

Remy International, Inc.

Annual Report December 31, 2009

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Report of Independent Auditors

The Board of Directors and Shareholders of
Remy International, Inc.

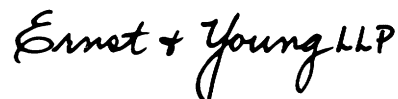
We have audited the accompanying consolidated balance sheets of Remy International, Inc. (the Company) as of December 31, 2009 and 2008 (Successor), and the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for the years ended December 31, 2009 and 2008 (Successor), one month ended December 31, 2007 (Successor), and the eleven months ended November 30, 2007 (Predecessor). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Remy International, Inc. at December 31, 2009 and 2008 (Successor), and the consolidated results of its operations and its cash flows for the years ended December 31, 2009 and 2008 (Successor), the one month ended December 31, 2007 (Successor), and the eleven months ended November 30, 2007 (Predecessor), in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 2009 the Company changed its accounting principle with respect to financing costs associated with accounts receivable factoring arrangements.

Also, as discussed in Notes 2 and 26 to the consolidated financial statements, on November 20, 2007, the United States Bankruptcy Court for the District of Delaware entered into an order confirming the Plan of Reorganization which became effective December 6, 2007. Accordingly, the accompanying consolidated financial statements have been prepared in conformity with Accounting Standards Codification 852-10, *Reorganizations*, for the Successor Company as a new entity with assets, liabilities, and a capital structure having carrying values not comparable with the prior period of the Predecessor Company.



April 18, 2010

Remy International, Inc.
Consolidated Balance Sheets

Successor

(In thousands of dollars, except share information)	December 31, 2009	December 31, 2008
Assets:		
Current assets:		
Cash and cash equivalents	\$ 30,171	\$ 18,744
Trade accounts receivable (less allowances of \$2,927 and \$4,642)	164,588	129,029
Other receivables	16,845	25,601
Inventories	130,506	173,246
Deferred income taxes	3,163	4,696
Assets held for sale	-	6,000
Prepaid expenses and other current assets	7,334	3,930
Total current assets	352,607	361,246
Property, plant and equipment	172,715	158,958
Less accumulated depreciation and amortization	37,235	18,947
Property, plant and equipment, net	135,480	140,011
Deferred financing costs, net of amortization	2,523	3,227
Goodwill	273,786	272,580
Intangibles, net	134,312	124,706
Other noncurrent assets	28,547	27,447
Total assets	\$ 927,255	\$ 929,217
Liabilities and Equity:		
Current liabilities:		
Short-term debt	\$ 22,969	\$ 23,335
Accounts payable	128,100	109,927
Accrued interest	1,592	1,626
Accrued restructuring	2,190	6,923
Other current liabilities and accrued expenses	122,693	121,089
Current maturities of long-term debt	2,340	28,456
Total current liabilities	279,884	291,356
Long-term debt, less current maturities:		
Senior Secured Revolver Credit Agreement	3,237	26,155
First Lien Credit Agreement	147,817	148,340
Second Lien Credit Agreement	49,625	49,561
Third-Priority Floating Secured PIK Notes	134,424	117,709
Capital leases	2,802	2,952
Other debt	-	416
Total long-term debt, net of current maturities	337,905	345,133
Postretirement benefits other than pensions	1,552	5,261
Accrued pension benefits	17,816	20,949
Deferred income taxes	30,269	27,476
Other noncurrent liabilities	41,296	47,627
Redeemable Preferred stock:		
Class A shares, 27,000 shares issued and outstanding	42,093	34,154
Class B shares, 60,000 shares issued and outstanding	93,452	75,810
Equity:		
Remy International, Inc. shareholders' equity:		
Common stock, Par value of \$.0001; 20,000,000 shares authorized; 10,629,739 shares issued and outstanding at December 31, 2009 and 10,667,809 shares issued and outstanding at December 31, 2008	1	1
Additional paid-in capital	112,471	125,217
Accumulated deficit	(10,535)	(10,313)
Accumulated other comprehensive loss	(27,468)	(39,874)
Total Remy International, Inc. shareholders' equity	74,469	75,031
Noncontrolling interest	8,519	6,420
Total equity	82,988	81,451
Total liabilities and equity	\$ 927,255	\$ 929,217

See accompanying notes to consolidated financial statements.

Remy International, Inc.
Consolidated Statements of Operations

(In thousands of dollars)	Successor			Predecessor
	Year ended December 31, 2009	Year ended December 31, 2008	One month ended December 31, 2007	Eleven months ended November 30, 2007
Net sales	\$ 910,745	\$ 1,100,805	\$ 78,090	\$ 1,050,941
Cost of goods sold	720,723	916,375	69,088	923,733
Gross profit	190,022	184,430	9,002	127,208
Selling, general and administrative expenses	101,827	109,683	8,217	97,380
Prepetition debt restructuring expenses	-	-	-	34,481
Reorganization items	-	2,762	1,097	(422,229)
Intangible asset impairment charges	4,000	1,500	-	-
Restructuring and other charges	7,583	15,325	404	1,815
Operating income (loss)	76,612	55,160	(716)	415,761
Other income	-	2,223	-	545
Interest expense	49,534	54,938	4,309	81,818
Income (loss) from continuing operations before income taxes and income (loss) from unconsolidated subsidiaries	27,078	2,445	(5,025)	334,488
Income tax expense (benefit)	13,018	6,818	(594)	9,293
Impairment of investment in unconsolidated subsidiary	-	-	-	2,559
Income from unconsolidated subsidiaries	-	-	-	23
Net income (loss) from continuing operations	14,060	(4,373)	(4,431)	322,613
Discontinued operations:				
Income from discontinued operations, net of tax	-	-	-	1,018
Gain on disposal of discontinued operations, net of tax	-	-	-	88,959
Net income from discontinued operations, net of tax	-	-	-	89,977
Net income (loss)	14,060	(4,373)	(4,431)	412,590
Less net income attributable to noncontrolling interest	3,272	1,403	106	961
Net income (loss) attributable to Remy International, Inc.	10,788	(5,776)	(4,537)	411,629
Preferred stock dividends	(25,581)	(23,145)	(1,519)	-
Net income (loss) attributable to common shareholders	\$ (14,793)	\$ (28,921)	\$ (6,056)	\$ 411,629

See accompanying notes to consolidated financial statements.

Remy International, Inc.
Consolidated Statements of Shareholders' Equity (Deficit)

(In thousands of dollars)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Remy International, Inc. Shareholders' Equity	Non- controlling interest
Predecessor balances at January 1, 2007	\$ 3	\$ 334,336	\$ (750,637)	\$ 1,352	\$ (414,946)	\$ 4,698
Net income			412,590		412,590	961
Less net income attributable to noncontrolling interest			(961)		(961)	
Foreign currency translation				5,030	5,030	(83)
Unrealized losses on derivative instruments				(689)	(689)	
Defined benefit plans				(1,097)	(1,097)	-
Total comprehensive income					414,873	878
Predecessor balances at November 30, 2007	3	334,336	(339,008)	4,596	(73)	5,576
Cancellation of Predecessor's equity securities	(3)	(334,336)			(334,339)	
Elimination of Predecessor's accumulated deficit and accumulated other comprehensive income			339,008	(4,596)	334,412	
Issuance of Successor's equity securities	1	148,081			148,082	
Successor balances at November 30, 2007	1	148,081	-	-	148,082	5,576
Net (loss) income			(4,431)		(4,431)	106
Less net income attributable to noncontrolling interest			(106)		(106)	
Foreign currency translation				(132)	(132)	79
Unrealized losses on derivative instruments				(374)	(374)	
Defined benefit plans				1,284	1,284	
Total comprehensive loss					(3,759)	185
Preferred stock dividends		(1,519)			(1,519)	
Successor balances at December 31, 2007	1	146,562	(4,537)	778	142,804	5,761
Net (loss) income			(4,373)		(4,373)	1,403
Less net income attributable to noncontrolling interest			(1,403)		(1,403)	
Less distribution to noncontrolling interest						(1,171)
Foreign currency translation				(24,058)	(24,058)	427
Unrealized losses on derivative instruments and interest rate swaps				(8,741)	(8,741)	
Defined benefit plans				(7,853)	(7,853)	
Total comprehensive loss					(46,428)	659
Amortization of restricted stock grants		1,800			1,800	
Preferred stock dividends		(23,145)			(23,145)	
Successor balances at December 31, 2008	1	125,217	(10,313)	(39,874)	75,031	6,420
Net income			14,060		14,060	3,272
Less net income attributable to noncontrolling interest			(3,272)		(3,272)	
Less distribution to noncontrolling interest						(1,430)
Foreign currency translation				4,435	4,435	257
Unrealized gains on derivative instruments and interest rate swaps				5,520	5,520	
Defined benefit plans				2,451	2,451	
Total comprehensive income					23,194	2,099
Amortization of restricted stock grants		1,825			1,825	
Preferred stock dividends		(14,571)	(11,010)		(25,581)	
Successor balances at December 31, 2009	\$ 1	\$ 112,471	\$ (10,535)	\$ (27,468)	\$ 74,469	\$ 8,519

See accompanying notes to consolidated financial statements.

