BOTTOMLINE TECHNOLOGIES INC /DE/
Form 424B5
July 15, 2011
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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered (1)	Maximum Offering Price Per Unit (2)	Maximum Aggregate Offering Price (2)	Amount of Registration Fee (3)
Common Stock, $.001 par value per share	1,000,000	$25.68	$25,680,000	$2,981.45

(1) Pursuant to Rule 416 under the Securities Act of 1933, as amended (the Securities Act), the number of shares of common stock registered hereby includes any additional shares of common stock that may become issuable in connection with stock splits, stock dividends or similar events.

(2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c) under the Securities Act, based upon the average of the high and low prices of the registrant s common stock on July 11, 2011 as reported on the Nasdaq Global Select Market.

(3) Calculated in accordance with Rule 457(r) under the Securities Act. Pursuant to Rule 457(p) under the Securities Act, the $2,421.85 remaining of the filing fee previously paid with respect to $33,967,000 in aggregate offering price of unsold securities registered pursuant to a Registration Statement on Form S-3 (No. 333-164538) filed by Bottomline Technologies (de), Inc. on January 27, 2010 is being carried forward, of which the entire amount is offset against the registration fee due for this offering. An additional registration fee of $559.60 has been paid with respect to this offering. This Calculation of Registration Fee table shall be deemed to update the Calculation of Registration Fee table in the registrant s registration statement on Form S-3ASR (SEC File No. 333-175582).

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Filed Pursuant to Rule 424(b)(5)

Registration No. 333-175582

PROSPECTUS SUPPLEMENT

(To Prospectus dated July 15, 2011)

1,000,000 Shares

Common Stock

This prospectus supplement and the accompanying prospectus relates to 1,000,000 shares of our common stock that may be offered for sale by the person named in this prospectus supplement under the caption Selling Stockholder . The shares of common stock offered by this prospectus supplement and the accompanying prospectus may be acquired by the selling stockholder upon the exercise of a warrant we issued to the selling stockholder in connection with our acquisition of a business from the selling stockholder.

We will receive proceeds if the selling stockholder exercises the warrant. However, we will not receive any of the proceeds from the subsequent offer and sale of such shares of common stock. The selling stockholder will pay or assume brokerage commissions and similar charges incurred for the sale of these shares of our common stock.

The shares of common stock may be offered for sale from time to time by the selling stockholder (including its pledgees, assignees and successors) acting as principal for its own account, in brokerage transactions at prevailing market prices, in transactions at negotiated prices or through any other means described in this prospectus supplement under the caption Plan of Distribution . It is not possible at the present time to determine the price to the public in any sale of the shares of common stock by the selling stockholder. Accordingly, the public offering price and the amount of any applicable discounts, concessions or commissions will be determined at the time of such sale by the selling stockholder.

Our registration of such shares of our common stock does not necessarily mean that the selling stockholder will exercise the warrant or sell any of our common stock that we have registered.

Our common stock trades on the NASDAQ Global Select Market under the symbol EPAY. On July 14, 2011, the closing sale price of our common stock on the NASDAQ Global Select Market was $24.57.

Investing in our common stock involves a high degree of risk. See Risk Factors on page S-4 of this prospectus supplement for a discussion of the factors you should carefully consider before deciding to purchase our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is July 15, 2011.

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ABOUT THIS PROSPECTUS SUPPLEMENT

We are providing information to you about this offering of our common stock in two separate documents: (1) this prospectus supplement, which describes the specific details regarding this offering; and (2) the accompanying prospectus, which provides general information, some of which may not apply to this offering. Generally, when we refer to this prospectus, we are referring to both documents combined. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus or in any related free writing prospectus filed by us with the Securities and Exchange Commission, which we refer to as the SEC. We have not authorized anyone to provide you with different information. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in the prospectus supplement or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference and any related free writing prospectus is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed materially since those dates.

We further note that the representations, warranties and covenants made by us in any agreement that is filed as an exhibit to any document that is incorporated by reference in this prospectus supplement and the accompanying prospectus were made solely for the benefit of the parties to such agreement, including, in some cases, for the purpose of allocating risk among the parties to such agreements, and should not be deemed to be a representation, warranty or covenant to you. Moreover, such representations, warranties or covenants were accurate only as of the date when made. Accordingly, such representations, warranties and covenants should not be relied on as accurately representing the current state of our affairs.

Unless the context otherwise indicates, references in this prospectus to we, our , Bottomline and us refer, collectively, to Bottomline Technologies (de), Inc., a Delaware corporation, and its consolidated subsidiaries.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights only some of the information included or incorporated by reference in this prospectus supplement and the accompanying prospectus. You should read the entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference carefully, including the section entitled Risk Factors on page S-4 of this prospectus supplement, regarding our company and the common stock being sold in this offering.

Our Company

We provide electronic payment, invoice and document management solutions to corporations, financial institutions and banks around the world. Our solutions are used to streamline, automate and manage processes and transactions involving global payments, invoice receipt and approval, collections, cash management, risk mitigation, document management, reporting and document archive. We offer software designed to run on-site at the customer s location as well as hosted or Software as a Service (SaaS) solutions. Historically, our software has been sold predominantly on a perpetual license basis. Today, however, a growing portion of our offerings are being sold as SaaS and paid for on a subscription and transaction basis.

Our corporate customers rely on our solutions to automate their payment and accounts payable processes and to streamline and manage the production and retention of electronic documents. We offer Legal eXchange®, a SaaS offering that receives, manages and controls legal invoices and the related spend management for insurance companies and other large consumers of outside legal services. We also offer Paymode-X , a SaaS offering that facilitates the exchange of electronic payments and invoices between organizations and suppliers. Our offerings also include software solutions that banks use to provide web-based payment and reporting capabilities to their corporate customers.

Our solutions complement and leverage our customers existing information systems, accounting applications and banking relationships. As a result, our solutions can be deployed quickly and efficiently. To help our customers receive the maximum value from our products and meet their own particular needs, we also provide professional services for installation, training, consulting and product enhancement.

During the nine months ended March 31, 2011, we acquired SMA Financial Ltd. (SMA), Direct Debit Limited (DDL) and acquired substantially all of the assets and assumed certain liabilities of Business Information Technology Group (BITG). SMA is a London-based provider of SaaS connectivity to the Society for Worldwide Interbank Financial Telecommunication, which is referred to as SWIFT, for the automation of payments and financial messaging. As a result of the SMA acquisition, we launched a new product offering, SWIFT Access Service, and we now offer next generation treasury and cash management solutions to a range of bank and corporate customers. DDL is a London-based provider of payments automation software for direct debits and receivables management for corporations, banks, financial institutions and government organizations. The addition of DDL extends our global payment capabilities and expands our transaction banking portfolio. BITG is a Bottomline software distributor and channel partner focused on the corporate market with locations in both Australia and New Zealand.

In April 2011, we acquired Allegient Systems, Inc., a provider of advanced capabilities for legal e-billing, bill review and analytics, for a cash payment of approximately $49.6 million. Allegient s proprietary SaaS platform and value-added turnkey solutions will complement and extend our Legal eXchange portfolio, offering the combined customer base of more than 100 leading insurers capabilities to effectively manage their legal expenses.

Our principal executive offices are located at 325 Corporate Drive, Portsmouth, New Hampshire 03801, and our telephone number is (603) 436-0700.

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The Offering

This prospectus supplement registers an aggregate of 1,000,000 shares of our common stock issuable to the selling stockholder, Bank of America, N.A., upon the exercise of an outstanding warrant. We issued the warrant to the selling stockholder in connection with our acquisition of our PayMode® electronic payments business from the selling stockholder in September 2009. The warrant is exercisable for up to 1,000,000 shares of our common stock at an exercise price of $8.50 per share, has a term of 10 years and provides, subject to certain exceptions, that the selling stockholder may not sell shares issued to it upon exercise of the warrant in an amount in excess of 200,000 shares per month.

Common stock offered by the Selling Stockholder	1,000,000 shares
Selling Stockholder	Bank of America, N.A. and/or its pledges, assignees and successors-in-interest. See Selling Stockholder on page S-6 for more information on the selling stockholder.
Common stock outstanding as of May 31, 2011	34,303,255 shares (1)
Use of proceeds	We will receive proceeds if the selling stockholder exercises the warrant. However, we will not receive any proceeds from the sale of shares of our common stock offered and sold by the selling stockholder pursuant to this prospectus. The selling stockholder will receive all of the proceeds from any such sales. See Selling Stockholder on page S-6.
Risk Factors	See Risk Factors on page S-4 for a discussion of factors you should carefully consider before deciding to invest in our common stock.
NASDAQ Global Select Market symbol	EPAY

(1) Excludes 1,623,926 shares of common stock issuable upon the exercise of outstanding options, 2,025,802 shares of common stock reserved for future issuance under our stock incentive plans, 2,786,614 shares of common stock reserved for sale under our employee stock purchase plan and 1,000,000 shares of common stock issuable upon the exercise of the warrant.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. Please see the risk factors under the heading Risk Factors in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, as filed with the SEC on May 6, 2011. Before making an investment decision, you should carefully consider these risks as well as other information we include or incorporate by reference in this prospectus supplement and the accompanying prospectus. The risks and uncertainties we have described are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem to be immaterial may also affect our company.

FORWARD-LOOKING STATEMENTS

This prospectus supplement and the information incorporated by reference in this prospectus supplement may include forward-looking statements within the meaning of the securities laws. Words such as expects, anticipates, targets, projects, intends, plans, believes, s estimates, continues and may and variations of such words and similar expressions are intended to identify such forward-looking statements. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are competition, market demand, technological change, strategic relationships, recent acquisitions, international operations and general economic conditions. For additional discussion of factors that could impact our financial results, refer to the section of this prospectus supplement entitled Risk Factors on page S-4. You should also carefully review the risk factors and cautionary statements described in the other documents we file from time to time with the SEC, specifically our most recent Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K. Any forward-looking statements represent our views only as of the time they are made and should not be relied upon as representing our views as of any subsequent date. We do not assume any obligation to update any forward-looking statements, except to the extent required by law.

USE OF PROCEEDS

We will receive proceeds if the selling stockholder exercises the warrant. However, we will not receive any proceeds from the sale of the shares of our common stock offered and sold by the selling stockholder pursuant to this prospectus. The selling stockholder will receive all of the proceeds from any such sales. See the section entitled Selling Stockholder below. We intend to use any proceeds we receive from the warrant exercise for general corporate purposes.

SELLING STOCKHOLDER

Background

We are registering an aggregate of 1,000,000 shares of our common stock issuable to the selling stockholder, Bank of America, N.A., which we refer to in this section as the Bank or the selling stockholder , upon the exercise of the warrant. We issued the warrant to the Bank in connection with our acquisition of our PayMode electronic payments business from the Bank in September 2009. The warrant is exercisable for up to 1,000,000 shares of our common stock at an exercise price of $8.50 per share, has a term of 10 years and provides, subject to certain exceptions, that the Bank may not sell shares issued to it upon exercise of the warrant in an amount in excess of 200,000 shares per month.

Beneficial Ownership of the Selling Stockholder

The following table sets forth information with respect to the Bank, the number of shares of common stock it may offer under this prospectus supplement assuming it exercises the warrant in full, the shares of common stock it beneficially owns prior to the offering, and the number of shares it will beneficially own after the offering assuming it sells all of the shares that may be offered under this prospectus supplement. Beneficial ownership is determined in accordance with the rules and regulations of the SEC. Information with respect to beneficial ownership is based upon information obtained from the selling stockholder and on 34,303,255 shares of our common stock outstanding as of May 31, 2011.

Shares listed under the heading Number of Shares Being Registered represent the number of shares that may be sold by the Bank pursuant to this prospectus supplement, assuming it exercises the warrant in full.

The information under the heading Shares of Common Stock Beneficially Owned Prior to Offering is determined in accordance with the rules of the SEC. Shares of common stock issuable upon exercise or conversion of options, warrants or convertible securities that are exercisable or convertible on or within 60 days from May 31, 2011 are deemed outstanding for computing the percentage ownership of the person holding the options, warrants or convertible securities, but are not deemed outstanding for computing the percentage of any other person. As of the close of trading on July 8, 2011, Bank of America Corporation, the parent company to the Bank, beneficially owned directly or through one or more affiliates 1,002,987 shares of our common stock, including the shares offered pursuant to this prospectus supplement.

The information under the heading Shares of Common Stock Beneficially Owned After Offering assumes the selling stockholder exercises the warrant in full and sells all of its shares offered pursuant to this prospectus supplement to unaffiliated third parties, that the selling stockholder will acquire no additional shares of our common stock prior to the completion of this offering , and that any other shares of our common stock beneficially owned by the selling stockholder will continue to be beneficially owned. The selling stockholder may sell all, part or none of its shares.

