) Powers.

The Grantor hereby irrevocably constitutes and appoints the Agent and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Grantor and in the name of the Grantor or in its own name, from time to time in the Agent's discretion, for the purpose of carrying out the terms of this Security Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Security Agreement, and, without limiting the generality of the foregoing, the Grantor hereby gives the Agent the power and right, on behalf of the Grantor, without notice to or assent by the Grantor, to do the following:

(i) upon the occurrence and during the continuance of any Event of Default, in the name of the Grantor or its own name, or otherwise, to take possession of and indorse and collect any checks, drafts, notes, acceptances or other instruments for the payment of moneys due under any Account or with respect to any other of the Collateral and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by the Agent for the purpose of collecting any and all such moneys due under any such Account or with respect to any other such Collateral whenever payable;

(ii) to pay or discharge taxes and Liens levied or placed on or threatened against the Collateral, to effect any repairs or any insurance called for by the terms of this Security Agreement and to pay all or any part of the premiums therefor and the costs thereof; and

(iii) upon the occurrence and during the continuance of any Event of Default, (A) to direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due or to become due thereunder directly to the Agent or as the Agent shall direct; (B) to ask or demand for, collect, receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of any of the Collateral; (C) to sign and indorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications, notices and other documents in connection with any of the Collateral; (D) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any thereof and to enforce any other right in respect of any such Collateral; (E) to defend any suit, action or proceeding brought against the Grantor with respect to any

Collateral; (F) to settle, compromise or adjust any suit, action or proceeding described in clause (E) above and, in connection therewith, to give such discharges or releases as the Agent may deem appropriate; and (G) generally, to sell, transfer, pledge and make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Agent were the absolute owner thereof for all purposes, and to do, at the Agent's option and the Grantor's expense, at any time, or from time to time, all acts and things which the Agent deems necessary to protect, preserve or realize upon the Collateral and the Agent's and the Banks' Liens thereon and to effect the intent of this Security Agreement, all as fully and effectively as the Grantor might do.

The Grantor hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable.

(b) Other Powers. The Grantor also authorizes the Agent and the Banks, at any time and from time to time, to execute, in connection with the sale provided for in Section 9 hereof, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral.

(c) No Duty on Agent or Banks' Part. The powers conferred on the Agent and the Banks hereunder are solely to protect the Agent's and the Banks' interests in the Collateral and shall not impose any duty upon the Agent or any Bank to exercise any such powers. The Agent and the Banks shall be accountable only for amounts that they actually receive as a result of the exercise of such powers, and neither they nor any of their officers, directors, employees or agents shall be responsible to any Grantor for any act or failure to act hereunder, except for their own gross negligence or willful misconduct.

7. Performance by Agent of Grantor's Obligations. If any Grantor fails to perform or comply with any of its agreements contained herein and the Agent, as provided for by the terms of this Security Agreement, shall itself perform or comply, or otherwise cause performance or compliance, with such agreement, the expenses of the Agent incurred in connection with such performance or compliance, together with interest thereon at a rate per annum 2% above the ABR, shall be payable by the Grantor to the Agent on demand and shall constitute Obligations secured hereby.

8. Proceeds. If an Event of Default shall occur and be continuing:

(a) all Proceeds received by any Grantor consisting of cash, checks and other near-cash items shall be held by the

Grantor in trust for the Agent and the Banks, segregated from other funds of the Grantor, and shall, forthwith upon receipt by the Grantor, be turned over to the Agent in the exact form received by the Grantor (duly indorsed by the Grantor to the Agent, if required) and

(b) any and all such Proceeds received by the Agent (whether from any Grantor or otherwise) may, in the sole discretion of the Agent, be held by the Agent for the ratable benefit of the Banks as collateral security for, and/or then or at any time thereafter may be applied by the Agent against, the Obligations (whether matured or unmatured), such application to be in such order as the Agent shall elect. Any balance of such Proceeds remaining after the Obligations shall have been paid in full and the Commitments shall have been terminated shall be paid over to the Grantor or to whomsoever may be lawfully entitled to receive the same.

9. Remedies. If an Event of Default shall occur and be continuing, the Agent, on behalf of the Banks, may exercise, in addition to all other rights and remedies granted to them in this Security Agreement and in any other instrument or agreement securing, evidencing or relating to the Obligations or any Obligations, all rights and remedies of a secured party under the Code. Without limiting the generality of the foregoing, the Agent, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon the Grantor or any other Person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon any Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give an option or options to purchase, or otherwise dispose of and deliver any Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange or broker's board or office of the Agent or any Bank or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Agent and each Bank shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of any Collateral so sold, free of any right or equity of redemption in the Grantor, which right or equity is hereby waived or released. The Grantor further agrees, at the Agent's request, to assemble the Collateral and make it available to the Agent at places which the Agent shall reasonably select, whether at the Grantor's premises or elsewhere. The Agent shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care or safekeeping of any of such Collateral or in any way relating

to such Collateral or the rights of the Agent and the Banks hereunder, including, without limitation, attorneys' fees and disbursements, to the payment in whole or in part of the Obligations, in such order as the Agent may elect, and only after such application and after the payment by the Agent of any other amount required by any provision of law, including, without limitation, Section 9-504(1)(c) of the Code, need the Agent account for the surplus, if any, to the Grantor. To the extent permitted by applicable law, the Grantor waives all claims, damages and demands it may acquire against the Agent or any Bank arising out of the exercise by them of any rights hereunder. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least ten days before such sale or other disposition. The Grantor shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay the Obligations and the fees and disbursements of any attorneys employed by the Agent or any Bank to collect such deficiency.

10. Limitation on Duties Regarding Preservation of Collateral. The Agent's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the Code or otherwise, shall be to deal with it in the same manner as the Agent deals with similar property for its own account. Neither the Agent, any Bank, nor any of their respective directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon all or any part of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of any Grantor or otherwise.

11. Powers Coupled with an Interest. All authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

12. Severability. Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

13. Section Headings. The Section headings used in this Security Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

14. No Waiver; Cumulative Remedies. Neither the Agent nor any Bank shall by any act (except by a written instrument pursuant to Section 15 hereof), delay, indulgence, omission or

otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default or Event of Default or in any breach of any of the terms and conditions hereof. No failure to exercise, nor any delay in exercising, on the part of the Agent or any Bank, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by the Agent or any Bank of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Agent or such Bank would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any rights or remedies provided by law.