Remy International, Inc.
Consolidated Statements of Cash Flows

(In thousands of dollars)	Successor			Predecessor
	Year ended December 31, 2009	Year ended December 31, 2008	One month ended December 30, 2007	Eleven months ended November 30, 2007
Cash Flows from Operating Activities:				
Net income (loss) from continuing operations	\$ 14,060	\$ (4,373)	\$ (4,431)	\$ 322,613
Adjustments to reconcile net income (loss) from continuing operations to cash provided by (used in) operating activities:				
Depreciation and amortization	31,939	25,750	3,405	32,111
Amortization of debt issuance costs	704	704	49	6,422
Noncash compensation expense	1,825	1,800	-	-
Accrued interest converted to Series A Preferred Stock	-	-	-	2,000
Other reorganization items, net	-	-	-	5,050
Fresh-start reporting adjustments	-	-	-	(262,056)
Impairment charges	4,000	5,085	-	2,559
Gain on cancellation of interest rate swaps	(449)	(112)	-	-
Gain on extinguishment of customer obligations and debt	(2,270)	(1,469)	-	(193,400)
Settlement gain on postretirement benefits	(11,987)	-	-	-
Gain on sale of assets	-	(754)	-	-
Interest on PIK notes	16,715	16,535	1,174	-
Deferred income taxes	2,072	729	(682)	1,197
Accrued pension and postretirement benefits, net	7,465	(687)	(2,350)	(3,227)
Restructuring and other charges	7,583	11,740	404	1,815
Cash payments for restructuring charges	(11,504)	(6,458)	(124)	(3,141)
Changes in operating assets and liabilities, net of restructuring charges:				
Accounts receivable	(34,414)	13,928	26,623	(40,511)
Inventories	35,938	3,193	(540)	(1,724)
Accounts payable	13,086	(25,791)	(13,898)	(20,385)
Other current assets and liabilities, net	8,440	(27,248)	(6,905)	14,155
Other noncurrent assets, liabilities, and other	(10,534)	(562)	620	(6,182)
Net cash provided by (used in) operating activities	72,669	12,010	3,345	(142,704)
Cash Flows from Investing Activities:				
Net proceeds on sale of assets	6,000	5,139	-	174,998
Purchases of property, plant and equipment	(11,826)	(19,000)	(1,708)	(13,782)
Net cash (used in) provided by investing activities	(5,826)	(13,861)	(1,708)	161,216
Cash Flows from Financing Activities:				
Change in short-term debt and revolver	(50,376)	24,085	4,727	(34,583)
Proceeds from issuance of long-term debt	-	-	-	201,700
Payments made on long-term debt, including capital leases	(2,778)	(10,593)	(446)	(253,426)
Distributions to noncontrolling interest, net	(1,430)	(1,171)	-	-
Issuance of preferred stock	-	-	-	83,300
Proceeds from settlement of derivatives	-	1,149	-	-
Debt issuance costs	-	-	-	(11,956)
Net cash (used in) provided by financing activities	(54,584)	13,470	4,281	(14,965)
Cash Flows from Discontinued Operations:				
Operating activities	-	-	-	(10,244)
Investing activities	-	-	-	(801)
Financing activities	-	-	-	(3,873)
Net cash used in discontinued operations	-	-	-	(14,918)
Effect of exchange rate changes on cash and cash equivalents	(832)	(17,601)	328	1,473
Net increase (decrease) in cash and cash equivalents	11,427	(5,982)	6,246	(9,898)
Cash and cash equivalents at beginning of period	18,744	24,726	18,480	28,378
Cash and cash equivalents at end of period	\$ 30,171	\$ 18,744	\$ 24,726	\$ 18,480
Supplemental information:				
Purchases of property, plant & equipment in accounts payable	\$ 1,140			

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

REMY INTERNATIONAL, INC.

1. DESCRIPTION OF THE BUSINESS AND LIQUIDITY

Business

Remy International, Inc. is a leading global vehicular parts designer, manufacturer, remanufacturer, marketer and distributor of aftermarket and original equipment electrical components for automobiles, light trucks, heavy-duty trucks and other vehicles. We also provide core exchange services for aftermarket products. We sell our products worldwide primarily under the “Delco Remy”, “Remy”, and “World Wide Automotive” brand names and our customers’ widely recognized private label brand names. Our products include light-duty and heavy-duty starters, and alternators for both the original equipment and the remanufactured markets, and hybrid power technology. These products are principally sold or distributed to original equipment manufacturers (“OEMs”) for both original equipment manufacture and aftermarket operations, as well as to warehouse distributors and retail automotive parts chains. We sell our products principally in North America, Europe, Latin America and Asia-Pacific.

We believe we are the largest producer in the world of remanufactured starters and alternators for the aftermarket. Our remanufacturing operations obtain failed products, commonly known as cores, from our customers as returns. These cores are an essential material needed for the remanufacturing operations. We have expanded our operations to become a low cost, global manufacturer and remanufacturer with a more balanced business mix between the aftermarket and the original equipment market, especially in the heavy duty OEM market, since we separated from General Motors Corporation (“GM”) in 1995, when we were essentially an original equipment supplier predominantly to GM.

As of December 31, 2009, a significant investor held a 46% ownership interest in Remy, comprised of 4,935,065 shares of our common stock and 18,909 shares of our Series B preferred. Additionally, the significant investor, members of management, and board members held, as of December 31, 2009, 1,000 shares of our Series B preferred and \$8,062,000 of Remy’s First Lien Credit Agreement and Third-Priority Floating Secured PIK Notes at face value which were purchased on the open market. Subsequent to December 31, 2009, the significant investor acquired an additional \$43,842,000 of our Third-Priority Floating Secured PIK notes on the open market.

In general, our business is influenced by the underlying trends in the automobile, light truck, and heavy-duty truck, construction and industrial markets. We have been able to reduce the cyclical nature of some of our businesses with the diversity of OEM markets between the automotive, heavy-duty truck and industrial markets by focusing on our remanufacturing capabilities and our aftermarket business.

The automotive parts market is highly competitive. Competition is based primarily on quality of products, service, delivery, technical support and price. Most OEMs and aftermarket distributors source parts from one or two suppliers and we compete with a number of companies who supply automobile manufacturers throughout the world.

As explained further in Note 2, we emerged from Bankruptcy effective December 6, 2007. In connection with this process we developed a plan to continue as a going concern, which included obtaining post-emergence financing. This financing contains certain restrictive loan covenants which continue to be more restrictive over time as outlined in the indenture agreements. In the last two years since we emerged, we have developed specific actions to meet our loan covenants, which include meeting required levels of earnings before interest, taxes, depreciation, amortization, and restructuring charges (EBITDAR) together with remaining in compliance with other covenants specified in the indentures. During the last two years, we have successfully executed on several of these initiatives and met our loan covenant requirements.

The global economy and specifically the markets in which we conduct our businesses continue in a state of uncertainty to which we have reacted by taking capacity and costs actions to remain compliant with our loan covenants and to generate sufficient liquidity to meet our obligations as they come due. Actions we have taken are as follows:

- Realigned capacity and reduced costs to meet current market conditions.
- Increased availability under our revolving line of credit by adding approximately \$10 to \$15 million of additional available borrowing base;

- Amended a contract in April 2009 with a significant customer in our Aftermarket business that allowed us to exit point of sales inventory providing for increased sales, related gross margin and cash flow in the second quarter of 2009;
- Reduced temporarily certain hourly and salary pay during 2009; and
- Closed our Engineering Center in Poland in the third quarter of 2009.

We will take further actions as needed to adjust our costs and working capital requirements if further economic conditions require such actions.

While there can be no certainty as to the ability to achieve the forecasted results, we believe the actions that have occurred, or are expected to occur, are such that we will be able to meet our loan covenant requirements throughout 2010 and maintain a level of liquidity sufficient to meet our obligations as they become due through 2010. We have reduced our outstanding borrowing under our revolver from \$51,155,000 at December 31, 2008, to \$3,237,000 at December 31, 2009. If we are unable to meet the covenant requirements through the execution of our plan, we may need to obtain waivers or amendments to our loan covenants. There is no assurance that such waivers or amendments can be obtained or obtained at a reasonable cost. At December 31, 2009, we were in full compliance with all covenants.

On August 5, 2009, the United States government announced their intention to enter into negotiations with us regarding the awarding of a grant to us of approximately \$60,200,000 for investments in equipment and manufacturing capability to manufacture electric drive motor technology for use in electric drive vehicles. We finalized the negotiation on this grant on April 8, 2010. The grant will reimburse certain capital expenditures, labor, subcontract, and other allowable costs at a rate of fifty percent (50%) that will be expended during a three year period from date of award.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of Remy International, Inc., all wholly-owned subsidiaries, and any partially-owned subsidiary that we have the ability to control. Control generally equates to ownership percentage, whereby investments that are more than 50% owned are consolidated. Investments in companies in which we hold an ownership interest of 20% to 50% over which we exercise significant influence are accounted for by the equity method. Currently, we account for all 20% to 50% owned entities under the equity method. Investments in companies in which we hold an ownership interest of less than 20% are accounted for on the cost basis. Such investments were not material at December 31, 2009 and 2008. All significant intercompany accounts and transactions have been eliminated.

2007 Reorganization

On October 8, 2007, the predecessor to Remy International, Inc. (Remy Worldwide Holdings, Inc. and its domestic subsidiaries) including Remy International, Inc., whose financial statements are presented herein as, the "Predecessor Company" or "Predecessor" (jointly the "Debtors") filed voluntary petitions under a prepackaged arrangement for relief under chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code"), in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). The Debtors' Chapter 11 cases were jointly-administered under Case No. 07-11481 (KJC). During bankruptcy, the Debtors operated their businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. Our subsidiaries in Canada, Europe, Asia Pacific, Mexico and Brazil were not included in the filings. On November 20, 2007, the Bankruptcy Court confirmed the Plan of Reorganization pursuant to chapter 11 of the United States Bankruptcy Code (the "Plan of Reorganization").