Name of Beneficial Owner	Number of Shares Being Registered	Shares of Common Stock Beneficially Owned Prior to Offering (1)				Shares of Common Stock Beneficially Owned After Offering		
		Shares	Shares Underlying Warrants	Total	Percent (3)	Shares	Shares Underlying Warrants	Percent
Bank of America, N.A. (2)	1,000,000	2,987	1,000,000	1,002,987	2.92%	2,987	0	*

* Less than 1%.

(1) Share numbers reflect shares of our common stock beneficially owned by Bank of America Corporation, the parent company of the Bank, directly or through one or more affiliates, as of the close of trading on July 8, 2011.

(2) Share numbers reflect shares of our common stock beneficially owned by Bank of America Corporation, the parent company of the Bank, directly or through one or more affiliates.

(3) Calculated in accordance with SEC rules and based on 34,303,255 shares of our common stock outstanding as of May 31, 2011.

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The selling stockholder is an affiliate of a registered broker-dealer. The selling stockholder has informed us that it acquired the warrant in the ordinary course of its business and, at the time of such acquisition, had no arrangement or understanding with any other persons regarding the distribution of the warrant or the shares issuable upon its exercise.

Material Relationships with the Selling Stockholder

In connection with the PayMode acquisition, we entered into an Asset Purchase Agreement dated August 5, 2009 with the Bank, pursuant to which we purchased substantially all of the assets and related operations of the Bank s PayMode business for a cash purchase price of $17,000,000 and issued the Bank the warrant. We also entered into a Services Agreement dated September 14, 2009 with the Bank pursuant to which we provide PayMode services to the Bank and its customers, including customary maintenance and support services.

Under the Services Agreement, the Bank pays us an annual subscription fee plus other specified variable fees for the services. We are required to deliver enhancements to the system used to provide the PayMode services and related infrastructure and the enhancements will have a specified minimum value over the initial term of the Services Agreement. The Services Agreement has an initial term of five years, to be followed, unless notice of non-renewal is given by either party, by successive three-year renewal periods, subject to customary termination events, including the Bank s right to terminate for convenience, in which case it will pay us a specified variable termination fee.

In February 2010, we acquired from the Bank certain customer contracts associated with the Bank s Global Commission Payments business. The initial consideration paid by us was $1.0 million in cash and we expect to pay additional cash consideration by December 31, 2011 based on the value assigned to acquired customer contracts that we anticipate migrating to our Paymode-X solution.

We may also provide other products and services to the Bank from time to time in the ordinary course of business.

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PLAN OF DISTRIBUTION

The selling stockholder and any of its pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholder may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- settlement of short sales;
- broker-dealers may agree with the selling stockholder to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling stockholder may also sell shares under Rule 144 of the Securities Act, if available, rather than under this prospectus. Broker-dealers engaged by the selling stockholder may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholder (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholder does not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The selling stockholder may from time to time pledge or grant a security interest in some or all of the shares owned by it and, if they default in the performance of its secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

The selling stockholder also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling stockholder and any broker-dealers or agents that are involved in selling the shares may be deemed to be underwriters within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. The selling stockholder has informed Bottomline that it does not have any agreement or understanding, directly or indirectly, with any person to

distribute the common stock.

We have advised the selling stockholder that the anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of shares in the market and to the activities of the selling stockholder and its affiliates.

We are required to pay all fees and expenses incurred by us incident to the registration of the shares. We have agreed to indemnify the selling stockholder (including its officers, directors, agents, brokers, investment advisors, employees and control persons) against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

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LEGAL MATTERS

The validity of the shares of common stock offered hereby will be passed upon for us by Wilmer Cutler Pickering Hale and Dorr LLP.

EXPERTS

The consolidated financial statements of Bottomline Technologies (de), Inc. appearing in Bottomline Technologies (de), Inc. s Annual Report (Form 10-K) for the year ended June 30, 2010, including the schedule appearing therein, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon included therein, and incorporated herein by reference. Such financial statements and schedule are, and audited financial statements to be included in subsequently filed documents will be, incorporated herein in reliance upon the reports of Ernst & Young LLP pertaining to such financial statements and schedule as of the respective dates (to the extent covered by consents filed with the Securities and Exchange Commission) given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of LAS Holdings, Inc. appearing in Bottomline Technologies (de), Inc. s Current Report on Form 8-K/A filed with the Securities and Exchange Commission on June 8, 2011 have been audited by Crowe Horwath LLP, independent auditors, as set forth in their report thereon included in such Form 8-K/A and incorporated herein by reference. Such financial statements are incorporated herein in reliance upon the report of Crowe Horwath LLP pertaining to such financial statements given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC s website at http://www.sec.gov. Copies of certain information filed by us with the SEC are also available on our website at http://www.bottomline.com. Our website is not a part of this prospectus supplement. You may also read and copy any document we file at the SEC s Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room.

This prospectus supplement is part of a registration statement we filed with the SEC. This prospectus supplement omits some information contained in the registration statement in accordance with SEC rules and regulations. You should review the information and exhibits in the registration statement for further information on us and our consolidated subsidiaries and the securities we are offering. Statements in this prospectus supplement concerning any document we filed as an exhibit to the registration statement or that we otherwise filed with the SEC are not intended to be comprehensive and are qualified by reference to these filings. You should review the complete document to evaluate these statements.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference much of the information we file with the SEC, which means that we can disclose important information to you by referring you to those publicly available documents. The information that we incorporate by reference in this prospectus supplement is considered to be part of this prospectus supplement. Information contained in this prospectus supplement and information that we file with the SEC in the future and incorporate by reference in this prospectus supplement automatically updates and supersedes previously filed information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 (in each case, other than those documents or the portions of those documents not deemed to be filed), prior to the sale of all the shares covered by this prospectus supplement.

Annual Report on Form 10-K for the fiscal year ended June 30, 2010;

Quarterly Reports on Form 10-Q for the fiscal quarters ended September 30, 2010, December 31, 2010 and March 31, 2011, including amendments thereto;

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Current Reports on Form 8-K filed July 19, 2010, October 26, 2010, November 19, 2010, January 27, 2011, February 22, 2011, April 1, 2011 and May 23, 2011, including amendments thereto; and

The description of our common stock contained in our Registration Statement on Form 8-A filed on January 12, 1999, including any amendments or reports filed for the purpose of updating such description.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

Bottomline Technologies (de), Inc.

Attn: Investor Relations Department

325 Corporate Drive

Portsmouth, New Hampshire 03801

Phone: (603) 501-4899

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PROSPECTUS

Bottomline Technologies (de), Inc.

Debt Securities

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Stock Purchase Units

Warrants

We may issue securities from time to time in one or more offerings. This prospectus describes the general terms of these securities and the general manner in which these securities will be offered. We will provide the specific terms of these securities in supplements to this prospectus. The prospectus supplements will also describe the specific manner in which these securities will be offered and may also supplement, update or amend information contained in this document. You should read this prospectus and any applicable prospectus supplement before you invest.

We may offer these securities in amounts, at prices and on terms determined at the time of offering. The securities may be sold directly to you, through agents, or through underwriters and dealers. If agents, underwriters or dealers are used to sell the securities, we will name them and describe their compensation in a prospectus supplement.

In addition, selling stockholders to be named in a prospectus supplement may offer and sell from time to time these securities in such amounts as set forth in a prospectus supplement. Unless otherwise set forth in a prospectus supplement, we will not receive any proceeds from the sale of these securities by any selling stockholders.

Our common stock trades on the Nasdaq Global Select Market under the symbol EPAY.

Investing in these securities involves a high degree of risk. See Risk Factors included in any accompanying prospectus supplement and in the documents incorporated by reference in this prospectus for a discussion of the factors you should carefully consider before deciding to purchase these securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is July 15, 2011

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, which we refer to as the SEC, utilizing a shelf registration process. Under this shelf registration process, we may from time to time sell any combination of the securities described in this prospectus, and one or more of our stockholders may sell our securities, in one or more offerings.

This prospectus provides you with a general description of the securities we may offer. Each time we or a selling stockholder sells securities, we will provide one or more prospectus supplements that will contain specific information about the terms of the offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and the accompanying prospectus supplement together with the additional information described under the heading Where You Can Find More Information on page 2 of this prospectus.

You should rely only on the information contained in or incorporated by reference in this prospectus, any accompanying prospectus supplement or in any related free writing prospectus filed by us with the SEC. We have not authorized anyone to provide you with different information. This prospectus and the accompanying prospectus supplement do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in the accompanying prospectus supplement or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. You should assume that the information appearing in this prospectus, any prospectus supplement, the documents incorporated by reference and any related free writing prospectus is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed materially since those dates.

Unless the context otherwise indicates, references in this prospectus to we, our, Bottomline and us refer, collectively, to Bottomline Technologies (de), Inc., a Delaware corporation, and its consolidated subsidiaries.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC s website at http://www.sec.gov. Copies of certain information filed by us with the SEC are also available on our website at http://www.bottomline.com/. Our website is not a part of this prospectus. You may also read and copy any document we file at the SEC s public reference room, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

This prospectus is part of a registration statement we filed with the SEC. This prospectus omits some information contained in the registration statement in accordance with SEC rules and regulations. You should review the information and exhibits in the registration statement for further information on us and our consolidated subsidiaries and the securities we are offering. Statements in this prospectus concerning any document we filed as an exhibit to the registration statement or that we otherwise filed with the SEC are not intended to be comprehensive and are qualified by reference to these filings. You should review the complete document to evaluate these statements.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference much of the information we file with the SEC, which means that we can disclose important information to you by referring you to those publicly available documents. The information that we incorporate by reference in this prospectus is considered to be part of this prospectus. Because we are incorporating by reference future filings with the SEC, this prospectus is continually updated and those future filings may modify or supersede some of the information included or incorporated in this prospectus. This means that you must look at all of the SEC filings that we incorporate by reference to determine if any of the statements in this prospectus or in any document previously incorporated by reference have been modified or superseded. This prospectus incorporates by reference the documents listed below (File No. 000-25259) and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) (in each case, other than those documents or the portions of those documents not deemed to be filed) until the offering of the securities under the registration statement is terminated or completed:

- Annual Report on Form 10-K for the fiscal year ended June 30, 2010;

- Quarterly Reports on Form 10-Q for the fiscal quarters ended September 30, 2010, December 31, 2010 and March 31, 2011, including amendments thereto;

- Current Reports on Form 8-K filed July 19, 2010, October 26, 2010, November 19, 2010, February 22, 2011, April 1, 2011 and May 23, 2011, including amendments thereto; and

- The description of our common stock contained in our Registration Statement on Form 8-A filed on January 12, 1999, including any amendments or reports filed for the purpose of updating such description.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

Bottomline Technologies (de), Inc.

Attn: Investor Relations Department

325 Corporate Drive

Portsmouth, New Hampshire 03801

Phone: (603) 501-4899

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FORWARD-LOOKING STATEMENTS

This prospectus and the information incorporated by reference in this prospectus may include forward-looking statements within the meaning of the securities laws. Words such as expects, anticipates, targets, projects, intends, plans, believes, seeks, estimates, continues a variations of such words and similar expressions are intended to identify such forward-looking statements. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are competition, market demand, technological change, strategic relationships, recent acquisitions, international operations and general economic conditions. For additional discussion of factors that could impact our financial results, refer to the section of any accompanying prospectus supplement entitled Risk Factors. You should also carefully review the risk factors and cautionary statements described in the other documents we file from time to time with the SEC, specifically our most recent Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K. Any forward-looking statements represent our views only as of the time they are made and should not be relied upon as representing our views as of any subsequent date. We do not assume any obligation to update any forward-looking statements, except to the extent required by law.

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BOTTOMLINE

We provide electronic payment, invoice and document management solutions to corporations, financial institutions and banks around the world. Our solutions are used to streamline, automate and manage processes and transactions involving global payments, invoice receipt and approval, collections, cash management, risk mitigation, document management, reporting and document archive. We offer software designed to run on-site at the customer s location as well as hosted or Software as a Service (SaaS) solutions. Historically, our software has been sold predominantly on a perpetual license basis. Today, however, a growing portion of our offerings are being sold as SaaS and paid for on a subscription and transaction basis.

Our corporate customers rely on our solutions to automate their payment and accounts payable processes and to streamline and manage the production and retention of electronic documents. We offer Legal eXchange®, a SaaS offering that receives, manages and controls legal invoices and the related spend management for insurance companies and other large consumers of outside legal services. We also offer Paymode-X , a SaaS offering that facilitates the exchange of electronic payments and invoices between organizations and suppliers. Our offerings also include software solutions that banks use to provide web-based payment and reporting capabilities to their corporate customers.

Our solutions complement and leverage our customers existing information systems, accounting applications and banking relationships. As a result, our solutions can be deployed quickly and efficiently. To help our customers receive the maximum value from our products and meet their own particular needs, we also provide professional services for installation, training, consulting and product enhancement.