15. Waivers and Amendments; Successors and Assigns; Governing Law. None of the terms or provisions of this Security Agreement may be waived, amended, supplemented or otherwise modified except by a written instrument executed by the Grantor and the Agent in accordance with subsection 11.1 of the Credit Agreement; provided that any provision of this Security Agreement may be waived by the Agent and the Banks in a letter or agreement executed by the Agent or by telecopy from the Agent. This Security Agreement shall be binding upon the successors and assigns of the Grantor and shall inure to the benefit of the Agent and the Banks and their respective successors and assigns. THIS SECURITY AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

16. Notices. All notices, requests and demands to or upon the Agent, any Bank or any Grantor to be effective shall be in writing (or by telegraph or telecopy confirmed in writing) and shall be deemed to have been duly given or made (a) when delivered by hand or (b) if given by mail, when deposited in the mails by certified mail, return receipt requested or (c) if by telegraph or telecopy, when sent and receipt has been confirmed, addressed at its address or transmission number for notices provided in subsection 11.2 of the Credit Agreement or Section 12 of the Subsidiary Guarantee. The Agent, each Bank and the Grantor may change its address and transmission numbers for notices by notice in the manner provided in this Section.

17. Authority of Agent. The Grantor acknowledges that the rights and responsibilities of the Agent under this Security Agreement with respect to any action taken by the Agent or the exercise or non-exercise by the Agent of any option, right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Security Agreement shall, as between the Agent and the Banks, be governed by the Credit Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, as between the Agent and the Grantor, the Agent shall be conclusively presumed to be

acting as agent for the Banks with full and valid authority so to act or refrain from acting, and the Grantor shall not be under any obligation, or entitlement, to make any inquiry respecting such authority.

18. Release of Liens. In the event that any Grantor conveys, sells, leases, assigns, transfers or otherwise disposes of any portion of the Collateral in accordance with subsection 8.6 of the Credit Agreement or grants a Lien with respect to any of the Collateral which Lien is permitted pursuant to subsection 8.3(m) of the Credit Agreement, and so long as no Default or Event of Default shall have occurred and be continuing, the Agent shall promptly take such action as may be reasonably requested by the Grantor to release, to the extent necessary, any Liens created by this Security Agreement in respect of such Collateral.

19. Counterparts. This Security Agreement may be executed by one or more of the parties to this Security Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the counterparts of this Security Agreement signed by all the parties hereto shall be lodged with the Agent.

IN WITNESS WHEREOF, each of the undersigned has caused this Security Agreement to be duly executed and delivered as of the date first above written.

AUTOMOTIVE INDUSTRIES MANUFACTURING
INC.

By: _____
Title:

SCHEDULE I

Financing Statements Filed

| State | Location |
|---------------------|---------------------|
| 1. [To be provided] | 1. [To be provided] |

Location of Records Concerning Accounts

[To be provided]

FORM OF FIRST AMENDMENT TO DOMESTIC PLEDGE AGREEMENT

FIRST AMENDMENT, dated as of _____, 199__ (this "Amendment"), to the Domestic Pledge Agreement, dated as of August 17, 1995 (as amended, supplemented or otherwise modified from time to time, the "Pledge Agreement"), made by Lear Seating Corporation, a Delaware corporation (the "Pledgor"), in favor of Chemical Bank, as administrative agent (in such capacity, the "Agent").

W I T N E S S E T H :

WHEREAS, the Pledgor has formed three new Subsidiaries, Lear Operations Corporation, NAB Corporation and Automotive Industries Manufacturing, Inc.; and

WHEREAS, it is a condition precedent to the effectiveness of the First Amendment and Consent, dated as of December 8, 1995, to the Credit Agreement (as defined in the Pledge Agreement) that the Pledgor shall have executed and delivered this Amendment;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the Pledgor and the Agent agree as follows:

1. Defined Terms. Unless otherwise defined herein, terms defined in the Pledge Agreement shall have such meanings when used herein.

2. Amendment to Pledge Agreement. Schedule I to the Pledge Agreement is hereby amended by deleting it in its entirety and substituting in lieu thereof Schedule I attached hereto.

3. Representations and Warranties. To induce the Agent to enter into this Amendment, the Pledgor hereby represents and warrants that the representations and warranties contained in the Pledge Agreement will be, after giving effect to the modification provided herein, true and correct in all material respects as if made on and as of the date hereof.

4. No Other Modifications. Except as expressly modified hereby, the Pledge Agreement is and shall continue to be in full force and effect in accordance with its terms.

5. Counterparts. This Amendment may be executed by one or more of the parties hereof on any number of separate counterparts and all such counterparts shall be deemed to be one and the same instrument.

6. Effectiveness. This Amendment shall be effective upon the execution and delivery of this Amendment by the Pledgor, the Agent, Automotive Industries Corporation, Lear Industries Inc., and NAB Corporation.

7. Payment of Expenses. The Pledgor agrees to pay and reimburse the Agent for all its costs and out-of-pocket expenses incurred in connection with the preparation, execution and delivery of this Amendment, including, without limitation, the reasonable fees and disbursements of Simpson Thacher & Bartlett, counsel to the Administrative Agent.

8. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

LEAR SEATING CORPORATION

By: _____
Title:

CHEMICAL BANK, as Agent

By: _____
Title:

ACKNOWLEDGEMENT AND CONSENT

Each of the undersigned Issuers referred to in the Pledge Agreement hereby acknowledge receipt of a copy thereof, as amended by this Amendment, and agree to be bound thereby and to comply with the terms thereof insofar as such terms are applicable to it. Each of the undersigned agree to notify the Agent promptly in writing of the occurrence of any of the events described in paragraph 5(a) of the Pledge Agreement. Each of the undersigned further agree that the terms of paragraph 9(c) of the Pledge Agreement shall apply to it, mutatis mutandis, with respect to all actions that may be required of it under or pursuant to or arising out of Section 9 of the Pledge Agreement.

AUTOMOTIVE INDUSTRIES MANUFACTURING
INC.

By: _____
Title:

LEAR OPERATIONS CORPORATION

By: _____
Title:

NAB CORPORATION

By: _____
Title:

SCHEDULE I

DESCRIPTION OF PLEDGED STOCK

| Issuer ----- | Class of Stock ----- | Stock Certificate No. ----- | No. of Shares ----- | Pct. of Shares ----- |
|---|----------------------------|-----------------------------------|---------------------------|----------------------------|
| Progress Pattern Corp. | Common | 2 | 100 | 100% |
| Lear Plastics Corp. | Common | 2 | 100 | 100% |
| LS Acquisition Corporation No. 24 | Common | 1 | 100 | 100% |
| LS Acquisition Corp. No. 14 | Common | 3 | 100 | 100% |
| Lear Seating Holdings Corp. No. 50 | Common | 3 | 100 | 100% |
| Automotive Industries Manufacturing Inc. | Common | 1 | 100 | 100% |
| Lear Operations Corporation | Common | 1 | 100 | 100% |
| NAB Corporation | Common | 1 | 100 | 100% |
| Lear Seating Sweden AB | Common | 10501- 30000 | 19,500 | 65% |

FORM OF FIRST AMENDMENT
TO
LEAR SEATING CANADA LTD.
SHARE PLEDGE AGREEMENT

FIRST AMENDMENT, dated as of _____, 199__ (this "Amendment"), to the Lear Seating Canada Ltd. Share Pledge Agreement, dated as of August 17, 1995 (as amended, supplemented or otherwise modified, the "Share Pledge Agreement"), made by Lear Seating Corporation, a Delaware corporation (the "Pledgor"), in favor of Chemical Bank, as administrative agent (the "Agent").