Remy International, Inc. (the "Successor Company" or "Successor") emerged from bankruptcy effective December 6, 2007. Accordingly, we used November 30, 2007, as the convenience date due to the immateriality of the results of operations from December 1, 2007 to December 6, 2007. The November 30, 2007, assets and liabilities were stated at fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 852, *Reorganizations*. Consequently, our post bankruptcy financial statements are basically those of a different enterprise, and are not comparable to Predecessor's prior financial statements.

The financial statements presented herein dated prior to December 1, 2007, are those of the Predecessor Company.

Evaluation of Subsequent Events

We have evaluated subsequent events through April 18, 2010, the date the consolidated financial statements are available for issuance, for the year ended December 31, 2009. See Note 27 for disclosure of subsequent events.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States (US GAAP) requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the year. Actual results could differ from these estimates.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, ownership has transferred, the seller's price to the buyer is fixed and determinable, and collectibility is reasonably assured. We recognize shipping and handling costs as costs of goods sold with the related amounts billed to customers as sales. Accruals for sales returns and other allowances are provided at the time of shipment based upon past experience. Adjustments to such returns and allowances are made as new information becomes available. We accrue for rebates and other customer sales allowances in accordance with specific customer arrangements. Such rebates are recorded as a reduction of sales.

During the year ended December 31, 2009, we entered into and amended agreements with certain Aftermarket customers. The agreements included the elimination of a point of sale inventory provision we had with one customer that resulted in a one time net sales recognition in the second quarter of \$35,485,000.

Accounting for Remanufacturing Operations

Core Deposits

Remanufacturing is the process where failed or used components, commonly known as cores, are disassembled into subcomponents, cleaned, inspected, tested, combined with new subcomponents and reassembled into saleable, finished products. Billing includes the price for remanufacturing the product (exchange value) and with many customers, a deposit charge for the core. Deposits charged by the Successor Company totaled \$119,586,000 for the year end December 31, 2009, \$185,401,000 for the year ended December 31, 2008, and \$14,135,000 for the one month ended December 31, 2007. Predecessor Company had deposits charged of \$196,613,000 for the eleven months ended November 30, 2007. Core deposits are excluded from revenue. Upon return of a core, we grant the customer a credit based on the core deposit value. We generally limit core returns to the quantity of similar, remanufactured cores previously sold to the customer.

Core Liability

We record a liability for core returns based on cores expected to be returned. This liability is recorded in "Other current liabilities and accrued expenses" in the accompanying consolidated balance sheets. The liability represents the difference between the core deposit value to be credited to the customer and the estimated core inventory value of the core to be returned. Revisions to these estimates are made periodically to current costs and customer return trends.

Core Inventory

Upon receipt of a core, we record inventory at lower of cost or fair market value. The value of a core declines over its estimated useful life (ranging from 4 to 30 years) and is devalued accordingly. Carrying value of the core inventory is evaluated by comparing current prices obtained from core brokers to carrying cost. The devaluation of core carrying value is reflected as a charge to cost of goods sold. Core inventory that is deemed to be obsolete or in excess of current and future projected demand is written down to the lower of cost or market and charged to cost of goods sold. Core inventories are classified as "Inventories" in the accompanying consolidated balance sheets.

Customer Contract Intangibles

Upon entering into new or extending existing contracts, we may be required to purchase certain cores and inventory from our customers at retail prices, or be obligated to provide certain stated support. The excess of the prices paid for the cores and inventory over fair value, and any stated support are recorded as contract intangibles and amortized as a reduction to revenue on a method to reflect the pattern of economic benefit consumed. Customer contract intangibles determined in fresh-start are amortized and recorded in cost of goods sold. Contract intangibles are included in "Intangibles, net" in the noncurrent asset section of the accompanying consolidated balance sheets.

Customer Obligations

Customer obligations relate to liabilities when we enter into new or amend existing customer contracts. These contracts designate us to be the exclusive supplier to the respective customer, product line or distribution center and require us to compensate these customers over several years.

In addition, we have entered into arrangements with certain customers where we purchased the cores held in their inventory. Credits to be issued to these customers for these arrangements are recorded at net present value and are reflected as "Customer obligations". These obligations are included in "Other current liabilities and accrued expenses" and "Other noncurrent liabilities" in the accompanying consolidated balance sheets. Subsequent to the arrangements, the inventory owned by these customers only represents the exchange value of the remanufactured product.

Right of Core Return

When we enter into arrangements to purchase certain cores held in a customers' inventory or when the customer is not charged a deposit for the core, we have the right to receive a core from the customer in return for every exchange unit supplied to them. We classify such rights as "Core return rights" in "Other noncurrent assets" in the accompanying consolidated balance sheets. The core return rights are valued based on the underlying core inventory values. Devaluation of these rights is charged to cost of goods sold. On a periodic basis, we settle with a customer for cores that have not been returned.

Research and Development

We conduct research and development programs that are expected to contribute to future earnings. Such costs are included in selling, general and administrative expenses in the consolidated statements of operations. Company-funded research and development expenses were approximately \$11,694,000 for the year ended December 31, 2009, \$22,884,000 for the year ended December 31, 2008, \$2,475,000 for the one month ended December 31, 2007; and \$21,518,000 for the eleven months ended November 30, 2007.

Customer-funded research and development expenses reimbursed were approximately \$1,728,000 for the year ended December 31, 2009, \$6,684,000 for the year ended December 31, 2008, and \$9,116,000 for the eleven months ended November 30, 2007.

Cash and Cash Equivalents

All cash balances and highly liquid investments with maturities of ninety days or less when acquired are considered cash and cash equivalents. The carrying amount of cash equivalents approximates fair value.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable is stated at net realizable value, which approximates fair value. Substantially all of our trade accounts receivable are due from customers in the original equipment and aftermarket automotive industries, both domestically and internationally. Accounts receivable is reduced by an allowance for amounts that may become uncollectible in the future and for disputed items. We perform periodic credit evaluations of our customers' financial condition and generally do not require collateral. We maintain allowances for doubtful customer accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is developed based on several factors including customers' credit quality, historical write-off experience and any known specific issues or disputes which exist as of the balance sheet date. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventories Other than Core Inventory

Inventories other than core inventory are carried at the lower of cost or market determined on the first-in, first-out (FIFO) method. We evaluate inventories on a regular basis to identify inventory on hand that may be obsolete or in excess of current and future projected market demand. For inventory deemed to be obsolete or in excess of current and future projected market demand, we record an inventory reserve and a charge to cost of goods sold to reduce carrying cost to lower of cost or market.

Property, Plant and Equipment

Upon emergence from bankruptcy, property, plant and equipment was valued at fair values. Successor Company subsequent additions have been recorded at cost. Major expenditures that significantly extend the useful life or enhance the usability of the property, plant or equipment are capitalized. Depreciation is calculated primarily using the straight-line method over the estimated useful lives of the related assets (15 to 40 years for buildings, and 3 to 15 years for tooling, machinery and equipment). Capital leases and leasehold improvements are amortized over the shorter of the lease term or their estimated useful life.

Valuation of Long-Lived Assets

When events or circumstances indicate a potential impairment to the carrying value, we evaluate the carrying value of long-lived assets, including certain intangible assets, for recoverability through an undiscounted cash flow analysis. When such events or circumstances arise which indicate the long-lived asset is not recoverable, fair market value is determined by asset, or the appropriate grouping of assets, and is compared to the asset's carrying value to determine if impairment exists. Asset impairments are recorded as a charge to operations, based on the amount by which the carrying value exceeds the fair market value. Long-lived assets to be disposed of other than by sale are considered held and used until such time the asset is disposed.

Tooling

Tooling, which is included in machinery and equipment in the accompanying consolidated balance sheets, includes the costs to design and develop tools, dies, jigs and other items owned by us and used in the manufacture of products sold under long-term supply agreements. Tooling is amortized over the tool's expected life. Tooling that involves new technology not covered by a customer supply agreement is expensed as incurred. Engineering, testing and other costs incurred in the design and development of products and product components are expensed as incurred.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the reorganization value assigned by the Bankruptcy Court upon our emergence from bankruptcy on December 6, 2007, over the net assets' fair value as determined in accordance with FASB ASC Topic 852, *Reorganizations*. Indefinite-lived intangible assets, consisting of trade names, were stated at estimated fair value as a result of fresh-start reporting.

Goodwill and indefinite-life intangible assets are not amortized, but are tested for impairment at least annually. We perform our annual impairment review in the fourth quarter of each fiscal year, or more frequently if impairment indicators arise. We determine goodwill impairment charges by comparing the carrying value of each reporting unit to the fair value of the reporting unit. In determining fair value of reporting units, we utilized discounted cash flow analyses and guideline company market multiples. Where the carrying value exceeds the fair value for a particular reporting unit, goodwill impairment charges may be recognized.

Definite-lived intangible assets have been stated at estimated fair value as a result of fresh-start reporting. The values of other intangible assets with determinable useful lives, are amortized on a basis to reflect the pattern of economic benefit consumed. Prior to the application of fresh-start and additions of the Successor Company, intangible assets were stated at cost. Certain amortization of intangibles associated with specific customers in the Aftermarket business is recorded as a reduction of sales.

Foreign Currency Translation

Each of our foreign subsidiaries' functional currency as of December 31, 2009, is its local currency, with the exception of our subsidiaries in Mexico for which the U.S. dollar is the functional currency since substantially all of their purchases and sales are denominated in U.S. dollars. Financial statements of foreign subsidiaries for which the functional currency is their local currency

are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and at the average exchange rate for each year for revenue and expenses. Translation adjustments are recorded as a separate component of shareholders' equity and reflected in other comprehensive income (loss) ("OCI"). For each of our foreign subsidiaries, gains and losses arising from transactions denominated in a currency other than the functional currency are included in the consolidated statements of operations. We evaluate each of our foreign subsidiaries functional currency on an ongoing basis.