During the nine months ended March 31, 2011, we acquired SMA Financial Ltd. (SMA), Direct Debit Limited (DDL) and acquired substantially all of the assets and assumed certain liabilities of Business Information Technology Group (BITG). SMA is a London-based provider of SaaS connectivity to the Society for Worldwide Interbank Financial Telecommunication, which is referred to as SWIFT, for the automation of payments and financial messaging. As a result of the SMA acquisition, we launched a new product offering, SWIFT Access Service, and we now offer next generation treasury and cash management solutions to a range of bank and corporate customers. DDL is a London-based provider of payments automation software for direct debits and receivables management for corporations, banks, financial institutions and government organizations. The addition of DDL extends our global payment capabilities and expands our transaction banking portfolio. BITG is a Bottomline software distributor and channel partner focused on the corporate market with locations in both Australia and New Zealand.

In April 2011, we acquired Allegient Systems, Inc., a provider of advanced capabilities for legal e-billing, bill review and analytics, for a cash payment of approximately $49.6 million. Allegient s proprietary SaaS platform and value-added turnkey solutions will complement and extend our Legal eXchange portfolio, offering the combined customer base of more than 100 leading insurers capabilities to effectively manage their legal expenses.

Our principal executive offices are located at 325 Corporate Drive, Portsmouth, New Hampshire 03801, and our telephone number is (603) 436-0700.

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CONSOLIDATED RATIOS OF EARNINGS TO FIXED CHARGES AND

RATIOS OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

The following table sets forth our ratio of earnings to fixed charges. You should read this table in conjunction with the consolidated financial statements and notes incorporated by reference in this prospectus.

	Nine Months Ended	Fiscal Year Ended				
	March 31, 2011	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006
Consolidated ratios of earnings to fixed charges	7.5x	6.1x	n/a	n/a	n/a	n/a

For purposes of calculating the ratios above, earnin="left"> (3.2) (7.5)

Income (loss) before provision for income taxes
 $(77.3) $88.0

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

	Three Months Ended September 27, 2008	Nine Months Ended September 27, 2008
Consolidated interest expense	$ 41.5	$ 127.9
Certain amounts related to the asset-backed securitization facility		(0.3)
Amortization of deferred financing fees	3.2	7.5
Bank facility and other fees	1.8	4.4
Reported interest expense	$ 46.5	$ 139.5

Senior Notes

All of the Company s senior notes are guaranteed by the same subsidiaries that guarantee its amended primary credit facility. In the event that any such subsidiary ceases to be a guarantor under the amended primary credit facility, such subsidiary will be released as a guarantor of the senior notes. The Company s obligations under the senior notes are not secured by the pledge of the assets or capital stock of any of its subsidiaries.

With the exception of the Company s zero-coupon convertible senior notes, the Company s senior notes contain covenants restricting the ability of the Company and its subsidiaries to incur liens and to enter into sale and leaseback transactions. As of September 27, 2008, the Company was in compliance with all covenants and other requirements set forth in its senior notes.

The senior notes due 2013 and 2016 (having an aggregate principal amount outstanding of $900 million as of September 27, 2008) provide holders of the notes the right to require the Company to repurchase all or any part of their notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest, upon a change of control (as defined in the indenture governing the notes). The indentures governing the Company s other senior notes do not contain a change of control repurchase obligation.

The Company repaid 55.6 million ($87.0 million) aggregate principal amount of senior notes on April 1, 2008, the maturity date. In connection with the amendment of the its primary credit facility discussed above, on August 4, 2008, the Company redeemed its senior notes due 2009, with an aggregate principal amount of $41.4 million, for a purchase price of $43.8 million, including fees and accrued interest. The Company recognized a loss on the extinguishment of the 2009 notes of $1.7 million, which is included in other expense, net in the condensed consolidated statements of operations for the three and nine months ended September 27, 2008.

(8) Pension and Other Postretirement Benefit Plans

Net Periodic Benefit Cost

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

	Pension Three Months Ended		Other Postretirement Three Months Ended	
	September 27, 2008	**September 29, 2007**	**September 27, 2008**	**September 29, 2007**
Service cost	$ 4.1	$ 6.2	$ 1.8	$ 2.7
Interest cost	12.9	14.5	4.0	3.9
Expected return on plan assets	(14.8)	(15.9)		
Amortization of actuarial loss	0.1	0.9	0.8	0.9

Amortization of transition obligation			0.2	0.2
Amortization of prior service (credit) cost	1.8	1.2	(0.9)	(0.9)
Special termination benefits			0.2	0.1
Curtailment loss, net	1.6	0.5		
Net periodic benefit cost	$ 5.7	$ 7.4	$ 6.1	$ 6.9

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LEAR CORPORATION AND SUBSIDIARIES
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(Continued)

	Pension Nine Months Ended		Other Postretirement Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Service cost	$ 12.8	$ 20.0	$ 5.8	$ 8.2
Interest cost	37.4	32.2	11.7	11.3
Expected return on plan assets	(42.6)	(33.6)		
Amortization of actuarial loss	0.3	2.4	2.6	3.2
Amortization of transition (asset) obligation	(0.1)	(0.1)	0.6	0.7
Amortization of prior service (credit) cost	5.3	3.5	(2.7)	(2.7)
Special termination benefits	2.8	4.8	0.4	1.0
Settlement loss	1.0			
Curtailment (gain) loss, net	2.6	(32.2)		(13.2)
Net periodic benefit (gain) cost	$ 19.5	$ (3.0)	$ 18.4	$ 8.5

In the first quarter of 2007, the Company recorded a pension plan curtailment gain of $36.4 million and an other postretirement benefit plan curtailment gain of $14.7 million. The pension plan curtailment gain resulted from the suspension of the accrual of defined benefits related to the Company s U.S. salaried defined benefit pension plan as the Company elected to freeze its U.S. salaried defined benefit pension plan effective December 31, 2006. The other postretirement benefit plan curtailment gain resulted from employee terminations associated with a facility closure in 2006. As both curtailment gains were incurred subsequent to the Company s defined benefit plan measurement date of September 30, 2006, they were recorded in 2007.

Contributions

Employer contributions to the Company s domestic and foreign pension plans for the nine months ended September 27, 2008, were approximately $20.8 million, in aggregate. The Company expects to contribute an additional $10 million, in aggregate, to its domestic and foreign pension plans in 2008.

Effective January 1, 2007, the Company established a new defined contribution retirement program for its salaried employees in conjunction with the freeze of its U.S. salaried defined benefit pension plan. Contributions to this program are determined as a percentage of each covered employee s eligible compensation and are expected to be approximately $12 million in 2008.

Adoption of Accounting Pronouncements

Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R), requires the measurement of defined benefit plan assets and liabilities as of the annual balance sheet date beginning in the fiscal period ending after December 15, 2008. In previous years, the Company measured its plan assets and liabilities using an early measurement date of September 30, as allowed by the original provisions of SFAS No. 87, Employers Accounting for Pensions, and SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions. In the first quarter of 2008, the required adjustment to recognize the net periodic benefit cost for the transition period from October 1, 2007 to December 31, 2007, was determined using the 15-month measurement approach. Under this approach, the net periodic benefit cost was determined for the period from October 1, 2007 to December 31, 2008, and the adjustment for the transition period was calculated on a pro-rata basis. The Company recorded an after-tax transition adjustment of $7.0 million as an increase to beginning retained deficit, $1.0 million as

an increase to accumulated other comprehensive income and $6.0 million as an increase to the net pension and other postretirement liability related accounts in the accompanying condensed consolidated balance sheet as of September 27, 2008.

The Emerging Issues Task Force (EITF) issued EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. EITF 06-4 requires the recognition of a liability, in accordance with SFAS No. 106, for endorsement split-dollar life insurance arrangements that provide postretirement benefits. This EITF is effective for the fiscal period beginning after December 15, 2007. In accordance with the EITF s transition provisions, the Company recorded $5.3 million as a cumulative effect of a change in accounting principle as of January 1, 2008. The cumulative effect adjustment was recorded as an increase to beginning retained deficit and an increase to other long-term liabilities in the accompanying condensed consolidated balance sheet as of September 27, 2008. In addition, the Company expects to record additional postretirement benefit expenses of $0.3 million in 2008 associated with the adoption of this EITF.

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

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

(10) Other Expense, Net

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

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Other expense	$ 32.2	$ 18.0	$ 54.5	$ 58.3
Other income	(0.5)	(0.5)	(12.7)	(15.5)
Other expense, net	$ 31.7	$ 17.5	$ 41.8	$ 42.8

For the three months ended September 27, 2008, other expense includes minority interests in consolidated subsidiaries of $5.8 million, foreign exchange losses of $4.3 million and losses related to derivative instruments and hedging activities of $4.1 million. For the three months ended September 29, 2007, other expense includes minority interests in consolidated subsidiaries of $6.4 million. For the nine months ended September 27, 2008, other expense includes minority interests in consolidated subsidiaries of $16.3 million and foreign exchange losses of $12.4 million. For the nine months ended September 29, 2007, other expense includes minority interests in consolidated subsidiaries of $19.8 million and a loss related to the acquisition of the minority interest in a consolidated subsidiary of $3.9 million. In addition, a loss on the extinguishment of debt of $1.7 million is reflected in other expense for the three and nine months ended September 27, 2008. For the nine months ended September 27, 2008 and September 29, 2007, other income includes equity in net income of affiliates of $6.8 million and $12.0 million, respectively.

(11) Income Taxes

The provision for income taxes was $20.9 million and $19.1 million in the three months ended September 27, 2008 and September 29, 2007, respectively, and $89.7 million and $71.8 million in the nine months ended September 27, 2008 and September 29, 2007, respectively. The effective tax rate was negative 27.0% and 31.8% for the three months ended September 27, 2008 and September 29, 2007, respectively, and 101.9% and 25.1% for the nine months ended September 27, 2008 and September 29, 2007, respectively.

The provision for income taxes in the first nine months of 2008 was impacted by a portion of the Company s restructuring charges, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. The provision was also impacted by a tax benefit of $8.7 million, including interest, related to a reduction in recorded tax reserves, a tax benefit of $17.5 million related to the reversal of a valuation allowance in a European subsidiary and tax expense of $22.2 million related to the establishment of a valuation allowance in another European subsidiary. Excluding these items, the effective tax rate in the first nine months of 2008 approximated the U.S. federal statutory income tax rate of

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

The provision for income taxes in the first nine months of 2007 was impacted by costs of $17.8 million related to the divestiture of the Company s interior business, a significant portion of which provided no tax benefit as they were incurred in the United States. The provision was also impacted by a portion of the Company s restructuring charges and costs related to an Agreement and Plan of Merger, as amended (the AREP merger agreement), with AREP Car Holdings Corp. and AREP Car Acquisition Corp. (subsequently terminated in the third quarter of 2007), for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. This was offset by the impact of the U.S. salaried pension plan curtailment gain of $36.4 million, for which no tax expense was provided as it was incurred in the United States, the impact of a tax benefit of $12.5 million related to a reversal of a valuation allowance in a European subsidiary and the impact of a tax benefit of $17.4 million related to a tax rate change in Germany.

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

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

The Company operates in multiple jurisdictions throughout the world, and its tax returns are periodically audited or subject to review by both domestic and foreign tax authorities. As a result of the conclusion of current examinations and the expiration of the statute of limitations, the Company decreased the amount of its unrecognized tax benefits by $32.9 million, of which $5.9 million impacted the effective tax rate in the three and nine months ended September 27, 2008. During the next twelve months, it is reasonably possible that, as a result of audit settlements, the conclusion of current examinations and the expiration of the statute of limitations in several jurisdictions, the Company could decrease the amount of its gross unrecognized tax benefits by $13.8 million, of which $11.0 million, if recognized, would impact the Company s effective tax rate. The gross unrecognized tax benefits subject to potential decrease involve issues related to transfer pricing, tax credits and various other tax items in several jurisdictions.