W I T N E S S E T H :

WHEREAS, Lear Seating Canada Ltd. ("Lear Canada") and 115335 Ontario Inc., a subsidiary of the Pledgor and a corporation governed by the Business Corporations Act (Ontario) ("Holdco"), plan to amalgamate pursuant to an Arrangement Agreement, dated as of December 8, 1995 (the "Arrangement Agreement"), among Lear Canada, Holdco and the Pledgor; and

WHEREAS, the Pledgor has requested, and upon this amendment becoming effective, the Agent has agreed, that certain provisions of the Share Pledge Agreement be modified in the manner provided for in this Amendment;

NOW, THEREFORE, in consideration of the premises and mutual agreements contained herein, and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. Unless otherwise defined herein, terms defined in the Share Pledge Agreement shall have such meanings when used herein.

2. Amendments to Share Pledge Agreement. (a) The term "Issuer" as defined in the Share Pledge Agreement shall mean Lear Seating Canada Ltd., the continuing corporation constituted upon the amalgamation of Lear Canada and Holdco pursuant to the Arrangement Agreement.

(b) Schedule I to the Share Pledge Agreement is hereby amended by deleting it in its entirety and substituting in lieu thereof Schedule I attached hereto.

3. Representations and Warranties. To induce the Agent to enter into this Amendment, the Pledgor hereby represents and warrants that the representations and warranties contained in the Share Pledge Agreement will be, after giving effect to the

modifications provided herein, true and correct in all material respects as if made on and as of the date hereof.

4. No Other Modifications. Except as expressly modified hereby, the Share Pledge Agreement is and shall continue to be in full force and effect in accordance with its terms.

5. Counterparts. This Amendment may be executed by one or more of the parties hereof on any number of separate counterparts and all such counterparts shall be deemed to be one and the same instrument.

6. Effectiveness. This Amendment shall be effective upon the execution and delivery of this Amendment by the Pledgor and the Agent and Lear Seating Canada Ltd.

7. Payment of Expenses. The Pledgor agrees to pay and reimburse the Agent for all its costs and out-of-pocket expenses incurred in connection with the preparation, execution and delivery of this Amendment, including, without limitation, the reasonable fees and disbursements of Simpson Thacher & Bartlett, counsel to the Agent.

8. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

LEAR SEATING CORPORATION

By: _____
Title:

CHEMICAL BANK, as Agent

By: _____
Title:

ACKNOWLEDGEMENT AND CONSENT

The undersigned Issuer referred to in the Share Pledge Agreement hereby acknowledges receipt of a copy thereof, as amended by this Amendment, and agrees to be bound thereby and to comply with the terms thereof insofar as such terms are applicable to it. The undersigned agrees that it shall not, without the prior written consent of the Agent, issue any shares or other equity securities of any nature or to issue any other securities convertible into or granting the right to purchase or exchange for any shares or other equity securities of any nature. The undersigned further agrees that the terms of paragraph 9(b) of the Share Pledge Agreement shall apply to it, mutatis mutandis, with respect to all actions that may be required of it under or pursuant to or arising out of Section 9 of the Share Pledge Agreement.

Dated: _____, 199_

Address for Notices: LEAR SEATING CANADA LTD.

Lear Seating Canada Ltd.
530 Manitou Drive
Kitchener, Ontario
N2C 1L3

By: _____
Name:
Title:

Telephone: (519) 895-1600
Facsimile: (519) 895-1608

SCHEDULE I

LIST OF PLEDGED SHARE CERTIFICATES

| Issuer | Certificate Number | Class and Number of Shares |
|--------------------------|-----------------------|-------------------------------|
| Lear Seating Canada Ltd. | P-__ | 10,747 preference |
| Lear Seating Canada Ltd. | C-__ | 170,682 common |

FORM OF OPINION OF WINSTON & STRAWN

[LETTERHEAD OF WINSTON & STRAWN]

_____, 199_

Chemical Bank, as Agent
270 Park Avenue
New York, New York 10017

And each of the Banks parties to the Credit
Agreement referred to below

We have acted as special counsel to Lear Seating Corporation, a Delaware corporation (the "Borrower"), Lear Operations Corporation, a Delaware corporation ("Newco"), NAB Corporation, a Delaware corporation ("NAB Co.") and Automotive Industries Manufacturing Inc., a Delaware corporation ("New AIHI") in connection with the First Amendment and Consent, dated as of December 8, 1995 (the "First Amendment"), to the Credit Agreement, dated as of August 17, 1995 (as amended, supplemented or otherwise modified, the "Credit Agreement"), among the Borrower, the financial institutions parties thereto (the "Banks"), Chemical Bank, as administrative agent for the Banks (in such capacity, the "Agent"), and the Managing Agents, Co-Agents and Lead Managers (collectively, the "Lead Banks") named therein.

The opinions expressed below are furnished to you pursuant to Section 5(1) of the First Amendment. Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

In arriving at the opinions expressed below,

(a) we have examined and relied on the originals, or copies certified or otherwise identified to our satisfaction, of

- (i) the Borrower's certificate of incorporation and bylaws;
- (ii) the certificates of incorporation and bylaws of each of Newco, NAB Co. and New AIHI;
- (iii) resolutions of the board of directors of the Borrower and each of Newco, NAB Co. and New AIHI with respect to the transactions referred to herein;
- (iv) the Credit Agreement; and

- (v) the First Amendment and the other documents listed on Schedule 1 attached hereto (collectively, the "Transaction Documents").

(b) we have examined such corporate documents and records of the Borrower, Newco, NAB Co. and New AIHI and such other instruments and certificates of public officials, officers and representatives of the Borrower, Newco, NAB Co. and New AIHI and other Persons as we have deemed necessary or appropriate to enable us to render the opinions set forth herein; and

(c) we have made such inquiries of officers and representatives of the Borrower, Newco, NAB Co. and New AIHI as we have deemed relevant or necessary as the basis for the opinions set forth herein.