Derivative Financial Instruments

In the normal course of business, our operations are exposed to continuing fluctuations in foreign currency values, interest rates and commodity prices that can affect the cost of operating, investing and financing. Accordingly, we address a portion of these risks through a controlled program of risk management that includes the use of derivative financial instruments. We have historically used derivative financial instruments for the purpose of hedging currency, interest rate, and commodity exposures, which exist as a part of ongoing business operations.

As a policy, we do not engage in speculative or leveraged transactions, nor do we hold or issue derivative financial instruments for trading purposes. Our objectives for holding derivatives are to minimize risks using the most effective and cost-efficient methods available. Management routinely reviews the effectiveness of the use of derivative financial instruments.

We recognize all of our derivative instruments as either assets or liabilities at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated, and is effective, as a hedge and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation. Gains and losses related to a hedge are either recognized in income immediately to offset the gain or loss on the hedged item or are deferred and reported as a component of "Accumulated other comprehensive income (loss)" and subsequently recognized in earnings when the hedged item affects earnings. The change in fair value of the ineffective portion of a financial instrument, determined using the change in fair value method, is recognized in earnings immediately. The gain or loss related to financial instruments that are not designated as hedges are recognized immediately in earnings.

Warranty

We provide certain warranties relating to quality and performance of our products. An allowance for the estimated future cost of product warranties and other defective product returns is based on management's estimate of product failure rates and customer eligibility. If these factors differ from management's estimates, revisions to the estimated warranty liability may be required. The specific terms and conditions of the warranties vary depending upon the customer and the product sold.

Income Taxes

We account for income taxes in accordance with FASB ASC Topic 740, *Income Taxes*, which requires deferred tax assets and liabilities to be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. FASB ASC Topic 740 also requires deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

We have assessed the need to maintain a valuation allowance for deferred tax assets based on an assessment of whether it is more likely than not that deferred tax benefits will be realized through the generation of future taxable income. Appropriate consideration is given to all available evidence, both positive and negative, in assessing the need for a valuation allowance.

Failure to achieve forecasted taxable income may affect the ultimate realization of certain deferred tax assets arising from post emergence operations and pre-emergence net operating losses. Factors that may affect our ability to achieve sufficient forecasted taxable income include, but are not limited to, general economic conditions, increased competition or other market conditions, costs incurred or delays in product availability.

Pension and Postretirement Plans

We maintain limited defined benefit pension plans and other postretirement benefit plans, as well as a supplemental employee retirement plan covering certain executives. Costs associated with these plans are based on actuarial computations. Inherent in these valuations are key assumptions regarding discount rates, expected return on plan assets, rates of compensation

increases, and the rates of health care benefit increases. If future trends in these assumptions prove to differ from management's assumptions, revisions to the plan assets and benefit obligations may be required.

Earnings Per Share

We are not a publicly held company, and accordingly we do not present earnings per share information.

Change in Accounting Principle

As a result of a change in accounting principle certain amounts in the prior year's consolidated statement of operations have been reclassified to conform to the current year presentation. Loss on sales of accounts receivable for the year ended December 31, 2008 (Successor), the month ended December 31, 2007 (Successor), and the eleven month period ended November 30, 2007 (Predecessor), of \$7,233,000, \$745,000, and \$8,277,000, respectively, has been reclassified from operating income (loss) to interest expense. As this expense represents a financing cost, we believe it is more appropriately combined with our other financing costs in interest expense.

Correction of an Error

In 2009, we identified certain accounting irregularities in one of our foreign locations requiring a correction of an error pursuant to FASB ASC Topic 250, *Accounting Changes and Error Corrections*. The irregularities resulted in a loss related primarily to the years 2001 through 2007, the periods associated with our Predecessor Company. As a result of application of the provisions of FASB ASC Topic 852 in November 2007, the majority of the error should be reflected in our fresh-start adjustments. As of December 31, 2009, we have accordingly adjusted our goodwill to reflect the impact of this error. We have not restated the prior year balance sheet due to immateriality. In 2009, goodwill and deferred income tax assets were increased by \$1,206,000 and \$340,000, respectively, with an increase to accounts payable of \$1,546,000.

Recent Accounting Adoptions

In December 2007, the FASB issued guidance now codified within FASB ASC Topic 805, *Business Combinations*. FASB ASC Topic 805 requires the acquirer of a business to recognize and measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at fair value. FASB ASC Topic 805 also requires transaction costs related to the business combination to be expensed as incurred. FASB ASC Topic 805 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted FASB ASC Topic 805 on January 1, 2009 and it had no effect on our consolidated financial statements as it will only impact our accounting for future business combinations.

In December 2007, the FASB issued guidance now codified within FASB ASC Topic 810, *Consolidation*, which requires that ownership interests in subsidiaries held by parties other than the parent are clearly identified. In addition, FASB ASC Topic 810 requires that the amount of consolidated net income (loss) attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statements of operations. These provisions of FASB ASC Topic 810 are effective for financial statements issued for fiscal years and interim periods beginning on or after December 15, 2008. We adopted this guidance on January 1, 2009, and have retrospectively revised the financial statement presentation for our noncontrolling interests accordingly. The adoption of FASB ASC Topic 810 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued guidance now codified as FASB ASC Topic 815, *Derivatives and Hedging*, which requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. FASB ASC Topic 815 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We adopted these provisions of FASB ASC Topic 815 on a prospective basis as of January 1, 2009. The adoption of FASB ASC Topic 815 did not have a material impact on our consolidated financial position, results of operations or cash flows.

On April 25, 2008, the FASB issued guidance now codified within FASB ASC Topic 350-30-35-1, *Determination of the Useful Life of Intangible Assets*. FASB ASC Topic 350-30-35-1 aims to improve consistency between the useful life of a recognized intangible asset under FASB ASC Topic 350, *Intangibles - Goodwill and Other* and the period of expected cash flows used to measure the fair value of the asset under FASB ASC Topic 805, *Business Combinations*, especially where the underlying

arrangement includes renewal or extension terms. FASB ASC Topic 350-30-35-1 is effective prospectively for fiscal years beginning after December 15, 2008. We adopted FASB ASC Topic 350-30-35-1 on January 1, 2009. The adoption of FASB ASC Topic 350-30-35-1 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2008, the FASB issued guidance now codified within FASB ASC Topic 715-20-50, *Compensation – Retirement Benefits: Defined Benefit Plans – General Disclosures*, to provide guidance on an employer’s disclosure about plan assets of defined benefit pension or other postretirement plan. FASB ASC Topic 715-20-50 provides objectives for the disclosure about employer’s (1) investment policies and strategies, (2) categories of plan assets, (3) fair value measurements, and (4) significant concentrations of risk. FASB ASC Topic 715-20-50 is effective for us on December 31, 2009. Upon initial application, the provisions of this FASB ASC Topic 715-20-50 are not required for earlier periods that are presented for comparative purposes. Earlier adoption is permitted. The adoption of FASB ASC Topic 715-20-50 increased our disclosures, but did not have an impact on our consolidated financial statements.

In April 2009, the FASB issued guidance now codified as FASB ASC Topic 825, *Financial Instruments*, which extends the existing disclosure requirements under FASB ASC Topic 825 to interim financial statements. The new guidance is effective for financial statements issued for interim periods ending after June 15, 2009. The adoption of these provisions of FASB ASC Topic 825 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In May 2009, the FASB issued guidance now codified as FASB ASC Topic 855, *Subsequent Events*, which defines and establishes the period after the balance sheet date during which management of a reporting entity evaluates transactions and events for potential disclosure in the financial statements in addition to disclosing the date through which such events have been evaluated. The guidance is effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009, and is to be applied prospectively. The adoption of FASB ASC Topic 855 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In July 2009, the FASB released the authoritative version of the FASB ASC as the single source of authoritative nongovernmental US GAAP. The FASB ASC supersedes all existing accounting standard documents recognized by the FASB. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative US GAAP for SEC registrants. All other non-SEC accounting literature not included in the FASB ASC will be considered nonauthoritative. The FASB ASC is effective for fiscal years and interim periods ending after September 15, 2009. The adoption of the FASB ASC had no impact on our consolidated financial position, results of operations or cash flows.

New Accounting Pronouncements

On June 12, 2009, the FASB issued guidance now codified within FASB ASC Topic 860, *Transfers and Servicing*, which amends the derecognition guidance in FASB ASC Topic 860. In addition, FASB ASC Topic 860 addresses concerns expressed by the SEC, members of Congress, and financial statement users about the accounting and disclosures required by FASB ASC Topic 860 in the wake of the subprime mortgage crisis and the deterioration in the global credit markets. The Board believes these amendments will improve the accounting for transfers of financial assets. FASB ASC Topic 860 is effective for financial asset transfers occurring after the beginning of an entity’s first fiscal year that begins after November 15, 2009. Early adoption is prohibited. We are currently in the process of determining the impact, if any, of FASB ASC Topic 860 on our consolidated financial statements.

On June 12, 2009, the FASB issued guidance now codified within FASB ASC Topic 810, which amends the consolidation guidance that applies to variable interest entities (“VIE”). The amendments will significantly affect the overall consolidation analysis under FASB ASC Topic 810. Accordingly, an enterprise will need to carefully reconsider its previous FASB ASC Topic 810 conclusions, including (1) whether an entity is a VIE, (2) whether the enterprise is the VIE’s primary beneficiary, and (3) what type of financial statement disclosures are required. FASB ASC Topic 810 is effective as of the beginning of the first fiscal year that begins after November 15, 2009. We do not expect adoption of FASB ASC Topic 810 to have a material impact on our consolidated financial statements.

3. FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based upon assumptions that market participants

would use in pricing an asset or liability. As a basis for considering such assumptions, FASB ASC Topic 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1:* Observable inputs such as quoted prices in active markets;
- Level 2:* Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3:* Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques noted in FASB ASC Topic 820:

- A. *Market approach:* Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- B. *Cost approach:* Amount that would be required to replace the service capacity of an asset (replacement cost).
- C. *Income approach:* Techniques to convert future amounts to a single present amount based upon market expectations (including present value techniques, option-pricing and excess earnings models).

Assets and liabilities remeasured and disclosed at fair value on a recurring basis at December 31, 2009 and 2008, are set forth in the table below:

(In thousands of dollars)	December 31, 2009			December 31, 2008		
	Asset/ (Liability)	Level 2	Valuation Technique	Asset/ (Liability)	Level 2	Valuation Technique
Interest rate swap contracts	\$ (4,613)	\$ (4,613)	C	\$ (5,213)	\$ (5,213)	C
Foreign exchange contracts	534	534	C	(6,474)	(6,474)	C
Commodity contracts	93	93	C	-	-	C

We calculate the fair value of our interest rate swap contracts, commodity contracts and foreign currency contracts using quoted interest rate curves, quoted commodity forward rates and quoted currency forward rates. For contracts which, when aggregated by counterparty, are in a liability position, the discount rates are adjusted by the credit spread that market participants would apply if buying these contracts from our counterparties.

The following table presents our defined benefit plan assets measured at fair value on a recurring basis as of December 31, 2009:

U.S. Plans:			
Interest-bearing cash and equivalents	\$ 1,870	\$ 1,870	A
Investments with Registered Investment Companies:			
Fixed income securities	10,682	10,682	A
Equity securities	18,659	18,659	A
	<u>\$ 31,211</u>	<u>\$ 31,211</u>	
Non-U.S. Plans:			
Investments with Registered Investment Companies:			
Fixed income securities	\$ 2,480	\$ 2,480	A
Equity securities	5,786	5,786	A
	<u>\$ 8,266</u>	<u>\$ 8,266</u>	
Total	<u>\$ 39,477</u>	<u>\$ 39,477</u>	

Investments with registered investment companies are valued at the closing price reported on the active market on which the funds are traded.

In addition to items that are measured at fair value on a recurring basis, we also have assets and liabilities that are measured at fair value on a nonrecurring basis. As these assets and liabilities are not measured at fair value on a recurring basis, they are not included in the tables above. Assets and liabilities that are measured at fair value on a nonrecurring basis include long-lived assets (see Notes 6, 7 and 12). We have determined that the fair value measurements included in each of these assets and liabilities rely primarily on our assumptions as observable inputs are not available. As such, we have determined that each of these fair value measurements reside within Level 3 of the fair value hierarchy.

4. FINANCIAL INSTRUMENTS

Foreign Currency Risk

We manufacture and sell our products primarily in North America, South America, Asia, Europe and Africa. As a result our financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets in which we manufacture and sell our products. We generally try to use natural hedges within our foreign currency activities, including the matching of revenues and costs, to minimize foreign currency risk. Where natural hedges are not in place, we consider managing certain aspects of our foreign currency activities through the use of foreign exchange contracts. We primarily utilize forward exchange contracts with maturities generally within 12 months to hedge against currency rate fluctuations, some of which are designated as hedges.

As of December 31, 2009 and 2008, we had the following outstanding foreign currency contracts that were entered into to hedge forecasted purchases and revenues, respectively:

(In thousands) Foreign Currency Contract	Currency Denomination	
	December 31, 2009	December 31, 2008
South Korean Won Forward	\$25,514	\$47,646
Brazilian Real Forward	\$10,800	-
Mexican Peso Collar	\$35,289	-
Hungarian Forint Forward	€7,200	€5,500

Accumulated unrealized net gains of \$338,000 and Accumulated unrealized net losses of \$4,938,000 were recorded in “Accumulated other comprehensive income (loss)” as of December 31, 2009 and 2008, respectively. As of December 31, 2009, gains of \$338,000 are expected to be reclassified to the consolidated statement of operations within the next twelve months. The Mexican Peso collar is an undesignated hedge and changes in the fair value are recorded as cost of goods sold in the statement of operations. As a result of a decline in activity during 2009, we became over hedged resulting in \$150,000 of loss on hedge ineffectiveness. There was no hedge ineffectiveness during the years ended December 31, 2008 (Successor), the one month period ended December 31, 2007 (Successor) and the eleven month period ended November 31, 2007 (Predecessor), respectively.

Interest Rate Risk

During 2009, we have entered into two interest rate swap agreements that effectively convert \$50,000,000 of our First Lien Term Loans from a variable interest rate to a fixed rate of 2.500%, and \$50,000,000 of our Second Lien Term Loan from a variable interest rate to a fixed rate of 2.600%. Both the First Lien \$50,000,000 notional value interest rate swap and Second Lien \$50,000,000 notional value interest rate swap are effective December 13, 2010 and expire on December 5, 2012.

During 2008, we entered into two interest rate swap agreements that effectively converted \$100,000,000 of our First and Second Lien Term Loans from a variable interest rate to a fixed rate of 3.585%, and \$50,000,000 of our First Lien Term Loan from a variable interest rate to a fixed rate of 3.390%. The \$100,000,000 notional value interest rate swap expires on December 13, 2010, and the \$50,000,000 notional value one expires on August 14, 2011.

Since the interest rate swaps hedge the variability of interest payments on variable rate debt with the same terms, they qualify for cash flow hedge accounting treatment. As of December 31, 2009 and 2008, Accumulated unrealized net losses of \$4,613,000 and \$5,213,000 respectively, were recorded in “Accumulated other comprehensive income (loss)” as a result of these hedges. As of December 31, 2009, losses of \$4,279,000 are expected to be reclassified to the consolidated statement of operations within the next twelve months. There was no hedge ineffectiveness during the year ended December 31, 2009 (Successor), December 31, 2008 (Successor), the one month period ended December 31, 2007 (Successor) and the eleven month period ended November 31, 2007 (Predecessor), respectively.

During 2008, we terminated certain interest swap agreements resulting in a gain that is amortized as an offset to interest expense over the original term of the agreements. At December 31, 2009, and December 31, 2008, the deferred gain, net of income taxes, recorded in "Accumulated other comprehensive income (loss)" was \$587,000 and \$1,036,000, respectively. As of December 31, 2009, net gains of \$449,000 are expected to be reclassified into the consolidated statement of operations within the next twelve months. These interest rate swaps reduce our overall interest rate risk. However, due to the remaining outstanding borrowings on the First Lien and Third-Priority PIK Notes and other borrowing facilities that continue to have variable interest rates, management believes that interest rate risk to us could be material if there are significant adverse changes in interest rates.

Commodity Price Risk

Our production processes are dependent upon the supply of certain components whose raw materials are exposed to price fluctuations on the open market. The primary purpose of our commodity price forward contract activity is to manage the volatility associated with forecasted purchases. We monitor our commodity price risk exposures regularly to maximize the overall effectiveness of our commodity forward contracts. The principal raw material hedged is copper. Forward contracts are used to mitigate commodity price risk associated with raw materials, generally related to purchases forecast for up to twelve months in the future. Additionally, we purchase certain commodities during the normal course of business which result in physical delivery and are excluded from hedge accounting.

We have six commodity price hedge contracts outstanding with combined notional quantities of 623.69 metric tons of copper at December 31, 2009, of which substantially all mature within six months, and were designated as cash flow hedging instruments for accounting purposes. There were no commodity price hedge contracts outstanding as of December 31, 2008. Accumulated unrealized net gains of \$93,000 were recorded in "Accumulated other comprehensive income (loss)" as of December 31, 2009. As of December 31, 2009, gains of \$93,000 are expected to be reclassified to the consolidated statement of operations within the next 12 months. There was no hedge ineffectiveness during the year ended December 31, 2009 (successor), December 31, 2008 (successor), the one month period ended December 31, 2007 (successor) and the eleven month period ended November 31, 2007 (predecessor), respectively.

Other

We present our derivative positions and any related material collateral under master netting agreements on a net basis.

For derivatives designated as cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness. Unrealized gains and losses associated with ineffective hedges, determined using the change in fair value method, are recognized in operations. Derivative gains and losses included in "Accumulated other comprehensive income (loss)" for effective hedges are reclassified into operations upon recognition of the hedged transaction.

Any derivative instrument designated initially, but no longer effective as a hedge or initially not effective as a hedge, is recorded at fair value and the related gains and losses are recognized in the consolidated statements of operations. Our undesignated hedges are primarily foreign currency hedges as the entity with the derivative transaction does not bear the foreign currency risk.