(12) Net Income (Loss) Per Share

Basic net income (loss) per share is computed using the weighted average common shares outstanding during the period. Diluted net income (loss) per share includes the dilutive effect of common stock equivalents using the average share price during the period, as well as the dilutive effect of shares issuable upon conversion of the Company s outstanding zero-coupon convertible senior notes. A summary of shares outstanding is shown below:

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Weighted average common shares outstanding	77,158,605	77,025,618	77,230,170	76,706,904
Dilutive effect of common stock equivalents		1,409,647		1,499,172
Diluted shares outstanding	77,158,605	78,435,265	77,230,170	78,206,076

The shares issuable upon conversion of the Company s outstanding zero-coupon convertible debt and the effect of certain common stock equivalents, including options, restricted stock units, performance units and stock appreciation rights, were excluded from the computation of diluted shares outstanding for the three and nine months ended September 27, 2008 and September 29, 2007, as inclusion would have resulted in antidilution. A summary of these options and their exercise prices, as well as these restricted stock units, performance units and stock appreciation rights, is shown below:

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Options				
Antidilutive options	1,302,730	1,826,280	1,302,730	1,826,280
Exercise price	$ 22.12 $55.33	$ 35.93 $55.33	$ 22.12 $55.33	$ 35.93 $55.33

Restricted stock units	1,455,475		1,455,475	
Performance units	193,952		193,952	
Stock appreciation rights	1,969,280	639,765	1,969,280	639,765

(13) Comprehensive Income (Loss)

Comprehensive income (loss) is defined as all changes in the Company s net assets except changes resulting from transactions with stockholders. It differs from net income (loss) in that certain items currently recorded in equity are included in comprehensive income (loss). A summary of comprehensive income (loss) is shown below (in millions):

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(Continued)

	Three Months Ended		Nine Months Ended	
	September 27, 2008	**September 29, 2007**	**September 27, 2008**	**September 29, 2007**
Net income (loss)	$ (98.2)	$ 41.0	$ (1.7)	$ 214.5
Other comprehensive income (loss):				
Derivative instruments and hedging activities	(13.6)	(9.7)	1.6	(7.5)
Defined benefit plan adjustments	3.5	2.6	9.5	8.0
Foreign currency translation adjustment	(62.8)	46.0	28.9	57.4
Other comprehensive income (loss)	(72.9)	38.9	40.0	57.9
Comprehensive income (loss)	$ (171.1)	$ 79.9	$ 38.3	$ 272.4

(14) Pre-Production Costs Related to Long-Term Supply Agreements
The Company incurs pre-production engineering, research and development (ER&D) and tooling costs related to the products produced for its customers under long-term supply agreements. The Company expenses all pre-production ER&D costs for which reimbursement is not contractually guaranteed by the customer. In addition, the Company expenses all pre-production tooling costs related to customer-owned tools for which reimbursement is not contractually guaranteed by the customer or for which the customer has not provided a non-cancelable right to use the tooling. During the first nine months of 2008 and 2007, the Company capitalized $101.9 million and $72.4 million, respectively, of pre-production ER&D costs for which reimbursement is contractually guaranteed by the customer. In addition, during the first nine months of 2008 and 2007, the Company capitalized $107.9 million and $131.0 million, respectively, of pre-production tooling costs related to customer-owned tools for which reimbursement is contractually guaranteed by the customer or for which the customer has provided a non-cancelable right to use the tooling. These amounts are included in other current and long-term assets in the accompanying condensed consolidated balance sheets. During the nine months ended September 27, 2008 and September 29, 2007, the Company collected $212.6 million and $224.5 million, respectively, of cash related to ER&D and tooling costs. During the first nine months of 2008 and 2007, the Company did not capitalize any Company-owned tooling. Amounts capitalized as Company-owned tooling are included in property, plant and equipment, net in the accompanying condensed consolidated balance sheets.
The classification of recoverable customer engineering and tooling is shown below (in millions):

	September 27, 2008	**December 31, 2007**
Current	$ 90.2	$ 73.0
Long-term	90.1	94.5
Recoverable customer engineering and tooling	$ 180.3	$ 167.5

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

recognized as costs are incurred.

(15) Legal and Other Contingencies

As of September 27, 2008 and December 31, 2007, the Company had recorded reserves for pending legal disputes, including commercial disputes and other matters, of $30.9 million and $37.5 million, respectively. Such reserves reflect amounts recognized in accordance with accounting principles generally accepted in the United States and typically exclude the cost of legal representation. Product warranty liabilities are recorded separately from legal liabilities, as described below.

Commercial Disputes

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

On January 26, 2004, the Company filed a patent infringement lawsuit against Johnson Controls Inc. and Johnson Controls Interiors LLC (together, JCI) in the U.S. District Court for the Eastern District of Michigan alleging that JCI s garage door opener products

LEAR CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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infringed certain of the Company s radio frequency transmitter patents. The Company is seeking a declaration that JCI infringes its patents, to enjoin JCI from further infringing those patents by making, selling or offering to sell its garage door opener products and an award of compensatory damages, attorney fees and costs. JCI counterclaimed seeking a declaratory judgment that the subject patents are invalid and unenforceable, and that JCI is not infringing these patents and an award of attorney fees and costs. JCI also has filed motions for summary judgment asserting that its garage door opener products do not infringe the Company s patents and that one of the Company s patents is invalid and unenforceable. The Company is pursuing its claims against JCI. On November 2, 2007, the court issued an opinion and order granting, in part, and denying, in part, JCI s motion for summary judgment on one of the Company s patents. The court found that JCI s product does not literally infringe the patent, however, there are issues of fact that precluded a finding as to whether JCI s product infringes under the doctrine of equivalents. The court also ruled that one of the claims the Company has asserted is invalid. Finally, the court denied JCI s motion to hold the patent unenforceable. The opinion and order does not address the other two patents involved in the lawsuit and JCI s motion for summary judgment has not yet been subject to a court hearing. On May 22, 2008, JCI filed a motion seeking reconsideration of the court s ruling of November 2, 2007. On June 9, 2008, the Company filed its opposition to this motion and, on June 23, 2008, JCI filed its reply brief. A trial date has not been scheduled.

On June 13, 2005, The Chamberlain Group (Chamberlain) filed a lawsuit against the Company and Ford Motor Company (Ford) in the Northern District of Illinois alleging patent infringement. Two counts were asserted against the Company and Ford based upon two Chamberlain rolling-code garage door opener system patents. Two additional counts were asserted against Ford only (not the Company) based upon different Chamberlain patents. The Chamberlain lawsuit was filed in connection with the marketing of the Company s universal garage door opener system, which competes with a product offered by JCI. JCI obtained technology from Chamberlain to operate its product. In October 2005, Chamberlain filed an amended complaint and joined JCI as a plaintiff. The Company answered and filed a counterclaim seeking a declaration that the patents were not infringed and were invalid, as well as attorney fees and costs. In October 2006, Ford was dismissed from the suit. Chamberlain and JCI seek a declaration that the Company infringes Chamberlain s patents and an order enjoining the Company from making, selling or attempting to sell products which, they allege, infringe Chamberlain s patents, as well as compensatory damages and attorney fees and costs. JCI and Chamberlain filed a motion for a preliminary injunction, and on March 30, 2007, the court issued a decision granting plaintiffs motion for a preliminary injunction but did not enter an injunction at that time. In response, the Company filed a motion seeking to stay the effectiveness of any injunction that may be entered and General Motors Corporation (GM) moved to intervene. On April 25, 2007, the court granted GM s motion to intervene, entered a preliminary injunction order that exempts the Company s existing GM programs and denied the Company s motion to stay the effectiveness of the preliminary injunction order pending appeal. On April 27, 2007, the Company filed its notice of appeal from the granting of the preliminary injunction and the denial of its motion to stay its effectiveness. On May 7, 2007, the Company filed a motion for stay with the Federal Circuit Court of Appeals, which the court denied on June 6, 2007. On February 19, 2008, the Federal Circuit Court of Appeals issued a decision in the Company s favor that vacated the preliminary injunction and reversed the district court s interpretation of a key claim term. A petition by JCI for a rehearing on the matter was denied on April 10, 2008. The case is now remanded to the district court. The Company has moved for summary judgment, and limited discovery on the Company s motion occurred in July and August 2008. On August 18, 2008 and August 15, 2008, respectively, Chamberlain and JCI moved to extend the briefing schedule and to compel additional discovery from the Company. The court extended the briefing schedule. The parties are awaiting a ruling by the district court on the motion to compel discovery and the Company s motion for summary judgment. On August 12, 2008, a new patent was issued to Chamberlain relating to the same technology as the patents disputed in this lawsuit. On August 19, 2008, JCI and Chamberlain filed a second amended complaint against the Company alleging patent infringement with respect to the new patent and seeking the same types of relief. The Company has filed an answer and counterclaim seeking a declaration that its products are non-infringing and that the new patent is invalid and unenforceable due to inequitable conduct, as well as attorney fees

and costs. The Company intends to continue to vigorously defend this matter.
On September 12, 2008, a consultant that the Company retained filed an arbitration action against the Company seeking royalties under the parties Joint Development Agreement (JDA) for the Company s sales of its garage door opener products. The Company denies that it owes the consultant any royalty payments under the JDA. No dates have been set in this matter, and the Company intends to vigorously defend this matter.
Product Liability Matters
In the event that use of the Company s products results in, or is alleged to result in, bodily injury and/or property damage or other losses, the Company may be subject to product liability lawsuits and other claims. Such lawsuits generally seek compensatory damages, punitive damages and attorney fees and costs. In addition, the Company is a party to warranty-sharing and other agreements with its customers relating to its products. These customers may pursue claims against the Company for contribution of all or a

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portion of the amounts sought in connection with product liability and warranty claims. The Company can provide no assurances that it will not experience material claims in the future or that it will not incur significant costs to defend such claims. In addition, if any of the Company s products are, or are alleged to be, defective, the Company may be required or requested by its customers to participate in a recall or other corrective action involving such products. Certain of the Company s customers have asserted claims against the Company for costs related to recalls or other corrective actions involving its products. In certain instances, the allegedly defective products were supplied by tier II suppliers against whom the Company has sought or will seek contribution. The Company carries insurance for certain legal matters, including product liability claims, but such coverage may be limited. The Company does not maintain insurance for product warranty or recall matters.

The Company records product warranty liabilities based on its individual customer agreements. Product warranty liabilities are recorded for known warranty issues when amounts related to such issues are probable and reasonably estimable. In certain product liability and warranty matters, the Company may seek recovery from its suppliers that supply materials or services included within the Company s products that are associated with the related claims.

A summary of the changes in product warranty liabilities for the nine months ended September 27, 2008, is shown below (in millions):

Balance as of January 1, 2008	$ 40.7
Expense, net	1.1
Settlements	(10.1)
Foreign currency translation and other	0.2
Balance as of September 27, 2008	$ 31.9

Environmental Matters

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

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

As of September 27, 2008 and December 31, 2007, the Company had recorded reserves for environmental matters of $2.9 million and $2.7 million, respectively. While the Company does not believe that the environmental liabilities associated with its current and former properties will have a material adverse effect on its business, consolidated financial position, results of operations or cash flows, no assurances can be given in this regard.

Other Matters

In April 2006, a former employee of the Company filed a purported class action lawsuit in the U.S. District Court for the Eastern District of Michigan against the Company, members of its Board of Directors, members of its Employee Benefits Committee (the EBC) and certain members of its human resources personnel alleging violations of the Employment Retirement Income Security Act (ERISA) with respect to the Company s retirement savings plans for

salaried and hourly employees. In the second quarter of 2006, the Company was served with three additional purported class action ERISA lawsuits, each of which contained similar allegations against the Company, members of its Board of Directors, members of its EBC and certain members of its senior management and its human resources personnel. At the end of the second quarter of 2006, the court entered an order consolidating these four lawsuits as *In re: Lear Corp. ERISA Litigation*. During the third quarter of 2006, plaintiffs filed their consolidated complaint, which alleges breaches of fiduciary duties substantially similar to those alleged in the four individually filed lawsuits. The consolidated complaint continues to name certain current and former members of the Board of Directors and the EBC and certain members of senior management and adds certain other current and former members of the EBC. The consolidated complaint

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generally alleges that the defendants breached their fiduciary duties to plan participants in connection with the administration of the Company s retirement savings plans for salaried and hourly employees. The fiduciary duty claims are largely based on allegations of breaches of the fiduciary duties of prudence and loyalty and of over-concentration of plan assets in the Company s common stock. The plaintiffs purport to bring these claims on behalf of the plans and all persons who were participants in or beneficiaries of the plans from October 21, 2004, to the present. The consolidated complaint seeks a declaration that defendants breached their fiduciary duties and an order compelling defendants to restore to the plans all losses resulting from defendants alleged breach of those duties, as well as actual damages, attorney fees and costs. The consolidated complaint does not specify the amount of damages sought. During the fourth quarter of 2006, the defendants filed a motion to dismiss all defendants and all counts in the consolidated complaint. During the second quarter of 2007, the court denied defendants motion to dismiss and defendants answer to the consolidated complaint was filed in August 2007. On August 8, 2007, the court ordered that discovery be completed by April 30, 2008. During the first quarter of 2008, the parties exchanged written discovery requests, the defendants filed with the court a motion to compel plaintiffs to provide more complete discovery responses, which was granted in part and denied in part, and the plaintiffs filed their motion for class certification. In mid-April 2008, the parties entered into an agreement to stay all matters pending mediation. The mediation took place on May 12, 2008, but did not result in a settlement of the matters. Defendants took the named plaintiffs depositions in June 2008. Discovery closed on June 23, 2008, and defendants filed their opposition to plaintiffs motion for class certification on July 7, 2008. On September 25, 2008, the parties informed the court that they had reached a settlement in principle. The parties currently are negotiating the terms of the full settlement agreement and class notification, court approval and other related filings.