In rendering the opinions expressed below, we have assumed, with your permission, without independent investigation or inquiry, (a) the authenticity of all documents submitted to us as originals, (b) the genuineness of all signatures on all documents that we examined (other than those of the Borrower, Newco, NAB Co. and New AIHI and the officers of the Borrower, Newco, NAB Co. and New AIHI) and (c) the conformity to authentic originals of documents submitted to us as certified, conformed or photostatic copies. Additionally, we have assumed and relied upon, the following:

(a) the accuracy of all certificates and other statements, representations, documents, records, financial statements and papers reviewed by us, and the accuracy and completeness of all representations, warranties, schedules and exhibits contained in the Transaction Documents, with respect to the factual matters set forth therein;

(b) all parties to the documents reviewed by us (other than the Borrower, Newco, NAB Co. and New AIHI) are duly organized, validly existing and in good standing under the laws of all jurisdictions where they are conducting their businesses or otherwise required to be so qualified, and have full power and authority to execute, deliver and perform under such documents and all such documents have been duly authorized, executed and delivered by such parties;

(c) each of Newco, NAB Co. and New AIHI has rights in each item of Collateral (as such term is defined in the Additional Security Agreement and the Second Additional Security Agreement (as defined in Schedule 1 attached hereto)) existing on the date hereof and will have rights in each item of Collateral arising after the date hereof;

(d) all items of Collateral for which possession must be taken by a secured party in order to perfect its security interest under Section 9-304 of the Uniform Commercial Code of New York (the

"Code") are in the possession or constructive possession of the Agent and not in the possession of Newco or NAB Co., affiliates or agents or any other Person acting on behalf of Newco or NAB Co.;

(e) each Transaction Document constitutes the valid and binding obligation of each party thereto (other than the Borrower, Newco, NAB Co. and New AIHI) enforceable against such party in accordance with its terms; and

(f) the description of the Collateral reasonably describes the property intended to be described as Collateral.

When our opinions expressed below are stated "to our knowledge," we are referring to the actual knowledge of the lawyers in this firm who have given substantive legal attention to the representation of the Borrower, Newco, NAB Co. and New AIHI in connection with the execution and delivery of the Transaction Documents. Except as expressly set forth herein, we have not undertaken any independent investigation, examination or inquiry to determine the existence of any facts (and have not caused the review of any court file or indices) and no inference as to our knowledge concerning any facts should be drawn as a result of the representation undertaken by us.

Based upon the foregoing and subject to the qualifications and matters of reliance set forth herein, we are of the opinion that:

1. Each of the Borrower, Newco, NAB Co. and New AIHI (a) is duly organized, validly existing and in good standing under the laws of the State of Delaware, (b) has the corporate power and authority to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged and (c) is duly qualified as a foreign corporation and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification, except where the failure to be so qualified and in good standing would not have a material adverse effect on the business, operations, property or financial condition of the Borrower and its Subsidiaries taken as a whole and would not adversely affect the ability of any of the Borrower, Newco, NAB Co. and New AIHI to perform its respective obligations under the Transaction Documents to which it is a party.

2. Each of the Borrower, Newco, NAB Co. and New AIHI has the corporate power and authority to execute, deliver and perform its obligations under the Transaction Documents to which it is a party. Each of the Borrower, Newco, NAB Co. and New AIHI has taken all necessary corporate action to authorize the execution, delivery and performance of the Transaction Documents to which it is a party. No consent or authorization of, filing with or other act by or in respect of, any federal, State of Illinois or State

of New York governmental or public body or authority or under the General Corporation Law of the State of Delaware is required by the Borrower, Newco, NAB Co. and New AIHI in connection with the execution, delivery and performance of the First Amendment and the other Transaction Documents, or the consummation of any of the transactions contemplated by the Transaction Documents, except for consents, authorizations, or filings which have been obtained and are in full force and effect. We express no opinion, however, as to any such consent, authorization or filing which may be required as a result of the involvement of the Agent, the Lead Banks, the Banks or any of their respective affiliates in the transactions contemplated by the Transaction Documents or because of their legal or regulatory status.

3. Each of the Transaction Documents to which any of the Borrower, Newco, NAB Co. and New AIHI is a party has been duly executed and delivered on behalf of such party and each of the Transaction Documents to which any of the Borrower, Newco, NAB Co. and New AIHI is a party constitutes a valid and binding obligation of such party, enforceable against such party in accordance with its terms.

4. The execution, delivery and performance by each of the Borrower, Newco, NAB Co. and New AIHI of the Transaction Documents to which it is a party (a) will not violate any Requirement of Law of the United States of America, the State of Illinois, the State of New York or the General Corporation Law of the State of Delaware applicable to such party (except we express no opinion as to any law (i) which might be violated by any misrepresentation or omission or a fraudulent act or (ii) to which such party may be subject as a result of your, the Lead Banks' or the Banks' legal or regulatory status, your syndication of the Loans or your involvement in the transactions contemplated by the Transaction Documents), (b) will not violate any Contractual Obligation of the Borrower, Newco, NAB Co. and New AIHI which has been identified to us pursuant to an Officer's Certificate of the Borrower and listed on such Certificate as being material (except we express no opinion as to (i) violations under Contractual Obligations listed on such Certificate where such violations would not have a material adverse effect on the Borrower's consolidated financial condition or business, (ii) violations resulting from cross-default provisions relating to defaults under an agreement not listed on such Certificate or (iii) violations of financial covenants), and (c) will not result in, or require, the creation or imposition of any Lien (other than the Liens created by the Transaction Documents) on any of its or their respective properties or revenues pursuant to any Requirement of Law of the United States of America, the State of Illinois, the State of New York or the General Corporation Law of the State of Delaware applicable to such party or Contractual Obligations listed on such Certificate.

5. To our knowledge, no litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or threatened by or against the Borrower, Newco, NAB Co. and New AIHI or against any of its or their respective properties or revenues (a) with respect to any Transaction Document or any of the transactions contemplated thereby, (b) which, if adversely determined, would have a material adverse effect on the business, operations, property or financial or other condition of the Borrower and its Subsidiaries taken as a whole or (c) which could adversely affect the ability of any of the Borrower, Newco, NAB Co. and New AIHI to perform its obligations under any of the Transaction Documents to which it is a party.

6. Based on our understanding that the Agent has taken and is retaining possession of the stock certificates (the "Pledged Stock") evidencing the shares of stock described in the Domestic Pledge Agreement (as amended by the First Amendment thereto) and the Lear Seating Canada Ltd. Share Pledge Agreement (as amended by the First Amendment thereto), and the Agent has taken such Pledged Stock in good faith without notice (actual or constructive) of any adverse claim within the meaning of the Code, there has been created thereunder, and there has been granted to the Agent, for the benefit of the Banks, a valid and perfected security interest and lien upon the Pledged Stock. Assuming the Agent acquires its interest in the Pledged Stock in good faith and without notice (actual or constructive) of any adverse claims and the Pledged Stock is either in bearer form or in registered form, duly issued or indorsed in the name of the Agent or in blank, the Agent will acquire its security interest in the Pledged Stock free of adverse claims.

7. The shares of Pledged Stock of Newco, NAB Co. and New AIHI have been duly authorized and validly issued by such corporations and are fully paid and nonassessable.

8. The provisions of the Additional Security Agreement and the Second Additional Security Agreement (as defined in Schedule 1 attached hereto) create in favor of the Agent, for the benefit of the Banks, a security interest in the Collateral (as such term is defined therein) in which a security interest may be created under the Code. We express no opinion regarding the perfection or priority of such security interests.