The following table discloses the fair values and balance sheet locations of our derivative instruments:

(In thousands of dollars)	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	December 31 2009	December 31 2008	Balance Sheet Location	December 31 2009	December 31 2008
Derivatives designated as hedging instruments:						
Interest rate swap contracts	Other noncurrent assets	\$ 230	\$ -	Other noncurrent liabilities	\$ 4,843	\$ 5,213
Commodity contracts	Prepaid expenses and other current assets	93	-	Other current liabilities and accrued expenses	-	-
Foreign currency contracts	Prepaid expenses and other current assets	384	-	Other current liabilities and accrued expenses	-	6,474
Total derivatives designated as hedging instruments		\$ 707	\$ -		\$ 4,843	\$ 11,687
Derivatives not designated as hedging instruments:						
Foreign currency contracts	Prepaid expenses and other current assets	\$ 150	\$ -	Other current liabilities and accrued expenses	\$ -	\$ -

The following tables disclose the effect of our derivative instruments on the consolidated statement of operations for the year ended December 31, 2009 (In thousands of dollars):

Derivatives Designated as Cash Flow Hedging Instruments	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
	Interest rate swap contracts	\$ (3,519)	Interest expense, net	\$ (4,119)	Interest expense, net
Commodity contracts	93	Cost of goods sold	-	Cost of goods sold	-
Foreign currency contracts	489	Cost of goods sold	(6,730)	Cost of goods sold	(150)
	<u>\$ (2,937)</u>		<u>\$ (10,849)</u>		<u>\$ (150)</u>
Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives			
Foreign currency contracts	Cost of goods sold	\$ 157			

Concentrations of Credit Risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist primarily of accounts receivable and cash investments. We require placement of cash in financial institutions evaluated as highly creditworthy. Our customer base includes global light and commercial vehicle manufacturer and a large number of retailers, distributors and installers of automotive aftermarket parts. Our credit evaluation process and the geographical dispersion of sales transactions help to mitigate credit risk concentration. We conduct a significant amount of business with GM and three large automotive parts retailers. Net sales to these customers in the aggregate represented 48.0% of consolidated net sales for the year ended December 31, 2009, 45.3% of consolidated net sales for the year ended December 31, 2008, 37.0% of consolidated net sales for the one month ended December 31, 2007, and 45.7% for the eleven months ended November 30, 2007.

GM represents our largest customer and accounted for approximately 19% of the sales for the year ended December 31, 2009, 25% of sales for the year ended December 31, 2008, and 27% of sales for the eleven months ended November 30, 2007.

During 2009, two major U.S. automotive manufacturers went through bankruptcy proceedings – General Motors and Chrysler. We were able to substantially collect all amounts owed us at the time they entered bankruptcy.

Accounts Receivable Factoring Arrangements

We have entered into factoring agreements with various domestic and European financial institutions to sell our accounts receivable under nonrecourse agreements and treated as a sale. The transactions are accounted for as a reduction in accounts receivable as the agreements transferred effective control over and risk related to the receivables to the buyers. We do not service any domestic accounts after the factoring has occurred. We do not have any servicing assets or liabilities. We utilize factoring arrangements as an integral part of financing for us. The cost of factoring such accounts receivable is reflected in the consolidated statements of operations as interest expense with other financing costs. The cost of factoring such accounts receivable for the years ended December 31, 2009 (Successor), December 31, 2008 (Successor), and for the month period ended December 31, 2007 (Successor), and for the eleven month period ended November 30, 2007 was \$7,653,000, \$7,233,000, \$745,000, and \$8,277,000, respectively. Gross amounts factored under these facilities as of December 31, 2009 and 2008, were \$154,660,000 and \$139,923,000, respectively. Any change in the availability of these factoring arrangements could have a material adverse effect on our financial condition.

5. INVENTORIES

Raw materials include supplies which consist of materials consumed in the manufacturing and remanufacturing process, but not directly incorporated into the finished products. Net inventories consisted of the following:

(In thousands of dollars)	December 31,	
	2009	2008
Raw materials	\$ 70,990	\$ 77,562
Work-in-process	7,832	8,621
Finished goods	51,684	87,063
	<u>\$ 130,506</u>	<u>\$ 173,246</u>

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

(In thousands of dollars)	December 31,	
	2009	2008
Land and buildings	\$ 37,113	\$ 31,188
Machinery and equipment	135,602	127,770
	<u>\$ 172,715</u>	<u>\$ 158,958</u>

Depreciation and amortization expense of property, plant, and equipment for the year ended December 31, 2009 (Successor), for the year ended December 31, 2008 (Successor), one month ended December 31, 2007 (Successor), and the eleven months ended November 30, 2007 (Predecessor) was \$19,917,000, \$18,948,000, \$1,701,000 and \$27,203,000, respectively.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table represents the carrying value of other intangible assets at:

(In thousands of dollars)	December 31, 2009			December 31, 2008		
	Carrying Value	Accumulated Amortization	Net	Carrying Value	Accumulated Amortization	Net
Definite life intangible assets:						
Intellectual property	\$ 9,796	\$ 2,550	\$ 7,246	\$ 9,457	\$ 1,789	\$ 7,668
Customer relationships	35,500	6,279	29,221	35,500	3,505	31,995
Customer contract intangibles	67,108	23,463	43,645	35,183	8,340	26,843
	<u>112,404</u>	<u>32,292</u>	<u>80,112</u>	<u>80,140</u>	<u>13,634</u>	<u>66,506</u>
Indefinite life intangible assets:						
Trade names	54,200	-	54,200	58,200	-	58,200
Intangible assets, net	<u>\$ 166,604</u>	<u>\$ 32,292</u>	<u>\$ 134,312</u>	<u>\$ 138,340</u>	<u>\$ 13,634</u>	<u>\$ 124,706</u>
Goodwill	\$ 273,786	-	\$ 273,786	\$ 272,580	-	\$ 272,580

Intellectual property primarily consists of \$9,000,000 assigned during fresh-start in 2007 for the value of trade secrets, patents, and regulatory approvals. The value assigned is based on the relief of royalty method utilizing the forecasted revenue and applying a royalty rate based on similar arm's length licensing transactions. The amortization period for the fresh-start intellectual property intangibles is 10 years. In 2009, we added \$339,000 of intellectual property at cost with a weighted average life of approximately 15 years.

Customer relationships consist of \$35,500,000 assigned during fresh-start in 2007 based on the value of our relationship with certain customers and the ability to generate future recurring income. The amortization period is 10 years based on an estimate of the remaining useful life.

Customer contract intangibles consist of \$29,800,000 assigned during fresh-start in 2007 based on our contracts with certain customers and the associated revenue streams. The weighted average useful life of the fresh-start customer contract intangibles is 4.5 years. During 2009, we had additions of approximately \$31,925,000 with a weighted average useful life of 4 years based on the estimated useful life of the contract. Refer to Note 24 for additional information. We do not typically assume a renewal or extension of the terms in determining the amortization period.

As a result of fresh-start accounting, we recorded \$59,700,000 of trade names based on the earnings potential and relief of costs associated with licensing the trade names. Our trade names have been assigned an indefinite life. In the fourth quarter of 2009 and 2008, we impaired trade names by \$4,000,000 and \$1,500,000 respectively. Our Level 3 estimated fair value analysis was based on a relief of royalty methodology utilizing the projected future revenues, and applying a royalty rate based on similar arm's length licensing transactions for the related margins. These impairments were the result of anticipated lower revenue being generated by the products sold under our trade names, and was recorded in the consolidated statement of operations in the caption intangible asset impairment charges.

We have entered into several transactions and agreements with GM and certain of its subsidiaries related to their respective businesses. Pursuant to a Trademark License Agreement between us and GM, GM granted us an exclusive license to use the "Delco Remy" trademark on and in connection with automotive starters and heavy-duty starters and alternators initially until July 31, 2004, and extendable indefinitely upon payment of a fixed \$100,000 annual licensing fee to GM. The "Delco Remy" and "Remy" trademarks are registered in the U.S., Canada and Mexico and in most major markets worldwide. We own the "Remy" trademark. GM has agreed that upon our request, they will register the Delco Remy trademark in any jurisdiction where they are not currently registered.

Our goodwill represents the excess of the reorganization value assigned by the Bankruptcy Court upon our emergence from bankruptcy on December 6, 2007, over the net assets' fair value as determined in accordance with FASB ASC Topic 852. During 2008, goodwill was increased by \$1,838,000 as a result of finalization of valuation for certain assets recorded at the time of our emergence from bankruptcy. As discussed in Note 2, we have increased Goodwill by \$1,206,000 during 2009 due to accounting irregularities identified in 2009 related primarily to periods prior to fresh-start.

We perform impairment testing annually in the fourth quarter, or more frequently when events or circumstances indicate that the carrying amount of the above intangibles may be impaired. The impairment analysis compares the estimated fair value of these assets to the related carrying value. An impairment charge is recorded for any excess of carrying value over estimated fair value. The estimated fair value is based upon various valuation methodologies, including a discounted cash flow analysis, multiples of revenue and EBITDA, and relief of royalty methodologies.

Definite life intangible assets are being amortized under accelerated methods to reflect the pattern of economic benefit consumed. We do not assume any residual value in our intangible assets. Amortization expense of definite life intangibles for the year ended December 31, 2009 (Successor), for the year ended December 31, 2008 (Successor), one month ended December 31, 2007(Successor), and the eleven months ended November 30, 2007 (Predecessor) was \$18,214,000, \$13,226,000, \$835,000, and \$3,882,000, respectively. Estimated future amortization, in thousands of dollars, for intangibles with definite lives at December 31, 2009, is:

2010	\$ 17,524
2011	18,325
2012	13,333
2013	9,185
2014	5,837

8. OTHER NONCURRENT ASSETS

Other noncurrent assets primarily consisted of core return rights of \$24,491,000 and \$25,225,000 as of December 31, 2009, and 2008, respectively.