Between February 9, 2007 and February 21, 2007, certain stockholders filed three purported class action lawsuits against the Company, certain members of the Company s Board of Directors and American Real Estate Partners, L.P. (currently known as Icahn Enterprises, L.P.) and certain of its affiliates (collectively, AREP) in the Delaware Court of Chancery. On February 21, 2007, these lawsuits were consolidated into a single action. The amended complaint in the consolidated action generally alleges that the AREP merger agreement with AREP Car Holdings Corp. and AREP Car Acquisition Corp. (collectively the AREP Entities) unfairly limited the process of selling the Company and that certain members of the Company s Board of Directors breached their fiduciary duties in connection with the AREP merger agreement and acted with conflicts of interest in approving the AREP merger agreement. The amended complaint in the consolidated action further alleges that Lear s preliminary and definitive proxy statements for the AREP merger agreement were misleading and incomplete, and that Lear s payments to AREP as a result of the termination of the AREP merger agreement constituted unjust enrichment and waste. The amended complaint seeks injunctive relief, compensatory damages and attorneys fees and costs. On February 23, 2007, the plaintiffs filed a motion for expedited proceedings and a motion to preliminarily enjoin the transactions contemplated by the AREP merger agreement. On March 27, 2007, the plaintiffs filed an amended complaint. On June 15, 2007, the Delaware court issued an order entering a limited injunction of Lear s planned shareholder vote on the AREP merger agreement until the Company made supplemental proxy disclosure. That supplemental proxy disclosure was approved by the Delaware court and made on June 18, 2007. On June 26, 2007, the Delaware court granted the plaintiffs motion for leave to file a second amended complaint. On September 11, 2007, the plaintiffs filed a third amended complaint. On January 30, 2008, the Delaware court granted the plaintiffs motion for leave to file a fourth amended complaint leaving only derivative claims against the Lear directors and AREP based on the payment by Lear to AREP of a termination fee pursuant to the AREP merger agreement. The derivative claims seek recovery of the termination fee, as well as attorney fees and costs. On March 14, 2008, the plaintiffs filed an interim petition for an award of fees and expenses related to the supplemental proxy disclosure. On April 14, 2008, the defendants filed a motion to dismiss the remaining claims in the fourth amended complaint. A hearing on both the defendants motion to dismiss and the plaintiffs interim fee petition was held on June 3, 2008. The Delaware court granted the plaintiffs interim fee petition, awarding the plaintiffs $800,000 in attorneys fees and expenses, and the Company subsequently satisfied that order.

On September 2, 2008, the Delaware court issued a written ruling granting the defendants motion to dismiss. The plaintiffs had until October 2, 2008, to appeal that ruling and did not file a notice of appeal.

Although the Company records reserves for legal disputes, product liability claims and environmental and other matters in accordance with SFAS No. 5, Accounting for Contingencies, the ultimate outcomes of these matters are inherently uncertain. Actual results may differ significantly from current estimates.

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

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(16) Segment Reporting

Historically, the Company has had three reportable operating segments: seating, electrical and electronic and interior. The seating segment includes seat systems and components thereof. The electrical and electronic segment includes electrical distribution systems and electronic products, primarily wire harnesses, junction boxes, terminals and connectors and various electronic control modules, as well as audio sound systems and in-vehicle television and video entertainment systems. The interior segment, which has been divested, included instrument panels and cockpit systems, headliners and overhead systems, door panels, flooring and acoustic systems and other interior products (Note 2, Divestiture of Interior Business). The Other category includes unallocated costs related to corporate headquarters, geographic headquarters and the elimination of intercompany activities, none of which meets the requirements of being classified as an operating segment.

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

	Three Months Ended September 27, 2008			
	Seating	Electrical and Electronic	Other	Consolidated
Revenues from external customers	$2,478.1	$ 655.4	$	$3,133.5
Segment earnings	40.9	4.9	(44.9)	0.9
Depreciation and amortization	44.8	27.3	3.5	75.6
Capital expenditures	23.1	14.1	1.1	38.3
Total assets	4,222.7	2,266.5	1,166.2	7,655.4

	Three Months Ended September 29, 2007			
	Seating	Electrical and Electronic	Other	Consolidated
Revenues from external customers	$2,881.4	$ 693.2	$	$3,574.6
Segment earnings	181.2	4.0	(77.2)	108.0
Depreciation and amortization	41.8	25.6	3.3	70.7
Capital expenditures	29.7	14.7	1.4	45.8
Total assets	4,475.2	2,280.8	1,188.7	7,944.7

	Nine Months Ended September 27, 2008			
	Seating	Electrical and Electronic	Other	Consolidated
Revenues from external customers	$8,655.4	$2,314.7	$	$10,970.1
Segment earnings	354.2	71.4	(156.3)	269.3
Depreciation and amortization	133.5	83.2	10.8	227.5

Capital expenditures	84.3	48.2	1.3	133.8
Total assets	4,222.7	2,266.5	1,166.2	7,655.4

	Nine Months Ended September 29, 2007				
	Seating	Electrical and Electronic	Interior	Other	Consolidated
Revenues from external customers	$9,140.1	$2,307.0	$688.9	$	$12,136.0
Segment earnings	617.1	45.0	8.2	(183.1)	487.2
Depreciation and amortization	125.2	82.0	2.3	11.4	220.9
Capital expenditures	76.1	35.0	1.2	1.8	114.1
Total assets	4,475.2	2,280.8		1,188.7	7,944.7

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For the three months ended September 27, 2008, segment earnings include restructuring charges of $32.9 million, $5.1 million and $3.5 million in the seating and electrical and electronic segments and in the other category, respectively. For the nine months ended September 27, 2008, segment earnings include restructuring charges of $85.6 million, $18.1 million and $9.7 million in the seating and electrical and electronic segments and in the other category, respectively. For the three months ended September 29, 2007, segment earnings include restructuring charges of $19.0 million, $6.5 million and $8.0 million in the seating, electrical and electronic segments and in the other category, respectively. For the nine months ended September 29, 2007, segment earnings include restructuring charges of $25.1 million, $37.8 million, $5.0 million and $11.5 million in the seating, electrical and electronic and interior segments and in the other category, respectively (Note 3, Restructuring Activities).

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

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Segment earnings	$ 0.9	$ 108.0	$ 269.3	$ 487.2
Divestiture of Interior business		(17.1)		7.8
Interest expense	46.5	47.5	139.5	150.3
Other expense, net	31.7	17.5	41.8	42.8
Income (loss) before provision for income taxes	$ (77.3)	$ 60.1	$ 88.0	$ 286.3

(17) Financial Instruments

Certain of the Company s European and Asian subsidiaries periodically factor their accounts receivable with financial institutions. Such receivables are factored without recourse to the Company and are excluded from accounts receivable in the accompanying condensed consolidated balance sheets. In the second quarter of 2008, certain of the Company s European subsidiaries entered into extended factoring agreements, which provide for aggregate purchases of specified customer accounts receivable of up to 315 million through April 30, 2011. The level of funding utilized under this European factoring facility is based on the credit ratings of each specified customer. In addition, the facility provider can elect to discontinue the facility in the event that the Company s corporate credit rating declines below B- by Standard & Poor s Ratings Services. In October 2008, Standard and Poor s Ratings Services downgraded the Company s corporate credit rating to B from B+. As of September 27, 2008 and December 31, 2007, the amount of factored receivables was $232.9 million and $103.5 million, respectively. The Company cannot provide any assurances that these factoring facilities will be available or utilized in the future.

Asset-Backed Securitization Facility

Prior to April 30, 2008, the Company and several of its U.S. subsidiaries sold certain accounts receivable to a wholly owned, consolidated, bankruptcy-remote special purpose corporation (Lear ASC Corporation) under an asset-backed securitization facility (the ABS facility). In turn, Lear ASC Corporation transferred undivided interests in up to $150 million of the receivables to bank-sponsored commercial-paper conduits. The ABS facility expired on April 30, 2008, and the Company did not elect to renew the existing facility. As of December 31, 2007, accounts receivable totaling $543.7 million had been transferred to Lear ASC Corporation, but no undivided interests in the receivables were transferred to the conduits. Prior to the expiration of the ABS facility, the Company continued to service the transferred accounts receivable for an annual servicing fee. The conduit investors and Lear ASC Corporation had no

recourse to the Company or its subsidiaries for the failure of the accounts receivable obligors to pay timely on the accounts receivable.

The following table summarizes certain cash flows received from and paid to Lear ASC Corporation (in millions):

	Three Months Ended		**Nine Months Ended**	
	September 27, 2008	**September 29, 2007**	**September 27, 2008**	**September 29, 2007**
Proceeds from collections reinvested in securitizations	$	$ 932.2	$1,214.4	$ 2,685.0
Servicing fees received		1.1	1.7	3.6

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Derivative Instruments and Hedging Activities

Forward foreign exchange, futures and option contracts The Company uses forward foreign exchange, futures and option contracts to reduce the effect of fluctuations in foreign exchange rates on known foreign currency exposures. Gains and losses on the derivative instruments are intended to offset gains and losses on the hedged transaction in an effort to reduce the earnings volatility resulting from fluctuations in foreign exchange rates. The principal currencies hedged by the Company include the Mexican peso and various European currencies. Forward foreign exchange, futures and option contracts are accounted for as cash flow hedges when the hedged item is a forecasted transaction or relates to the variability of cash flows to be received or paid. As of September 27, 2008 and December 31, 2007, contracts designated as cash flow hedges with $489.2 million and $554.4 million, respectively, of notional amount were outstanding with maturities of less than 15 months and 12 months, respectively. As of September 27, 2008 and December 31, 2007, the fair market value of these contracts was approximately $7.0 million and $10.5 million, respectively. As of September 27, 2008 and December 31, 2007, other foreign currency derivative contracts that did not qualify for hedge accounting with $44.3 million and $107.0 million, respectively, of notional amount were outstanding. These foreign currency derivative contracts consist principally of cash transactions with maturities of less than thirty days, hedges of intercompany loans and hedges of certain other balance sheet exposures. As of September 27, 2008 and December 31, 2007, the fair market value of these contracts was approximately $0.5 million and $0.7 million, respectively.

Interest rate swap and other derivative contracts The Company uses interest rate swap and other derivative contracts to manage its exposure to fluctuations in interest rates. Interest rate swap and other derivative contracts which fix the interest payments of certain variable rate debt instruments or fix the market rate component of anticipated fixed rate debt instruments are accounted for as cash flow hedges. Interest rate swap contracts which hedge the change in fair market value of certain fixed rate debt instruments are accounted for as fair value hedges. As of September 27, 2008 and December 31, 2007, contracts with $850.0 million and $600.0 million, respectively, of notional amount were outstanding with maturities through September 2011. All of these contracts modify the variable rate characteristics of the Company s variable rate debt instruments, which are generally set at either one-month or three-month LIBOR rates, such that the interest rates do not exceed a weighted average of 4.64%. As of September 27, 2008 and December 31, 2007, the fair market value of these contracts was approximately negative $15.7 million and negative $17.8 million, respectively. The fair market value of all outstanding interest rate swap and other derivative contracts is subject to changes in value due to changes in interest rates.

Commodity swap contracts The Company uses derivative instruments to reduce its exposure to fluctuations in certain commodity prices. These derivatives are utilized to hedge forecasted inventory purchases and to the extent they qualify and meet special hedge accounting criteria, they are accounted for as cash flow hedges. All other commodity derivative contracts that are not designated as hedges are marked to market with changes in fair value recognized immediately in the condensed consolidated statements of operations (Note 10, Other Expense, Net). As of September 27, 2008 and December 31, 2007, commodity swap contracts with $92.1 million and $48.7 million, respectively, of notional amount were outstanding with maturities of less than 15 months and 12 months, respectively. As of September 27, 2008 and December 31, 2007, the fair market value of these contracts was negative $4.1 million and negative $4.3 million, respectively.

As of September 27, 2008 and December 31, 2007, net losses of approximately $3.8 million and $5.5 million, respectively, related to derivative instruments and hedging activities were recorded in accumulated other comprehensive income. Net gains of $9.3 million and $6.7 million in the three months ended September 27, 2008 and September 29, 2007, respectively, and $19.1 million and $17.5 million in the nine months ended September 27, 2008 and September 29, 2007, respectively, were reclassified from accumulated other comprehensive income into earnings. During the twelve month period ending October 3, 2009, the Company expects to reclassify into earnings net gains of approximately $3.4 million recorded in accumulated other comprehensive income. Such gains will be reclassified at the time the underlying hedged transactions are realized. During the three and nine months ended September 27, 2008

and September 29, 2007, amounts recognized in the accompanying condensed consolidated statements of operations related to changes in the fair value of cash flow and fair value hedges excluded from the effectiveness assessments and the ineffective portion of changes in the fair value of cash flow and fair value hedges were not material.