The opinions as expressed herein are subject to the following qualifications:

(a) our opinions set forth in paragraphs 3, 6 and 7 hereof are subject to the effect of bankruptcy, fraudulent conveyance or transfer, insolvency, reorganization, arrangement and moratorium laws and limitations imposed by other laws and judicial decisions relating to or affecting the rights of creditors or secured creditors generally, and general principles of equity (regardless of whether enforcement is considered in proceedings at law or in

equity), including, without limitation, where (i) the breach of such covenants or provisions imposes restrictions or burdens upon a debtor and it cannot be demonstrated that the enforcement of such remedies, restrictions or burdens is reasonably necessary for the protection of a creditor; (ii) a creditor's enforcement of such remedies, covenants or provisions under the circumstances, or the manner of such enforcement, would violate such creditor's implied covenant of good faith and fair dealing, or would be commercially unreasonable; or (iii) a court having jurisdiction finds that such remedies, covenants or provisions were, at the time made, or are in application, unconscionable as a matter of law or contrary to public policy;

(b) as to our opinions set forth in paragraph 3 hereof, we express no opinion as to the enforceability of cumulative remedies to the extent such cumulative remedies purport to or would have the effect of compensating the party entitled to the benefits thereof in amounts in excess of the actual loss suffered by such party;

(c) we express no opinion as to any Collateral (as such term is defined in the Security Documents) as to which the creation of security interests therein are not governed by Article 9 of the Code or any Collateral consisting of goods that are or may become fixtures on any premises, nor do we express any opinion with respect to the creation of security interests in property in which it is illegal or violative of governmental rules or regulations to grant a security interest, or "general intangibles" (as defined in the Code) which terminate or become terminable (pursuant to the terms of an agreement) if a security interest is granted therein, or any security interest in any "accounts," "chattel paper," "documents," "instruments" or "general intangibles" (as defined in the Code) with respect to which the account debtor or obligor is the United States of America, any state, county, city, municipality or other governmental body, or any department, agency or instrumentality thereof, unless the same has been assigned to the Agent pursuant to and in accordance with the Assignment of Claims Act of 1940, as amended, or any similar law or regulation relating to the assignment or pledge thereof;

(d) any purported assignment of any agreement or any governmental approval, license or permit may be subject to restrictions upon assignment or transfer which, although not necessarily applicable to assignments intended as security, may be required to be satisfied before you will be treated as an assignee (other than a collateral assignee) thereof, except to the extent that consents to or approvals of such assignment have been obtained from the appropriate governmental body or third party;

(e) the rights of debtors, guarantors and other secured parties to receive notices under Sections 9-504 and 9-505 of the Code may not be waived prior to default and the failure to comply with such notice requirements may bar or limit the recovery of any

deficiency remaining after the retention or sale of repossessed collateral and further, we express no opinion as to the right of the Agent to enforce any of its rights without notice to the Borrower and without judicial hearing or without bond, nor do we express any opinion as to whether the periods of notice set forth in the Transaction Documents are enforceable;

(f) certain provisions of the Transaction Documents regarding the application of proceeds realized from the sale of Collateral (as such term is defined therein) do not make reference (although they do not have to in order to enable you to exercise the rights and remedies of a secured party under the Code) to your obligations to satisfy indebtedness due to the holders of subordinate security interests in such Collateral under certain conditions under Section 9-504 (1) (c) of the Code or to account to the Borrower for any surplus proceeds;

(g) notwithstanding certain language of the Transaction Documents, the Agent and the Banks may be limited to recovering only reasonable expenses with respect to the retaking, holding, preparing for sale or lease, selling, leasing and the like of collateral and reasonable attorneys' fees and legal expenses and only reasonable compensation for funding losses, increased costs or yield protection;

(h) the duties to exercise reasonable care in the custody and preservation of Collateral (as such term is defined in the Additional Security Agreement and the Second Additional Security Agreement) in a secured party's possession, to deal with and to dispose of Collateral (as such term is defined in the Additional Security Agreement and the Second Additional Security Agreement) in a commercially reasonable manner as required by the Code or other applicable law may not be disclaimed by agreement, waived or released prior to a default;

(i) any rights of the Agent to foreclose its lien or enforce its remedies against the personal property described in the Additional Security Agreement and the Second Additional Security Agreement must be enforced pursuant to the provisions of the Code;

(j) we express no opinion as to the enforceability of the indemnification provisions of the Transaction Documents to the extent the same purport to cover violations of the federal securities laws;

(k) requirements in the Transaction Documents specifying that provisions thereof may only be waived in writing may not be valid, binding or enforceable to the extent that an oral agreement or an implied agreement by trade practice or course of conduct has been created modifying any provision of such documents;

(l) we express no opinion with respect to the validity, binding effect or enforceability of any provision which purports

to authorize the Agent to sign or file financing statements or other documents without the signature of the Borrower, Newco, NAB Co. and New AIHI (except to the extent a secured party may execute and file financing statements without the signature of the debtor under Section 9-402(2) of the Code);

(m) the opinions contained herein are subject to limitations based upon statutes or upon public policy regarding a person's right to waive the benefit of statutory provisions or of a common law right;

(n) we express no opinion as to the Agent's ability to use "self-help" remedies to repossess the Collateral (as such term is defined in the Additional Security Agreement and the Second Additional Security Agreement) if a breach of the peace were to occur;

(o) provisions in the Transaction Documents deemed to impose the payment of interest on interest may be unenforceable, void or voidable under applicable law;

(p) we express no opinion with respect to the validity, binding effect or enforceability of any provision of the Transaction Documents purporting to establish evidentiary standards or a consent to jurisdiction and venue or waiving service of process or demand or notice and hearing or constitutional rights (including jury trial) or purporting to eliminate any obligation to marshal assets;

(q) we express no opinion with respect to any provisions of the Transaction Documents purporting to appoint the Agent as attorney-in-fact or agent for the Borrower, Newco, NAB Co. and New AIHI; and

(r) certain other rights, remedies and waivers contained in the Transaction Documents may be rendered ineffective, or limited by, applicable laws, rules, regulations, constitutional requirements or judicial decisions governing such provisions, but such laws, rules, regulations, constitutional requirements and judicial decisions do not, in our opinion, make the Transaction Documents inadequate for the practical realization of the benefits and/or security provided by such Transaction Documents, although they may result in a delay thereof (and we express no opinion with respect to the economic consequences of any such delay).

We are members of the bar of the States of Illinois and New York and we express no opinion as to the laws of any jurisdiction other than the laws of the States of Illinois and New York, the General Corporation Law of the State of Delaware and the Federal laws of the United States of America to the extent specifically referred to herein.

This opinion is solely for the benefit of the addressees hereof in connection with the execution and delivery of the First Amendment and, other than permitted successors and assigns, may not be relied upon in any manner by any other person without our prior written consent. In addition, this opinion is as of the date hereof and we undertake no, and disclaim any, obligation to advise you of any changes in any matter set forth herein.