9. OTHER CURRENT LIABILITIES AND ACCRUED EXPENSES

Other current liabilities and accrued expenses consist of the following:

(In thousands of dollars)	December 31,	
	2009	2008
Accrued warranty	\$ 23,179	\$ 24,932
Accrued wages and benefits	29,887	24,626
Current portion of customer obligations	11,029	13,625
Rebates, stocklifts, discounts and returns	11,339	14,339
Current deferred revenue	3,233	-
Other	44,026	43,567
	<u>\$ 122,693</u>	<u>\$ 121,089</u>

Changes to our accrued warranty were as follows:

(In thousands of dollars)	Successor			Predecessor
	Year ended December 31, 2009	Year ended December 31, 2008	One month ended December 31, 2007	Eleven months ended November 30, 2007
Balance at beginning of period	\$ 24,932	\$ 35,654	\$ 36,368	\$ 41,156
Provision for warranty	46,576	40,985	4,087	52,005
Payments and charges against the accrual	(48,329)	(51,707)	(4,801)	(56,793)
Balance at end of period	<u>\$ 23,179</u>	<u>\$ 24,932</u>	<u>\$ 35,654</u>	<u>\$ 36,368</u>

10. OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities consist of the following:

(In thousands of dollars)	December 31,	
	2009	2008
Customer obligations and contracts, net of current portion	\$ 14,586	\$ 20,630
Fair value of customer contract liability, net of amortization	8,570	15,904
Noncurrent deferred revenue	6,357	-
Other	11,783	11,093
	<u>\$ 41,296</u>	<u>\$ 47,627</u>

We operate globally to take advantage of global economic conditions and related cost structures. We are subject to various duties and import/export taxes. We actively review our import/export processes in North America, Europe and Asia to verify the appropriate import duty classification, value and duty rate, including import value added tax. As part of this review process, we identified a potential exposure related to customs duties in the U.S. We notified and entered into negotiation with the U.S. Department of Commerce (DOC) on this matter and reached a settlement with them. The settlement, dated October 1, 2007, requires us to pay a total of \$7,279,000 plus interest as follows: \$500,000 after acceptance of the Note by DOC; \$970,000 thereafter annually, commencing June 30, 2008, with a final annual payment of \$959,000 due on June 30, 2014. Interest commenced to accrue upon our emergence from bankruptcy. Early payment is permitted without penalty. The noncurrent balance included in other above as of December 31, 2009, and December 31, 2008, was \$3,869,000 and \$4,839,000, respectively. The current balance included in "Other current liabilities and accrued expenses" as of December 31, 2009, and December 31, 2008, was \$970,000 for both periods.

11. DISCONTINUED OPERATIONS

We have disposed of various noncore businesses to focus our resources on core operations.

In October 2007, we entered into an asset purchase agreement to sell substantially all of the assets of M. & M. Knopf Auto Parts, L.L.C. ("Knopf"), a wholly-owned subsidiary. The transaction was approved by the Bankruptcy Court on November 20, 2007, and closed on December 5, 2007. We received cash of \$15,130,000 and a promissory note for \$2,500,000 in the fourth quarter of 2007 as proceeds for the sale of this business. We received payment of the note in January 2008. As a result of the sale of substantially all assets and liabilities of Knopf, the operating results, balance sheets and cash flows of Knopf have been classified as discontinued operations effective November 30, 2007.

In the fourth quarter of 2006, we committed to a plan to discontinue the operations of our Diesel business, which included Franklin Power Products, Inc. ("FPP"), International Fuel Systems ("IFS"), and Powrbilt Products, Inc. The operating results, balance sheets and cash flows of the Diesel business have been classified as discontinued operations effective in the fourth quarter of 2006. During 2007, we completed the sale of substantially all assets and certain of the liabilities of our Diesel business to Caterpillar, Inc. ("CAT") for approximately \$151,000,000 in cash.

Operating results of discontinued operations were as follows:

(In thousands of dollars)	Predecessor
	Eleven months ended November 30, 2007
Net sales	\$ 74,040
Interest expense	882
Net income	1,018

12. RESTRUCTURING AND OTHER CHARGES

We account for restructuring costs in accordance with FASB ASC Topic 420, *Exit or Disposal Cost Obligations*, and FASB ASC Topic 12, *Compensation – Nonretirement Postemployment Benefits*. Restructuring costs consist of costs associated with business realignment and streamlining activities and entail exit costs such as lease termination costs, certain operating costs relating to closed leased facilities, employee severance and related costs, and certain other related costs. Such costs are recorded when the liability is incurred in accordance with the prescribed accounting at the then estimated amounts. These estimates are subject to the inherent risk of uncertainty in the estimation process, especially as to the accrual of future net rental charges on exited facilities. Subsequent changes to such estimates are recorded as restructuring charges in the year the change in the estimate is made.

Most of our restructuring activities over the last three years relate to Management's ongoing plan for capacity realignment and streamlining of operations to meet the demands of the various markets we serve and the current economic conditions, and to make us more cost competitive. With the economic downturn in 2009 and 2008 additional actions were undertaken to meet the sudden decline in sales volume. The restructuring activities primarily relate to following categories:

- Capacity alignment and streamlining of both our facilities and our workforce to become more cost competitive through consolidation of excess capacity, movement of operations to lower cost facilities, and streamlining of our workforce;
- Streamlining of our workforce in facilities that were not consolidated to become more cost competitive; and
- Reduction in force during 2009 and late 2008 to meet the sudden sales decline resulting from economic conditions.

In the last three years we have conducted the following actions in conjunction with our ongoing capacity realignment and cost reduction initiatives.

2009

- Further consolidation of distribution centers in North America including the closure of the distribution center in Mississippi.
- Closure of the production facility and engineering center in Poland and relocation of production to other facilities in Europe, Mexico and Korea.
- Reduction in force in North America and Europe due to current economic conditions.
- Reduction of warehouse space in the United Kingdom.

2008

- We announced the closure of our Poland manufacturing facility in October 2008 which was sold in the second quarter of 2009. At December 31, 2008, the Polish real estate was classified as held for sale.
- Consolidation of the Belgium warehouses from three to one.
- Realignment and streamlining of capacity at manufacturing, administration, technical, and distribution locations in North America and consolidation of the OE Division's Mexican manufacturing facilities from four to three.
- Combination of two Chinese manufacturing facilities into one.

2007

- Closure of four facilities in our U.S. operations.
- Further consolidation of excess office and storage facilities.

Significant components of restructuring expenses for the approved activities are:

(In thousands of dollars)	Total Expected Costs	Expense Incurred in			Eleven Months Ended November 30, 2007	Estimated Future Expense
		2009	2008	One Month Ended December 31, 2007		
2009 Activities						
Severance	\$ 2,416	\$ 2,416	\$ -	\$ -	\$ -	\$ -
Lease termination and related facility ongoing costs	1,204	875	-	-	-	329
	<u>\$ 3,620</u>	<u>\$ 3,291</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 329</u>
2008 Activities						
Severance	8,292	2,087	6,205	-	-	-
Lease termination and related facility ongoing costs	7,010	1,438	5,510	-	-	62
	<u>\$ 15,302</u>	<u>\$ 3,525</u>	<u>\$ 11,715</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62</u>
2007 Activities						
Severance	1,387	(45)	67	404	961	-
Lease termination and related facility ongoing costs	(566)	-	(42)	-	(524)	-
	<u>\$ 821</u>	<u>\$ (45)</u>	<u>\$ 25</u>	<u>\$ 404</u>	<u>\$ 437</u>	<u>\$ -</u>

We intend to fund the future restructuring expenses from our existing revolver facility and funds generated from operations.

Net restructuring and other charges and payments

A total net restructuring and other charges of \$7,583,000 was recorded in the consolidated statement of operations in 2009. This charge consisted of termination benefits of \$4,458,000, other exit costs of \$2,313,000, and asset impairment charges of \$812,000. Cash payments totaling \$11,504,000 were made in 2009 for actions taken in 2009 and prior years.

A total net charge of \$15,325,000 was recorded in the consolidated statement of operations relative to the 2008 and prior actions. The charge consisted of termination benefits of \$6,272,000, asset impairment charges of \$3,585,000, and other exit costs of \$5,468,000.

A total net charge of \$404,000 was recorded in the one month ended December 31, 2007, for termination benefits. A total net charge of \$1,815,000 was recorded in the eleven months ended November 30, 2007, relative to the 2007 and prior actions. The charge consisted of termination benefits of \$961,000, asset impairment charges of \$1,378,000, and \$184,000 in other exit costs, offset by \$708,000 in reductions of lease termination costs previously accrued.

The following table summarizes the activity in our accrual for restructuring:

(In thousands of dollars)	Termination Benefits	Exit Costs	Total
Accrual at December 31, 2006 (Predecessor)	\$ 2,453	\$ 1,612	\$ 4,065
Provision in the eleven months ended November 30, 2007	961	(524)	437
Payments in the eleven months ended November 30, 2007	<u>(2,315)</u>	<u>(826)</u>	<u>(3,141)</u>
Accrual at November 30, 2007 (Successor)	1,099	262	1,361
Provision in the month ended December 31, 2007	404	-	404
Payments in the month ended December 31, 2007	<u>(112)</u>	<u>(12)</u>	<u>(124)</u>
Accrual at December 31, 2007 (Successor)	1,391	250	1,641
Provision in 2008	6,272	5,468	11,740
Payments in 2008	<u>(2,691)</u>	<u>(3,767)</u>	<u>(6,458)</u>
Accrual at December 31, 2008 (Successor)	4,972	1,951	6,923
Provision in 2009	4,458	2,313	6,771
Payments in 2009	<u>(8,848)</u>	<u>(2,656)</u>	<u>(11,504)</u>
Accrual at December 31, 2009 (Successor)	<u>\$ 582</u>	<u>\$ 1,608</u>	<u>\$ 2,190</u>

During 2010, we expect to pay substantially all of the termination Benefits and the majority of the Exit Costs accrued for at December 31, 2009.