Non-U.S. dollar financing transactions The Company designated its Euro-denominated senior notes (Note 7, Long-Term Debt) as a net investment hedge of long-term investments in its Euro-functional subsidiaries. As of September 27, 2008, the amount recorded in accumulated other comprehensive income related to the effective portion of the net investment hedge of foreign operations was approximately negative $160.6 million. Although the Euro-denominated senior notes were repaid on April 1, 2008, this amount will be included in accumulated other comprehensive income until the Company liquidates its related investment in its designated foreign operations.

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Fair Value Measurements

The Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Company adopted the provisions of SFAS No. 157 for its financial assets and liabilities and certain nonfinancial assets and liabilities that are measured and/or disclosed at fair value on a recurring basis as of January 1, 2008. The provisions of SFAS No. 157 are effective for nonfinancial assets and liabilities that are measured and/or disclosed at fair value on a nonrecurring basis in the fiscal year beginning after November 15, 2008.

SFAS No. 157 clarifies that fair value is an exit price, defined as a market-based measurement that represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value measurements are based on one or more of the following three valuation techniques noted in SFAS No. 157:

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

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

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

SFAS No. 157 prioritizes the inputs and assumptions used in the valuation techniques described above into a three-tier fair value hierarchy as follows:

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

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

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

Fair value measurements and the related valuation techniques and fair value hierarchy level for the Company s assets and liabilities measured or disclosed at fair value on a recurring basis as of September 27, 2008, are shown below (in millions):

	Frequency	Asset (Liability)	Valuation Technique	Level 1	Level 2	Level 3
Derivative instruments	Recurring	$(12.3)	Market/Income	$	$(12.3)	$

(18) Accounting Pronouncements

Fair Value Option

The FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115. This statement provides entities with the option to measure eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The provisions of this statement are effective as of the beginning of the first fiscal year beginning after November 15, 2007. The Company did not apply the provisions of SFAS No. 159 to any of its existing financial assets or liabilities.

Business Combinations and Noncontrolling Interests

The FASB issued SFAS No. 141 (revised 2007), Business Combinations. This statement significantly changes the financial accounting for and reporting of business combination transactions. The provisions of this statement are to be applied prospectively to business combination transactions in the first annual reporting period beginning on or after December 15, 2008. The Company will evaluate the impact of this statement on future business combinations.

The FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS No. 160 establishes accounting and reporting standards for noncontrolling interests in subsidiaries. This statement requires the

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reporting of all noncontrolling interests as a separate component of stockholders equity, the reporting of consolidated net income as the amount attributable to both the parent and the noncontrolling interests and the separate disclosure of net income attributable to the parent and to the noncontrolling interests. In addition, this statement provides accounting and reporting guidance related to changes in noncontrolling ownership interests. With the exception of the reporting requirements described above which require retrospective application, the provisions of SFAS No. 160 are to be applied prospectively in the first annual reporting period beginning on or after December 15, 2008. As of September 27, 2008 and December 31, 2007, noncontrolling interests of $42.5 million and $26.8 million, respectively, are recorded in other long-term liabilities in the accompanying condensed consolidated balance sheets. Net income attributable to noncontrolling interests of $5.8 million and $16.3 million in the three and nine months ended September 27, 2008, respectively, and $6.4 million and $19.8 million in the three and nine months ended September 29, 2007, respectively, are recorded in other expense, net in the accompanying condensed consolidated statements of operations.

Derivative Instruments and Hedging Activities

The FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced disclosures regarding (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity s financial position, performance and cash flows. The provisions of this statement are effective for the fiscal year and interim periods beginning after November 15, 2008. The Company is currently evaluating the provisions of this statement.

Hierarchy of Generally Accepted Accounting Principles

The FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the accounting principles to be used in the preparation of financial statements presented in conformity with generally accepted accounting principles in the United States. This statement is effective sixty days after approval by the Securities and Exchange Commission. The Company does not expect the effects of adoption to be significant.

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(19) Supplemental Guarantor Condensed Consolidating Financial Statements

	September 27, 2008				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 107.2	$ 4.8	$ 411.2	$	$ 523.2
Accounts receivable	13.1	214.8	1,757.9		1,985.8
Inventories	9.7	115.7	556.9		682.3
Other	72.4	35.5	344.1		452.0
Total current assets	202.4	370.8	3,070.1		3,643.3
LONG-TERM ASSETS:					
Property, plant and equipment, net	148.1	186.6	987.2		1,321.9
Goodwill, net	454.5	551.2	1,046.7		2,052.4
Investments in subsidiaries	4,370.5	3,899.9		(8,270.4)	
Other	239.8	43.5	354.5		637.8
Total long-term assets	5,212.9	4,681.2	2,388.4	(8,270.4)	4,012.1
	$ 5,415.3	$ 5,052.0	$ 5,458.5	$ (8,270.4)	$ 7,655.4
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Short-term borrowings	$	$ 2.0	$ 28.8	$	$ 30.8
Accounts payable and drafts	90.9	206.2	1,942.9		2,240.0
Accrued liabilities	188.0	198.5	799.6		1,186.1
Current portion of long-term debt	6.0		5.8		11.8
Total current liabilities	284.9	406.7	2,777.1		3,468.7
LONG-TERM LIABILITIES:					
Long-term debt	2,286.5		10.8		2,297.3
Intercompany accounts, net	1,595.6	898.7	(2,494.3)		
Other	116.7	74.4	566.7		757.8
Total long-term liabilities	3,998.8	973.1	(1,916.8)		3,055.1
STOCKHOLDERS EQUITY	1,131.6	3,672.2	4,598.2	(8,270.4)	1,131.6
	$ 5,415.3	$ 5,052.0	$ 5,458.5	$ (8,270.4)	$ 7,655.4

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

	December 31, 2007				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
	(In millions)				
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 189.9	$ 6.1	$ 405.3	$	$ 601.3
Accounts receivable	10.0	229.8	1,907.8		2,147.6
Inventories	11.7	104.8	489.0		605.5
Other	67.4	36.3	259.9		363.6
Total current assets	279.0	377.0	3,062.0		3,718.0
LONG-TERM ASSETS:					
Property, plant and equipment, net	170.5	220.5	1,001.7		1,392.7
Goodwill, net	454.5	551.2	1,048.3		2,054.0
Investments in subsidiaries	4,558.7	3,681.3		(8,240.0)	
Other	240.1	17.3	378.3		635.7
Total long-term assets	5,423.8	4,470.3	2,428.3	(8,240.0)	4,082.4
	$ 5,702.8	$ 4,847.3	$ 5,490.3	$ (8,240.0)	$ 7,800.4
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Short-term borrowings	$	$ 2.1	$ 11.8	$	$ 13.9
Accounts payable and drafts	117.3	291.7	1,854.8		2,263.8
Accrued liabilities	202.3	219.1	808.7		1,230.1
Current portion of long-term debt	87.0		9.1		96.1
Total current liabilities	406.6	512.9	2,684.4		3,603.9
LONG-TERM LIABILITIES:					
Long-term debt	2,331.0		13.6		2,344.6
Intercompany accounts, net	1,751.8	(7.1)	(1,744.7)		
Other	122.7	124.7	513.8		761.2
Total long-term liabilities	4,205.5	117.6	(1,217.3)		3,105.8
STOCKHOLDERS EQUITY	1,090.7	4,216.8	4,023.2	(8,240.0)	1,090.7
	$ 5,702.8	$ 4,847.3	$ 5,490.3	$ (8,240.0)	$ 7,800.4

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

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

	For the Three Months Ended September 27, 2008				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net sales	$ 118.2	$ 680.7	$ 3,169.2	$ (834.6)	$ 3,133.5
Cost of sales	133.6	679.9	3,025.9	(834.6)	3,004.8
Selling, general and administrative expenses	38.8	6.8	82.2		127.8
Interest (income) expense	23.9	31.3	(8.7)		46.5
Intercompany (income) expense, net	(70.7)	3.6	67.1		
Other (income) expense, net	(1.2)	5.7	27.2		31.7
Loss before income taxes and equity in net (income) loss of subsidiaries	(6.2)	(46.6)	(24.5)		(77.3)
Provision (benefit) for income taxes		(1.2)	22.1		20.9
Equity in net (income) loss of subsidiaries	92.0	(3.1)		(88.9)	
Net loss	$ (98.2)	$ (42.3)	$ (46.6)	$ 88.9	$ (98.2)

	For the Three Months Ended September 29, 2007				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net sales	$ 191.1	$ 1,108.6	$ 3,267.2	$ (992.3)	$ 3,574.6
Cost of sales	201.7	1,059.2	3,038.7	(992.3)	3,307.3
Selling, general and administrative expenses	56.4	17.0	85.9		159.3
Divestiture of Interior business	(17.8)	(0.1)	0.8		(17.1)
Interest (income) expense	22.7	30.2	(5.4)		47.5
Intercompany (income) expense, net	(18.0)	(7.7)	25.7		
Other (income) expense, net	(1.8)	11.3	8.0		17.5
Income (loss) before income taxes and equity in net income of subsidiaries	(52.1)	(1.3)	113.5		60.1

Provision for income taxes	3.1	3.0	13.0		19.1
Equity in net income of subsidiaries	(96.2)	(65.0)		161.2	
Net income	$ 41.0	$ 60.7	$ 100.5	$ (161.2)	$ 41.0

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

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

	For the Nine Months Ended September 27, 2008				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net sales	$ 394.1	$ 2,643.8	$ 10,810.1	$ (2,877.9)	$ 10,970.1
Cost of sales	450.4	2,577.2	10,134.5	(2,877.9)	10,284.2
Selling, general and administrative expenses	115.8	20.9	279.9		416.6
Interest (income) expense	94.0	70.6	(25.1)		139.5
Intercompany (income) expense, net	(196.4)	10.3	186.1		
Other (income) expense, net	(0.6)	13.0	29.4		41.8
Income (loss) before income taxes and equity in net income of subsidiaries	(69.1)	(48.2)	205.3		88.0
Provision for income taxes		0.7	89.0		89.7
Equity in net income of subsidiaries	(67.4)	(138.4)		205.8	
Net income (loss)	$ (1.7)	$ 89.5	$ 116.3	$ (205.8)	$ (1.7)

	For the Nine Months Ended September 29, 2007				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net sales	$ 755.9	$ 3,951.7	$ 10,536.9	$ (3,108.5)	$ 12,136.0
Cost of sales	759.5	3,825.3	9,743.9	(3,108.5)	11,220.2
Selling, general and administrative expenses	140.4	46.2	242.0		428.6
Divestiture of Interior business	(34.9)	28.1	14.6		7.8
Interest (income) expense	69.7	88.5	(7.9)		150.3
Intercompany (income) expense, net	(116.6)	7.3	109.3		
Other (income) expense, net	(4.8)	31.6	16.0		42.8
Income (loss) before income taxes and equity in net income of subsidiaries	(57.4)	(75.3)	419.0		286.3

Provision (benefit) for income taxes	4.3	(6.8)	74.3		71.8
Equity in net income of subsidiaries	(276.2)	(157.0)		433.2	
Net income	$ 214.5	$ 88.5	$ 344.7	$ (433.2)	$ 214.5

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

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

	For the Nine Months Ended September 27, 2008				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				
Net cash provided by (used in) operating activities	$ (33.7)	$ (170.4)	$ 439.2	$	$ 235.1
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(4.8)	(12.8)	(116.2)		(133.8)
Other, net	(6.7)	(10.9)	6.1		(11.5)
Net cash used in investing activities	(11.5)	(23.7)	(110.1)		(145.3)
Cash Flows from Financing Activities:					
Primary credit facility repayments, net	(3.0)				(3.0)
Repayment of senior notes	(130.8)				(130.8)
Other long-term debt repayments, net	(17.0)		(5.8)		(22.8)
Short-term debt repayments, net		(0.1)	(0.1)		(0.2)
Repurchase of common stock	(4.2)				(4.2)
Decrease in drafts	(3.7)	(0.2)	(0.2)		(4.1)
Change in intercompany accounts	121.2	196.0	(317.2)		
Net cash provided by (used in) financing activities	(37.5)	195.7	(323.3)		(165.1)
Effect of foreign currency translation		(2.9)	0.1		(2.8)
Net Change in Cash and Cash Equivalents	(82.7)	(1.3)	5.9		(78.1)
Cash and Cash Equivalents as of Beginning of Period	189.9	6.1	405.3		601.3
Cash and Cash Equivalents as of End of Period	$ 107.2	$ 4.8	$ 411.2	$	$ 523.2