Very truly yours,

TRANSACTION DOCUMENTS

1. Additional Subsidiary Guarantee, dated as of _____, 199_, made by Newco and NAB Co. in favor of the Agent.
2. Domestic Pledge Agreement, dated as of August 17, 1995, made by the Borrower in favor of the Agent, as amended by the First Amendment thereto, dated as of _____, 199_.
3. Lear Seating Canada Ltd. Share Pledge Agreement, dated as of August 17, 1995, made by the Borrower in favor of the Agent, as amended by the First Amendment thereto, dated as of _____, 199_.
4. Additional Security Agreement, dated as of _____, 199_, made by Newco and NAB Co. in favor of the Agent (the "Additional Security Agreement").
5. Second Additional Security Agreement, dated as of _____, 199_, made by New AIHI in favor of the Agent (the "Second Additional Security Agreement").

OPTION ASSUMPTION AGREEMENT

THIS OPTION ASSUMPTION AGREEMENT (this "Agreement") is made as of August 21, 1995 by and between Lear Seating Corporation ("Lear") and the optionee (the "Optionee") whose name is set forth on the signature page hereto.

WHEREAS, Lear, Automotive Industries Holding, Inc. ("AIH") and AIHI Acquisition Corp. ("Acquisition Corp.") have entered into that certain Agreement and Plan of Merger (the "Merger Agreement") dated as of July 16, 1995, whereby, among other things, Lear and Acquisition Corp. have offered to purchase all of the outstanding shares of AIH's Class A Common Stock (the "AIH Shares") at a price of \$33.50 per share. Capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Merger Agreement, and

WHEREAS, in connection with the transactions contemplated under the Merger Agreement, Lear has agreed to assume AIH's obligations under the AIH 1992 Key Employee Stock Option Plan (the "Stock Option Plan") upon consummation of the merger of Acquisition Corp. into AIH in accordance with the terms of the Merger Agreement (the "Merger"); and

WHEREAS, in connection with Lear's assumption of AIH's obligations under the Stock Option Plan, Lear has agreed, if the Optionee so desires, to assume upon consummation of the Merger AIH's obligations under each stock option agreement entered into between AIH and the Optionee under the Stock Option Plan, it being understood that AIH's grant to the Optionee of the right to purchase AIH Shares has been evidenced by one or more of the following agreements: (i) the stock option agreement dated July 25, 1992 between AIH and the Optionee (the "1992 Option Agreement"); (ii) the stock option agreement dated August 6, 1993 between AIH and the Optionee (the "1993 Option Agreement"); and (iii) the stock option agreement dated August 8, 1994 between AIH and the Optionee (the "1994 Option Agreement, and together with the 1992 Option Agreement, the 1993 Option Agreement, and any replacement stock option agreements, the "Option Agreements"); and

WHEREAS, the Optionee desires to convert: (i) the Optionee's right to purchase the number of AIH Shares set forth on the signature page hereto under the caption "Number of AIH Option Shares to be converted into Lear Options" opposite the number of shares granted pursuant to the 1992 Stock Option Agreement (the "1992 AIH Option Shares") into the right to purchase (the "1992 Lear Option") shares of Lear's Common Stock, \$.01 par value per share ("Lear Shares") as set forth in this agreement; (ii) the Optionee's right to purchase the number of AIH Shares set forth on the signature page hereto under the caption "Number of AIH Option Shares to be Converted into Lear Options" opposite the number of shares granted pursuant to the 1993 Stock Option Agreement (the "1993 AIH Option Shares") into the right to purchase (the "1993 Lear Option") Lear Shares as set forth in this Agreement; and (iii) the Optionee's right to purchase the number of AIH Shares set forth on the signature page hereto under the caption "Number of AIH Option Shares to be Converted into Lear Options" opposite the number of shares granted pursuant to the 1994 Stock Option Agreement (the "1994 Option Shares") into the right to

purchase (the "1994 Lear Option") Lear Shares, as set forth in this Agreement (the 1994 Lear Option, together with the 1992 Lear Option and the 1993 Lear Option, shall hereinafter be referred to collectively as the "Lear Options").

NOW THEREFORE, the parties agree as follows:

1. Consummation of Merger. The obligations of Lear under this Agreement are conditioned upon the consummation of the Merger. Upon the consummation of the Merger, this Agreement shall entitle the Optionee to purchase Lear Shares, subject to the terms and conditions of this Agreement, the Stock Option Plan and the Stock Option Agreements. In the event that the Merger is not consummated, neither Lear nor the Optionee shall have any rights, obligations or remedies under this Agreement.

2. Conversion. Upon consummation of the Merger, the right of the Optionee to purchase those AIH Option Shares set forth on the signature page hereto under the caption "Number of AIH Option Shares to be converted into Lear Options" shall be converted into the right to purchase that number of Lear Shares determined in accordance with Section 4 below at a price per Lear Share determined in accordance with Section 3 below. Upon the effectiveness of this Agreement, the Optionee shall have no right to receive those AIH Option Shares set forth on the signature page hereto under the caption "Number of AIH Option Shares to be converted into Lear Options" under any Option Agreement, and shall, with respect to those AIH Option Shares set forth on the signature page hereto under the caption "Number of AIH Option Shares to be converted into Lear Options", have the right to receive only those number of Lear Shares determined in accordance with Section 4 below at a price per Lear Share determined in accordance with Section 3 below.

3. Exercise Price of Lear Shares under the Lear Options. The exercise price of the Lear Shares shall be determined under this Section 3 as follows:

(a) 1992 Exercise Price. The exercise price per share of Lear Shares issuable under the 1992 Lear Option shall be the product of (i) the average closing price of Lear Shares as reported on the New York Stock Exchange for the period of the twenty (20) consecutive business days ending on the date of the consummation of the Merger (the "Lear Market Price") multiplied by (ii) the quotient of (x) \$16.875 divided by (y) \$33.50.

(b) 1993 Exercise Price. The exercise price per share of Lear Shares issuable under the 1993 Lear Option shall be the product of (i) the Lear Market Price multiplied by (ii) the quotient of (x) \$24.50 divided by (y) \$33.50.

(c) 1994 Exercise Price. The exercise price per share of Lear Shares issuable under the 1994 Lear Option shall be the product of (i) the Lear Market Price multiplied by (ii) the quotient of (x) \$27.75 divided by (y) \$33.50.

Notwithstanding the foregoing, the exercise price per Lear Share determined in accordance with this Section 3 shall be rounded to the nearest whole cent.

4. Number of Lear Shares Issuable. The number of Lear Shares issuable shall be determined under this Section 4 as follows:

(a) 1992 Lear Option. With respect to the 1992 Lear Option, the Optionee shall have the right to receive that number of Lear Shares equal to the quotient of (i) the product of (x) the number of 1992 AIH Option Shares multiplied by (y) 16.625, divided by (ii) the difference of (1) the Lear Market Price minus (2) the 1992 Exercise Price.