	For the Nine Months Ended September 29, 2007				
	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
	(Unaudited; in millions)				

Net cash provided (used in) by operating activities	$ (109.1)	$ (50.8)	$ 469.4	$	$ 309.5
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(6.7)	(24.4)	(83.0)		(114.1)
Divestiture of Interior business	(14.8)	(12.9)	(20.6)		(48.3)
Other, net	2.0	(1.0)	(29.8)		(28.8)
Net cash used in investing activities	(19.5)	(38.3)	(133.4)		(191.2)
Cash Flows from Financing Activities:					
Primary credit facility repayments, net	(3.0)				(3.0)
Other long-term debt repayments, net	(1.9)		(7.8)		(9.7)
Short-term debt borrowings (repayments), net		2.1	(13.2)		(11.1)
Proceeds from exercise of stock options	7.4				7.4
Increase (decrease) in drafts	0.5	(0.8)	(8.1)		(8.4)
Change in intercompany accounts	193.1	95.3	(288.4)		
Net cash provided by (used in) financing activities	196.1	96.6	(317.5)		(24.8)
Effect of foreign currency translation		(2.0)	7.8		5.8
Net Change in Cash and Cash Equivalents	67.5	5.5	26.3		99.3
Cash and Cash Equivalents as of Beginning of Period	195.8	4.0	302.9		502.7
Cash and Cash Equivalents as of End of Period	$ 263.3	$ 9.5	$ 329.2	$	$ 602.0

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

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

Basis of Presentation Certain of the Company s wholly owned subsidiaries (the Guarantors) have unconditionally fully guaranteed, on a joint and several basis, the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all of the Company s obligations under the amended primary credit facility and the indentures governing the Company s senior notes, including the Company s obligations to pay principal, premium, if any, and interest with respect to the senior notes. The senior notes consist of $300 million aggregate principal amount of 8.50% senior notes due 2013, $600 million aggregate principal amount of 8.75% senior notes due 2016, $399.5 million aggregate principal amount of 5.75% senior notes due 2014 and $0.8 million aggregate principal amount of zero-coupon convertible senior notes due 2022. The Company repaid its previously outstanding 55.6 million aggregate principal amount of senior notes on April 1, 2008, the maturity date. Additionally, the Company redeemed its previously outstanding $41.4 million aggregate principal amount of 8.11% senior notes due 2009 on August 4, 2008. The Guarantors under the indentures are currently Lear Automotive Dearborn, Inc., Lear Automotive (EEDS) Spain S.L., Lear Corporation EEDS and Interiors, Lear Corporation (Germany) Ltd., Lear Corporation Mexico, S. de R.L. de C.V., Lear Operations Corporation and Lear Seating Holdings Corp. #50. In lieu of providing separate financial statements for the Guarantors, the Company has included the supplemental guarantor condensed consolidating financial statements above. These financial statements reflect the guarantors listed above for all periods presented. Management does not believe that separate financial statements of the Guarantors are material to investors. Therefore, separate financial statements and other disclosures concerning the Guarantors are not presented.

As of December 31, 2007 and for the three and nine months ended September 29, 2007, the supplemental guarantor condensed consolidating financial statements have been restated to reflect certain changes to the equity investments of guarantor subsidiaries.

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

Selling, General and Administrative Expenses The Parent allocated ($0.3) million and $5.0 million in the three months ended September 27, 2008 and September 29, 2007, respectively, and $9.7 million and $14.1 million in the nine months ended September 27, 2008 and September 29, 2007, respectively, of corporate selling, general and administrative expenses to its operating subsidiaries. The allocations were based on various factors, which estimate usage of particular corporate functions, and in certain instances, other relevant factors, such as the revenues or the number of employees of the Company s subsidiaries.

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

	September 27, 2008	December 31, 2007
Primary credit facility	$ 988.0	$ 991.0
Senior notes	1,300.3	1,422.6
Other long-term debt	4.2	4.4
	2,292.5	2,418.0
Less current portion	(6.0)	(87.0)
	$ 2,286.5	$ 2,331.0

The obligations of foreign subsidiary borrowers under the amended primary credit facility are guaranteed by the Parent.

For more information on the above indebtedness, see Note 7, Long-Term Debt.

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

EXECUTIVE OVERVIEW

We were incorporated in Delaware in 1987 and are one of the world s largest automotive suppliers based on sales. We supply every major automotive manufacturer in the world, including General Motors, Ford, BMW, Fiat, Chrysler, PSA, Volkswagen, Hyundai, Renault-Nissan, Daimler, Mazda, Toyota, Porsche and Honda.

We supply automotive manufacturers with complete automotive seat and electrical distribution systems and select electronic products. Our strategy is to continue to strengthen our market position in seating globally, to leverage our competency in electrical distribution systems and electronic components and to achieve increased scale and global capabilities in our core products. Historically, we also supplied automotive interior components and systems, including instrument panels and cockpit systems, headliners and overhead systems, door panels and flooring and acoustic systems. We have divested substantially all of the assets of this segment to joint ventures in which we hold a minority interest.

Interior Segment

In 2007, we completed the transfer of substantially all of the assets of our North American interior business (as well as our interests in two China joint ventures) to International Automotive Components Group North America, Inc. (IAC). In addition, one of our wholly owned subsidiaries obtained an equity interest in International Automotive Components Group North America, LLC (IAC North America) (together, the IAC North America Transaction). In connection with the IAC North America Transaction, we recorded a loss on divestiture of approximately $612 million, of which approximately $5 million was recognized in 2007 ($2 million recognized in the first nine months of 2007) and $607 million was recognized in the fourth quarter of 2006. We also recognized additional costs related to the IAC North America Transaction of approximately $10 million, which are recorded in cost of sales and selling, general and administrative expenses in the accompanying condensed consolidated statement of operations for the nine months ended September 29, 2007.

We monitor our investments in unconsolidated affiliates for indicators of other-than-temporary declines in value on an ongoing basis. As a result of rapidly deteriorating industry conditions, IAC North America has recently experienced a decrease in its operating results. A further deterioration of industry conditions and decline in its operating results could result in impairment charges. See Other Matters Significant Accounting Policies and Critical Accounting Estimates.

In 2006, we completed the contribution of substantially all of our European interior business to International Automotive Components Group, LLC (IAC Europe), a separate joint venture with affiliates of WL Ross and Franklin, in exchange for an approximately one-third equity interest in IAC Europe (the IAC Europe Transaction). In connection with the IAC Europe Transaction, we recorded a loss on divestiture of approximately $35 million, of which approximately $6 million was recognized in 2007 ($6 million recognized in the first nine months of 2007) and $29 million was recognized in 2006.

For further information related to the divestiture of our interior business, see Note 4, Divestiture of Interior Business, to the consolidated financial statements included in our Annual Report on Form 10-K/A for the year ended December 31, 2007.

Industry Overview

Demand for our products is directly related to automotive vehicle production. Automotive sales and production can be affected by general economic or industry conditions, labor relations issues, fuel prices, regulatory requirements, trade agreements and other factors. Our operating results are also significantly impacted by what is referred to in this section as vehicle platform mix ; that is, the overall commercial success of the vehicle platforms for which we supply particular products, as well as our relative profitability on these platforms. In addition, it is possible that customers could elect to manufacture components internally that are currently produced by external suppliers, such as Lear. A significant loss of business with respect to any vehicle model for which we are a significant supplier, or a decrease in the production levels of any such models, could have a material adverse impact on our future operating results. In this regard, a continuation of the shift in consumer purchasing patterns from certain of our key light truck and SUV

platforms toward passenger cars, crossover vehicles or other vehicle platforms where we generally have substantially less content will adversely affect our future operating results. In addition, our two largest customers, General Motors and Ford, accounted for approximately 42% of our net sales in 2007, excluding net sales to Saab, Volvo, Jaguar and Land Rover, which were affiliates of General Motors or Ford. The automotive operations of both General Motors and Ford experienced significant operating losses throughout 2007 and 2008, and both automakers are continuing to restructure their North American operations, which could have a material impact on our future operating results.

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Automotive industry conditions in North America and Europe have become increasingly challenging. In North America, the industry is characterized by significant overcapacity, fierce competition and declining sales. In Europe, the market structure is more fragmented with significant overcapacity, and several of our key platforms have experienced production declines. We expect these challenging industry conditions to continue in the foreseeable future. During the first nine months of 2008, North American production levels declined by approximately 14% from the comparable period in 2007, and production levels on several of our key platforms declined more significantly. Weak demand for full-size pickup trucks and large SUVs lowered production volumes in North America and adversely impacted our operating results during the first nine months of 2008.

Historically, the majority of our sales and operating profit has been derived from the U.S.-based automotive manufacturers in North America and, to a lesser extent, automotive manufacturers in Western Europe. These customers have experienced declines in market share in their traditional markets. In addition, a disproportionate share of our net sales and profitability in North America has been on light truck and large SUV platforms of the domestic automakers, which are experiencing significant competitive pressures. As discussed below, our ability to maintain and improve our financial performance in the future will depend, in part, on our ability to significantly increase our penetration of Asian automotive manufacturers worldwide and leverage our existing North American and European customer base geographically and across both product lines.

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

Our material cost as a percentage of net sales was 69.4% in the first nine months of 2008 as compared to 68.0% in 2007 and 68.8% in 2006. Raw material, energy and commodity costs have increased significantly over the past several years. Unfavorable industry conditions have also resulted in financial distress within our supply base and an increase in commercial disputes and the risk of supply disruption. We have developed and implemented strategies to mitigate or partially offset the impact of higher raw material, energy and commodity costs, which include cost reduction actions, the utilization of our cost technology optimization process, the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments and the acceleration of low-cost country sourcing and engineering. However, due to the magnitude and duration of the increased raw material, energy and commodity costs, these strategies, together with commercial negotiations with our customers and suppliers, offset only a portion of the adverse impact. In addition, higher crude oil prices indirectly impact our operating results by adversely affecting demand for certain of our key light truck and large SUV platforms. Energy costs and the prices of several of our key raw materials have increased substantially. In particular, in the third quarter of 2008, hot rolled steel average prices increased 74% and crude oil average prices increased 57% from the comparable period in 2007 in North America. Although raw material, energy and commodity costs have recently moderated, these increases are likely to have an adverse impact on our operating results in the foreseeable future. See Forward-Looking Statements and Part II Item 1A, Risk Factors High raw material costs may continue to have a significant adverse impact on our profitability, included in this Report.

Outlook

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

Asian market and with Asian automotive manufacturers worldwide. In addition, we have improved our low-cost country manufacturing capabilities through expansion in Asia, Eastern Europe, Africa, Central America and Mexico. Our success in generating cash flow will depend, in part, on our ability to manage working capital efficiently. Working capital can be significantly impacted by the timing of cash flows from sales and purchases. Historically, we have generally been successful in aligning our vendor payment terms with our customer payment terms. However, our ability to continue to do so may be adversely impacted by the unfavorable financial results of our suppliers and adverse industry conditions, as well as our financial results. In addition, our cash flow is impacted by our ability to manage our capital spending efficiently. We utilize return on investment as a measure of the efficiency with which assets are deployed to increase earnings. Improvements in our return on investment will depend on our ability to maintain an appropriate asset base for our business and to increase productivity and operating efficiency.

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Recent market events, including an unfavorable global economic environment and a widening international credit crisis, are adversely impacting global automotive demand and will significantly impact our operating results in the foreseeable future. In light of these events, we recently announced a $150 million operating improvement plan to strengthen operating results and increase financial flexibility over the next twelve months. This initiative is primarily comprised of actions to further reduce structural costs, defer certain discretionary investments and re-prioritize or delay certain restructuring actions. Specific actions include:

- Reducing program development costs, consistent with the significantly lower production outlook
- Acceleration of low-cost engineering and sourcing initiatives
- More targeted investments in growth initiatives, focused on high priority programs
- Further reductions in procurement, manufacturing, engineering and logistics costs to reflect present business conditions
- Further census reductions, temporary layoffs and additional thrifting of personnel-related costs
- Re-timing and selective reductions in restructuring spending
- Aggressive working capital management and capital spending efficiencies
- Other commercial actions and supply base consolidation

In addition, we elected to borrow $400 million under our revolving credit facility in October to protect against possible short-term disruptions in the credit markets.

We believe that these actions will be successful, however, a prolonged economic downturn could negatively impact our financial condition, including the realization of long-lived assets and compliance with the financial covenants included in our debt agreements. While we intend to take aggressive actions to remain in compliance with the financial covenants, our future financial results will be subject to certain factors outside of our control, such as automotive production levels and customer capacity actions. We will continue to closely monitor industry and capital market conditions and intend to be proactive in maintaining our financial flexibility. However, no assurances can be given regarding the length or severity of the economic downturn and its ultimate impact on our financial results. See Part II Item 1A, Risk Factors We have substantial indebtedness, which could restrict our business activities, included in this Report.