(b) 1993 Lear Option. With respect to the 1993 Lear Option, the Optionee shall have the right to receive that number of Lear Shares equal to the quotient of (i) the product of (x) the number of 1993 AIH Option Shares multiplied by (y) 9.00, divided by (ii) the difference of (1) the Lear Market Price minus (2) the 1993 Exercise Price.

(c) 1994 Lear Option. With respect to the 1994 Lear Option, the Optionee shall have the right to receive that number of Lear Shares equal to the quotient of (i) the product of (x) the number of 1994 AIH Option Shares multiplied by (y) 5.75, divided by (ii) the difference of (y) the Lear Market Price minus (2) the 1994 Exercise Price.

Notwithstanding the foregoing, the number of Lear Shares to be received by the Optionee in accordance with this Section 4 shall be rounded to the nearest whole Lear Share.

5. Vesting. Notwithstanding anything else to the contrary contained in the Stock Option Plan or any Option Agreement, the Lear Options received by the Optionee pursuant to this Agreement shall be automatically vested, and the Optionee may exercise the option to purchase Lear Shares hereunder at any time.

6. Ratification. This Agreement is limited as specified herein. Except as expressly set forth in this Agreement, the Stock Option Plan and each Option Agreement are hereby ratified and confirmed in all respects.

7. General provisions.

(a) Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or enforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

(b) Complete Agreement. This Agreement, those documents expressly referred to herein and other documents of even date herewith embody the complete agreement and understanding among the parties and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way.

(c) Counterparts. This Agreement may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

(d) Successors and Assigns. Except as otherwise provided herein, this Agreement shall bind and inure to the benefit of and be enforceable by the Optionee, Lear and their respective successors and assigns; provided that the rights and obligations of the Optionee and Lear under this Agreement shall not be assignable without the prior written consent of the other party.

(e) Amendment and Waiver. The provisions of this Agreement may be amended and waived only with the prior written consent of Lear and the Optionee.

(f) Headings. Section and subsection headings are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purposes or be given substantive effect.

IN WITNESS WHEREOF, the parties hereto have executed this Option Assumption Agreement on the date first written above.

LEAR SEATING CORPORATION

By /s/ Joseph McCarthy

Its Vice President - Secretary

OPTIONEE:

/s/ F. F. Sommer

F. F. Sommer

| | Number of AIH Option Shares granted | Number of AIH Option Shares to be converted into Lear Options |
|------------------------|--|---|
| | ----- | ----- |
| 1992 AIH Option Shares | 15,000 | -- |
| 1993 AIH Option Shares | 25,000 | -- |
| 1994 AIH Option Shares | 12,500 | 12,500 |

COMPUTATION OF NET INCOME (LOSS) PER SHARE
(In millions, except share information)

| | For the Year Ended December 31, 1995 | | For the Year Ended December 31, 1994 | |
|--|---|---------------|---|---------------|
| | Primary | Fully Diluted | Primary | Fully Diluted |
| Income (loss) before extraordinary items | \$ 94.20 | \$ 94.20 | \$ 59.80 | \$ 59.80 |
| Extraordinary items | \$ (2.60) | \$ (2.60) | \$ - | \$ - |
| Net income (loss) | \$ 91.60 | \$ 91.60 | \$ 59.80 | \$ 59.80 |
| Weighted Average Shares: | | | | |
| Common shares outstanding | 48,944,181 | 48,944,181 | 42,602,167 | 42,602,167 |
| Exercise of stock options (1) | 3,544,757 | 3,698,491 | 3,321,954 | 3,443,913 |
| Exercise of warrants (2) | - | - | 1,514,356 | 1,514,356 |
| Common and equivalent shares outstanding | 52,488,938 | 52,642,672 | 47,438,477 | 47,560,436 |
| Per Common and Equivalent Share: | | | | |
| Income (loss) before extraordinary items | \$ 1.79 | \$ 1.79 | \$ 1.26 | \$ 1.26 |
| Extraordinary items | (0.05) | (0.05) | - | - |
| Net income (loss) per share | \$ 1.74 | \$ 1.74 | \$ 1.26 | \$ 1.26 |

| | For the Year Ended December 31, 1993 | | For the Six Months Ended December 31, 1993 | |
|--|---|-------------------|---|------------------|
| | Primary | Fully Diluted (3) | Primary | Fully Diluted(3) |
| Income (loss) before extraordinary items | \$ (2.10) | \$ (2.10) | \$ (23.00) | \$ (23.00) |
| Extraordinary items | \$ (11.70) | \$ (11.70) | (11.70) | (11.70) |
| Net income (loss) | \$ (13.80) | \$ (13.80) | \$ (34.70) | \$ (34.70) |
| Weighted Average Shares: | | | | |
| Common shares outstanding | 35,500,014 | 35,500,014 | 35,500,014 | 35,500,014 |
| Exercise of stock options (1) | - | 2,801,372 | - | 2,801,372 |
| Exercise of warrants (2) | - | 3,300,000 | - | 3,300,000 |
| Common and equivalent shares outstanding | 35,500,014 | 41,601,386 | 35,500,014 | 41,601.386 |
| Per Common and Equivalent Share: | | | | |
| Income (loss) before extraordinary items | \$ (0.06) | \$ (0.05) | \$ (0.65) | \$ (0.55) |
| Extraordinary items | (0.33) | (0.28) | (0.33) | (0.28) |
| Net income (loss) per share | \$ (0.39) | \$ (0.33) | \$ (0.98) | \$ (0.83) |

| | For the Year Ended June 30, 1993 | | For the Year Ended June 30, 1992 | | For the Year Ended June 30, 1991 | |
|--|-------------------------------------|---------------|-------------------------------------|------------------|-------------------------------------|-------------------|
| | Primary | Fully Diluted | Primary | Fully Diluted(3) | Primary | Fully Diluted (3) |
| Income (loss) before extraordinary items | \$ 10.10 | \$ 10.10 | \$ (17.10) | \$ (17.10) | \$ (33.20) | \$ (33.20) |
| Extraordinary items | - | - | (5.10) | (5.10) | - | - |
| Net income (loss) | \$ 10.10 | \$ 10.10 | \$ (22.20) | \$ (22.20) | \$ (32.20) | \$ (33.20) |
| Weighted Average Shares: | | | | | | |
| Common shares outstanding | 35,166,747 | 35,166,747 | 27,768,312 | 27,768,312 | 16,493,499 | 16,493,499 |
| Exercise of stock options (1) | 1,582,317 | 1,582,317 | - | 1,582,317 | - | 1,339,404 |
| Exercise of warrants (2) | 3,300,000 | 3,300,000 | - | 3,300,000 | - | 3,300,000 |
| Common and equivalent shares outstanding | 40,049,064 | 40,049,064 | 27,768,312 | 32,650,629 | 16,493,499 | 21,132,903 |

Per Common and Equivalent Share:

| | | | | | | |
|---|---------|---------|-----------|-----------|-----------|-----------|
| Income (loss) before extraordinary items | \$ 0.25 | \$ 0.25 | \$ (0.62) | \$ (0.52) | \$ (2.01) | \$ (1.57) |
| Extraordinary items | - | - | (0.18) | (0.16) | - | - |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Net income (loss) per share | \$ 0.25 | \$ 0.25 | \$ (0.80) | \$ (0.68) | \$ (2.01) | \$ (1.57) |
| | ===== | ===== | ===== | ===== | ===== | ===== |

- (1) Amount represents the number of shares issued assuming exercise of stock options, reduced by the number of shares which could have been purchased with the proceeds from the exercise of such options.
- (2) Amount represents the number of common shares issued assuming exercise of warrants outstanding.
- (3) This calculation is submitted in accordance with Regulation S-K item 601(b)(11) although not required by footnote 2 to paragraph 14 of the APB Opinion No. 15 because of the antidilutive effect on net loss per share.

SUBSIDIARIES OF THE COMPANY

| | |
|---|--|
| AII, Inc (Delaware) | Lear Seating Austria Autositze GmbH & Co. KG (Austria) |
| AII Automotive Industries Canada Inc. (Canada) | Lear Seating Canada Ltd. (Canada) |
| American Woodstock Company (Wisconsin) | Lear Seating Inespo do Brasil Ltda (50%) (Brazil) |
| Anlagen und Vorrichtungsbau GmbH (55%) (Germany) | Lear Seating GmbH (Germany) |
| ASAA International Inc. (Delaware) | Lear Seating GmbH & Co. KG (Germany) |
| ASAA Technologies, Inc. (Wisconsin) | Lear Seating Holdings Corp. No. 50 (Delaware) |
| ASAA Inc. (Wisconsin) | Lear Seating Italia Holdings S.r.L. (Italy) |
| Automotive Industries Export Ltd (Barbados) | Lear Seating Italia S.p.A. (Italy) |
| Automotive Industries (Holdings) Ltd. (U.K.) | Lear Seating Italia Sud S.p.A. (Italy) |
| Automotive Industries (U.K.) Ltd. | Lear Seating Poland Sp. zo.o. (Poland) |
| Automotive Industries Manufacturing, Inc. (Delaware) | Lear Seating (S.A.)(Pty.) Ltd. (South Africa) |
| Automotive Industries Sales, Inc. (Michigan) | Lear Seating Sweden, AB (Sweden) |
| Autotrim, S.A. de C.V. (Mexico) | LS Acquisition Corporation No. 14 (Delaware) |
| Central Industrias S.A. de C.V. (99.6%) (Mexico) | LS Acquisition Corporation No. 24 (Delaware) |
| Capitol Plastics of Ohio, Inc. (Ohio) | LS Servicos Ltda (Brazil) |
| Davert Group Ltd. (U.K.) | Manfred Rothe Verwaltungs GmbH (Germany) |
| Equipos Automotrices Totales S.A. de C.V. (Mexico) | Markol A.S. (35%) (Turkey) |
| Fair Haven Industries, Inc. (Michigan) | NAB Corporation (Delaware) (2) |
| Favesa S.A. de C.V. (Mexico) | No Sag Drahtfedern GmbH (Germany) |
| Fibercraft/DESCON Engineering, Inc. (Michigan) | No Sag Drahtfedern Spitzer & Co. KG (86%) (Austria) |
| General Panel B.V. (Delaware) | NS Beteiligungs GmbH (Germany) |
| General Seating of Canada Ltd. (35%) (Canada) | Pacific Trim Corporation Ltd. (20%) (Thailand) |
| General Seating of America, Inc. (35%) (Delaware) | Plastifol Beteiligungs GmbH (Germany) |
| Guildford Kast Plastifol Ltd. (33%) (U.K.) | Plastifol GmbH & Co. KG (Germany) |
| Industrias Cousin Freres, S.L. (49.9%) (Spain) | Plastifol Holding GmbH (Germany) |
| Interiores Automotrices Summa S.A. de C.V. (40%) (Mexico) | |
| Interiores Para Autos, S.A. de C. V. (Mexico) | Plastifol Manfred Rothe Iberia S.A. (71.4%) (Spain) |
| Intertrim S.A. de C.V. (99.5%) (Mexico) | Plastifol Verwaltungs GmbH (Germany) |
| John Cotton (Plastics) Ltd. (U.K.) | Probel S.A. (30.86%) (Brazil) |
| Lear France S.A.R.L (France) | Progress Pattern Corporation (Delaware) |
| Lear Inespo Comercial Industrial Ltda. (Brazil) | Quadrestra Vermögensverwaltungs GmbH (Germany) |
| Lear Operations Corporation (Delaware) (1) | RAEL Handels GmbH (Austria) |
| Lear Plastics Corporation (Delaware) | RDM Finance (Cayman Islands) |
| Lear Seating Corporation (Delaware) | Simplay Ltd. (U.K.) |
| Lear Seating (Thailand) Corp., Ltd. (49%) (Thailand) | Snider Mold Company, Inc.(60%) (Wisconsin) |
| Lear Seating (U.K.) Ltd. (United Kingdom) | Societe No Sag Francaise (56%) (France) |
| Lear Seating Australia Pty., Ltd. (Australia) | Spitzer GmbH (62.5%) (Austria) |
| Lear Seating Austria Autositze GmbH (Austria) | Teknoseating S.A. (50%) (Argentina) |

All Subsidiaries are wholly-owned unless otherwise indicated.

- (1) Lear Operations Corporations also conducts business under the names Lear Corporation, Lear Corporation of Georgia, Lear Corporation of Kentucky and Lear Corporation of Ohio.
- (2) NAB Corporation also conducts business under the name Lear Corporation.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into Lear Seating Corporation's previously filed Registration Statements on Form S-8 File Nos. 33-55783, 33-57237, 33-59943, 33-61739, 33-62209, 333-01353, and Form S-3 File Nos. 33-51317, 33-47867, and 33-61583.

ARTHUR ANDERSEN LLP

Detroit, Michigan
March 22, 1996.

| YEAR | DEC-31-1995 | JAN-01-1995 | DEC-31-1995 |
|-------|-------------|-------------|-------------|
| | | | 34 |
| | | 0 | |
| | | 832 | |
| | | 4 | |
| | | 196 | |
| | 1,207 | | 860 |
| | | 217 | |
| | 3,061 | | |
| 1,276 | | | 1,038 |
| | | 0 | 1 |
| | 0 | | |
| | | 0 | |
| | | 579 | |
| 3,061 | | | 4,714 |
| | | | 4,714 |
| | 4,714 | | 4,311 |
| | | 4,311 | |
| | | 170 | |
| | | 1 | |
| | 76 | | |
| | | 157 | |
| | | 63 | |
| 94 | | | |
| | | 0 | |
| | | 2 | |
| | | | 0 |
| | | 92 | |
| | | 1.74 | |
| | | 1.74 | |