Restructuring

In 2005, we implemented a comprehensive restructuring strategy intended to (i) better align our manufacturing capacity with the changing needs of our customers, (ii) eliminate excess capacity and lower our operating costs and (iii) streamline our organizational structure and reposition our business for improved long-term profitability. In connection with these restructuring actions, we incurred pretax restructuring costs of approximately $351 million and related manufacturing inefficiency charges of approximately $35 million through 2007.

In 2008, we expect to incur restructuring and related manufacturing inefficiency costs of approximately $150 million. In light of current industry conditions and recent customer announcements in North America, we expect restructuring and related investments of approximately $100 million in 2009. In connection with our prior restructuring actions and current activities, we recorded restructuring charges of approximately $114 million and related manufacturing inefficiency charges of approximately $14 million in the first nine months of 2008.

Other Matters

In the third quarter of 2008, we recognized a tax benefit of $9 million related to a reduction in recorded tax reserves, a tax benefit of $18 million related to the reversal of a valuation allowance in a European subsidiary and tax expense of $22 million related to the establishment of a valuation allowance in another European subsidiary.

In the three and nine months ended September 29, 2007, we recognized $25 million and $37 million, respectively, in costs related to an Agreement and Plan of Merger, as amended (the AREP merger agreement), with AREP Car Holdings Corp. and AREP Car Acquisition Corp., which was terminated in the third quarter of 2007. In the first quarter of 2007, we recognized a curtailment gain of $36 million related to our decision to freeze our U.S. salaried pension plan, as well as a loss of $4 million related to the acquisition of the minority interest in an affiliate. In the second quarter of 2007, we recognized a tax benefit of $13 million related to a reversal of a valuation allowance in a European subsidiary and in the third quarter of 2007, we recognized a tax benefit of $17 million related to a tax rate change in Germany. For further information regarding the AREP merger agreement, see Part II Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Merger Agreement, in our Annual Report on Form 10-K/A for the year ended December 31, 2007.

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As discussed above, our results for the first nine months of 2008 and 2007 reflect the following items (in millions):

	Three months ended		Nine months ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Costs related to divestiture of Interior business	$	$ (17)	$	$ 18
Costs related to restructuring actions, including manufacturing inefficiencies of $4 million and $14 million in the three and nine months ended September 27, 2008, respectively, and $4 million and $9 million in the three and nine months ended September 29, 2007, respectively	46	37	128	88
U.S. salaried pension plan curtailment gain				(36)
Costs related to merger transaction		25		37
Loss on joint venture transaction				4
Tax benefit	(5)	(17)	(5)	(30)

For further information regarding these items, see Restructuring and Note 2, Divestiture of Interior Business, Note 3, Restructuring Activities, Note 8, Pension and Other Postretirement Benefit Plans, and Note 10, Other Expense, Net, to the accompanying condensed consolidated financial statements.

This section includes forward-looking statements that are subject to risks and uncertainties. For further information regarding other factors that have had, or may have in the future, a significant impact on our business, financial condition or results of operations, see Forward-Looking Statements below and Part II Item 1A, Risk Factors, in our Annual Report on Form 10-K/A for the year ended December 31, 2007, as supplemented below in Part II Item 1A, Risk Factors, in this Report.

RESULTS OF OPERATIONS

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

	Three Months Ended				Nine Months Ended			
	September 27, 2008		September 29, 2007		September 27, 2008		September 29, 2007	
Net sales								
Seating	$ 2,478.1	79.1%	$ 2,881.4	80.6%	$ 8,655.4	78.9%	$ 9,140.1	75.3%
Electrical and electronic	655.4	20.9	693.2	19.4	2,314.7	21.1	2,307.0	19.0
Interior							688.9	5.7
Net sales	3,133.5	100.0	3,574.6	100.0	10,970.1	100.0	12,136.0	100.0
Gross profit	128.7	4.1	267.3	7.5	685.9	6.3	915.8	7.5
Selling, general and administrative expenses	127.8	4.1	159.3	4.5	416.6	3.8	428.6	3.5
Divestiture of Interior business			(17.1)	(0.5)			7.8	0.1
Interest expense	46.5	1.5	47.5	1.4	139.5	1.3	150.3	1.2

Other expense, net	31.7	1.0	17.5	0.5	41.8	0.4	42.8	0.3
Provision for income taxes	20.9	0.6	19.1	0.5	89.7	0.8	71.8	0.6
Net income (loss)	$ (98.2)	(3.1)%	$ 41.0	1.1%	$ (1.7)	%	$ 214.5	1.8%

Three Months Ended September 27, 2008 vs. Three Months Ended September 29, 2007

Net sales in the third quarter of 2008 were $3.1 billion as compared to $3.6 billion in the third quarter of 2007, a decrease of $441 million or 12.3%. Lower industry production volumes and unfavorable vehicle platform mix, particularly in North America, negatively impacted net sales by $677 million. This decrease was partially offset by the impact of net foreign exchange rate fluctuations, which increased net sales by $161 million.

Gross profit and gross margin were $129 million and 4.1% in the quarter ended September 27, 2008, as compared to $267 million and 7.5% in the quarter ended September 29, 2007. The impact of lower industry production volumes and unfavorable vehicle platform mix, particularly in North America, reduced gross profit by $180 million. The impact of net selling price reductions and increased

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commodity costs also contributed to the decline in gross profit. These decreases were partially offset by the benefit of our productivity and restructuring actions and lower compensation-related expenses.

Selling, general and administrative expenses, including research and development, were $128 million in the three months ended September 27, 2008, as compared to $159 million in the three months ended September 29, 2007. As a percentage of net sales, selling, general and administrative expenses were 4.1% in the third quarter of 2008 and 4.5% in the third quarter of 2007. The decrease in selling, general and administrative expenses was largely due to costs related to the termination of the AREP merger agreement of $25 million incurred in the third quarter of 2007, as well as lower compensation-related expenses in the third quarter of 2008.

Interest expense was $47 million in the third quarter of 2008 as compared to $48 million in the third quarter of 2007. This decrease was primarily due to lower borrowing costs in the third quarter of 2008.

Other expense, which includes non-income related taxes, foreign exchange gains and losses, discounts and expenses associated with our asset-backed securitization and factoring facilities, gains and losses related to derivative instruments and hedging activities, minority interests in consolidated subsidiaries, equity in net income (loss) of affiliates, gains and losses on the sales of assets and other miscellaneous income and expense, was $32 million in the third quarter of 2008 as compared to $18 million in the third quarter of 2007. The increase in other expense was primarily due to an increase in foreign exchange losses, an increase in losses related to derivative instruments and hedging activities and an increase in equity in net loss of affiliates, primarily IAC North America and IAC Europe. In addition, we recognized a loss on the sale of a business and a loss on the extinguishment of debt in the third quarter of 2008.

The provision for income taxes was $21 million in the third quarter of 2008, representing an effective tax rate of negative 27.0% on a pretax loss of $77 million, as compared to $19 million in the third quarter of 2007, representing an effective tax rate of 31.8% on pretax income of $60 million. The provision for income taxes in the third quarter of 2008 was impacted by a portion of our restructuring charges, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. The provision was also impacted by a tax benefit of $9 million, including interest, related to a reduction in recorded tax reserves, a tax benefit of $18 million related to the reversal of a valuation allowance in a European subsidiary and tax expense of $22 million related to the establishment of a valuation allowance in another European subsidiary. Excluding these items, the effective tax rate in the third quarter of 2008 approximated the U.S. federal statutory income tax rate of 35% adjusted for income taxes on foreign earnings, losses and remittances, foreign and U.S. valuation allowances, tax credits, income tax incentives and other permanent items. The provision for income taxes in the third quarter of 2007 was impacted by a portion of our restructuring charges and costs related to the termination of the AREP merger agreement, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. This was largely offset by a reduction in losses of $17 million related to the divestiture of our interior business, a significant portion of which resulted in no tax expense as it was incurred in the United States, as well as the impact of a tax benefit of $17 million related to a tax rate change in Germany. Further, our current and future provision for income taxes is significantly impacted by the initial recognition of and changes in valuation allowances in certain countries, particularly the United States. We intend to maintain these allowances until it is more likely than not that the deferred tax assets will be realized. Our future income tax expense will include no tax benefit with respect to losses incurred and no tax expense with respect to income generated in these countries until the respective valuation allowance is eliminated. Accordingly, income taxes are impacted by the U.S. and foreign valuation allowances and the mix of earnings among jurisdictions.

Net loss in the third quarter of 2008 was $98 million, or $1.27 per diluted share, as compared to net income of $41 million, or $0.52 per diluted share, in the third quarter of 2007, for the reasons described above.

Reportable Operating Segments

Historically, we have had three reportable operating segments: seating, which includes seat systems and the components thereof; electrical and electronic, which includes electrical distribution systems and electronic products, primarily wire harnesses, junction boxes, terminals and connectors and various electronic control modules, as well as

audio sound systems and in-vehicle television and video entertainment systems; and interior, which has been divested and included instrument panels and cockpit systems, headliners and overhead systems, door panels, flooring and acoustic systems and other interior products. For further information related to our interior business, see Note 2, Divestiture of Interior Business, to the accompanying condensed consolidated financial statements. The financial information presented below is for our three reportable operating segments and our other category for the periods presented. The other category includes unallocated costs related to corporate headquarters, geographic headquarters and the elimination of intercompany activities, none of which meets the requirements of being classified as an operating segment. Corporate and geographic headquarters costs include various support functions, such as information technology, purchasing, corporate finance,

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legal, executive administration and human resources. Financial measures regarding each segment s income (loss) before divestiture of Interior business, interest expense, other expense and provision for income taxes (segment earnings) and segment earnings divided by net sales (margin) are not measures of performance under accounting principles generally accepted in the United States (GAAP). Segment earnings and the related margin are used by management to evaluate the performance of our reportable operating segments. Segment earnings should not be considered in isolation or as a substitute for net income (loss), net cash provided by operating activities or other statement of operations or cash flow statement data prepared in accordance with GAAP or as measures of profitability or liquidity. In addition, segment earnings, as we determine it, may not be comparable to related or similarly titled measures reported by other companies. For a reconciliation of consolidated segment earnings to consolidated income (loss) before provision for income taxes, see Note 16, Segment Reporting, to the accompanying condensed consolidated financial statements.

Seating

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

	Three months ended	
	September 27, 2008	**September 29, 2007**
Net sales	$2,478.1	$ 2,881.4
Segment earnings [1]	40.9	181.2
Margin	1.7%	6.3%

(1) See definition above.

Seating net sales were $2.5 billion in the third quarter of 2008 as compared to $2.9 billion in the third quarter of 2007. Lower industry production volumes and unfavorable vehicle platform mix, particularly in North America, negatively impacted net sales by $571 million. This decrease was partially offset by the impact of net foreign exchange rate fluctuations, which increased net sales by $116 million. Segment earnings and the related margin on net sales were $41 million and 1.7% in the third quarter of 2008 as compared to $181 million and 6.3% in the third quarter of 2007. The decline in segment earnings was largely due to the net impact of lower industry production volumes and unfavorable vehicle platform mix, which negatively impacted segment earnings by $148 million. The impact of net selling price reductions and increased commodity costs also contributed to the decline in segment earnings. These decreases were partially offset by lower compensation-related expenses and the benefit of our productivity and restructuring actions. In addition, in the third quarter of 2008, we incurred costs related to our restructuring actions of $35 million as compared $20 million in the third quarter of 2007.

Electrical and electronic

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

	Three months ended	
	September 27, 2008	**September 29, 2007**
Net sales	$655.4	$ 693.2
Segment earnings [1]	4.9	4.0
Margin	0.7%	0.6%

(1) See definition above.

Electrical and electronic net sales were $655 million in the third quarter of 2008 as compared to $693 million in the third quarter of 2007. Lower industry production volumes and unfavorable vehicle platform mix negatively impacted net sales by $106 million. This decrease was partially offset by the impact of net foreign exchange rate fluctuations and the benefit of new business outside of North America, which favorably impacted net sales by $46 million and $34 million, respectively. Segment earnings and the related margin on net sales were $5 million and 0.7% in the third quarter of 2008 as compared to $4 million and 0.6% in the third quarter of 2007. The benefit of our productivity and restructuring actions and lower compensation-related expenses were more than offset by lower industry production volumes and net selling price reductions. In addition, in the third quarter of 2008, we incurred costs related to our restructuring actions of $7 million as compared $10 million in the third quarter of 2007.

Interior

We substantially completed the divestiture of our interior business in the first quarter of 2007. See Executive Overview for further information.

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Other

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

	Three months ended	
	September 27, 2008	September 29, 2007
Net sales	$	$
Segment earnings [1]	(44.9)	