13. DEBT

Borrowings under long-term debt arrangements, net of discounts, consisted of the following at:

(In thousands of dollars)	December 31,	
	2009	2008
Senior Secured Revolving Credit Agreement - <i>Maturity date of December 6, 2012</i>	\$ 3,237	\$ 51,155
First Lien Credit Agreement - <i>Maturity date of December 6, 2013</i>	149,417	149,940
Second Lien Credit Agreement - <i>Maturity date of June 6, 2014</i>	49,625	49,561
Third-Priority Floating Rate Secured PIK Notes - <i>Maturity date of December 1, 2014</i>	<u>134,424</u>	<u>117,709</u>
Total Senior Credit Facility and Notes	336,703	368,365
Other debt	430	1,690
Capital leases	3,112	3,534
Less current maturities	<u>(2,340)</u>	<u>(28,456)</u>
Long-term debt less current maturities	<u>\$ 337,905</u>	<u>\$ 345,133</u>

Future maturities of long-term debt in thousands of dollars, including capital lease obligations consist of the following:

2010	\$ 2,340
2011	1,938
2012	5,169
2013	144,867
2014	184,327
Thereafter	1,604

The Revolving Credit Agreement allows for borrowing up to \$120,000,000 and is secured by substantially all of our assets, and provides working capital for general corporate purposes. It bears interest, varying with the level of available borrowing, at a defined Index Rate plus .75% - 1.25% per annum or, at our election, at an applicable LIBOR Rate plus 1.75% - 2.25% per annum and is paid monthly. At December 31, 2009, no LIBOR loans were outstanding and \$3,237,000 of Index Rate loans were outstanding with a borrowing rate of 4.25% (4.5% borrowing index rate at December 31, 2008). Based upon the collateral supporting the revolving credit agreement, the amount borrowed, and the outstanding letters of credit of \$6,300,000, there was additional availability for borrowing of \$58,019,000 on December 31, 2009 (\$14,613,000 availability at December 31, 2008). This credit agreement matures on December 6, 2012.

The First Lien Credit Agreement in the original amount of \$160,000,000 less original issue discount of \$7,800,000 is secured by substantially all assets and certain common stock of our wholly-owned subsidiaries. The loan bears interest at a defined Index Rate plus 4.5% per annum or, at our election, at an applicable LIBOR Rate plus 5.5% per annum and is paid quarterly. Principal payments in the amount of \$400,000 are due at the end of each calendar quarter with termination and final payment no later than December 6, 2013. At December 31, 2009, and 2008, the average borrowing rate, including the impact of the interest rate swaps, was 7.85% and 8.54%, respectively.

The Second Lien Credit Agreement in the original amount of \$50,000,000 less original issue discount of \$500,000 is secured by substantially all assets and certain common stock of our wholly-owned subsidiaries. The loan bears interest at a defined Index Rate plus 7.5% per annum or, at our election, at an applicable LIBOR Rate plus 8.5% per annum and is paid quarterly. The Agreement is payable in full on June 6, 2014. At December 31, 2009, and 2008, the average borrowing rate, including the impact of the interest rate swap, was 12.08% and 12.01%, respectively.

On December 6, 2007, as part of our prepackaged bankruptcy exit we issued \$100,000,000 Third-Priority Floating Rate Secured PIK (payment-in-kind) Notes due December 1, 2014. Interest is payable in PIK securities or cash based upon our free cash flow coverage ratio and at our option if the free cash flow coverage ratio is favorable. Interest is payable semiannually (June 1 and December 1) for cash interest at LIBOR plus 9.5%, or as additional PIK securities at LIBOR plus 12.0%. At December 31, 2009, and 2008, the PIK borrowing rate was 12.48% and 14.57%, respectively. We intend to pay the current accrued interest by issuing additional PIK Notes, and have accordingly reflected it in the amount of PIK Notes outstanding at December 31, 2009, in the consolidated balance sheet. We have issued to date PIK notes for all payments due on interest for these notes. The PIK Notes are third in priority to any and all security interests of the First Lien and Second Lien credit agreements.

As of December 31, 2009 and 2008, the estimated fair values of our First Lien Credit Facility, Second Lien Credit Facility, and Third-Priority Floating Rate Secured PIK Notes were \$274,752,000 and \$156,142,000, respectively. The estimated fair values were \$58,714,000 and \$161,068,000, respectively, lower than carrying values. Fair market values are developed by the use of estimates obtained from brokers and other appropriate valuation techniques based on information available as of December 31, 2009 and 2008. The fair value estimates do not necessarily reflect the values we could realize in the current markets. Because of their short-term nature or variable interest rate, we believe the carrying value for short-term debt and the revolving credit agreement closely approximates their fair value.

All credit agreements contain various covenants and representations that are appropriate for transactions of this nature. We believe we are in compliance with all covenants as of December 31, 2009. Our debt covenants include certain earnings requirements, capital expenditure limits and liquidity ratios. Dividends and additional borrowings are limited under the covenants. In connection with the change in accounting principle described in Note 2, for purposes of our bank covenant compliance calculations, loss on sales of accounts receivable is excluded from interest expense.

Predecessor Company Debt

In conjunction with our emergence from our prepackaged bankruptcy on December 6, 2007, we extinguished net debt of approximately \$193,000,000 that did not carryforward into the Successor Company.

Short-Term Debt

We have revolving credit facilities with six Korean banks with a total facility amount of approximately \$19,269,000 of which \$14,132,000 is borrowed at average interest rates of 5.25% at December 31, 2009. In Hungary, there is a revolving credit facility and a note payable with two separate banks for a credit facility of \$6,440,000 of which \$6,049,000 is borrowed at average interest rates of 1.93% at December 31, 2009. Also, in Belgium we have revolving loans with two banks for a credit facility of \$4,233,000 of which \$2,788,000 is borrowed at average interest rates of 2.80%. In Brazil, we have a credit line for \$4,382,000 with nothing borrowed at December 31, 2009. In China, we have credit facilities with two banks for \$4,393,000 secured by certain receivables with nothing borrowed at December 31, 2009.

Sale-Leaseback Financing Transactions

In 2003, certain of our Mexican subsidiaries entered into a series of machinery and equipment sale-leaseback financing transactions. Under terms of these agreements, the relevant subsidiaries must maintain certain net worth, earnings before interest, taxes, depreciation and amortization (as defined) and sales levels, in addition to other requirements normally associated with this type of financing. Net cash proceeds from these transactions in 2003 were \$10,297,000, net of security deposits totaling

\$5,425,000. We have accounted for these transactions as financing transactions in accordance with FASB ASC Topic 360 and 840. The recorded obligation at December 31, 2007, was \$4,299,000. During 2008, we paid off these leases.

In November 2005, we entered into a purchase, sale and partial leaseback real estate transaction. We purchased five real estate parcels that we had been leasing under long-term capital leases and simultaneously sold all five properties. At the closing, we entered into new long-term leases for three of the properties we sold. The purchase price of the properties was \$17,000,000. \$12,500,000 was paid in cash and \$4,500,000 was paid in the form of a 10 year unsecured note bearing interest at 8.0%. The sale price was \$9,975,000. This transaction resulted in a gain of \$3,026,000 reflected in restructuring and a deferred gain of \$4,100,000 that was being amortized over the term of the leased assets. This lease was rejected as part of Chapter 11 Bankruptcy proceedings, which resulted in the recognition of a reorganization gain, net of the estimated lease termination cost, of \$2,060,000.

Capital Leases

Capital leases have been capitalized using nominal interest rates ranging from 5.8% to 15.1% as determined by the dates we entered into the leases. We had assets under capital leases of approximately \$4,054,000 at December 31, 2009 and approximately \$4,188,000 at December 31, 2008, net of accumulated amortization.

14. EMPLOYEE BENEFIT PLANS

Agreements with GM

In connection with the sale by GM of its former Delco Remy operations, we agreed with GM to allocate the financial responsibility for employee postretirement health care and life insurance on a pro rata basis between us and them. The allocation is primarily determined upon years of service with us and aggregate years of service with GM. Effective August 1, 1994, our Predecessor Company established hourly and salaried postretirement health care and life insurance plans (which were assumed by us as the Successor Company when we emerged from bankruptcy on December 6, 2007), under which GM would reimburse us for their proportionate share of the costs we incurred under the plans.

Pension and Postretirement Health Care and Life Insurance Plans

Our subsidiary, Remy Inc., had defined benefit pension plans that covered certain salary and hourly U.S. employees. The plan covering salaried employees provided benefits that were based upon years of service and final estimated average compensation. Benefits for hourly employees are based on stated amounts for each year of service. Our funding policy is to contribute amounts to provide the plans with sufficient assets to meet future benefit payment requirements consistent with actuarial determinations of the funding requirements of federal laws. Plan assets are primarily invested in mutual funds, which invest in both debt and equity instruments. In the second quarter of 2006, we notified the U.S. salaried employees and the U.S. Internal Revenue Service ("IRS") that we had adopted an amendment to our U.S. salaried pension plan which froze the future accrual of benefits under the salaried pension plan for all eligible participants as of June 30, 2006, and provides that no new participants will be added to the plan after June 30, 2006. The plan covering hourly employees has no active employees and no current service costs.

In accordance with FASB ASC Topic 852, *Reorganizations*, upon our emergence from bankruptcy on November 30, 2007, we accelerated the recognition of net unrecognized actuarial gains and losses and prior service costs pertaining to our pension and postretirement plans, and recognized a reorganization expense thereon. The unrecognized costs as of November 30, 2007, that were recognized as part of fresh-start reporting are reported in the table below.

We offer a supplemental executive retirement pension plan to selected former and current executive officers of our company. The plan offers retirement benefits ranging from 30% to 50% of the participant's average salary for five consecutive years prior to receiving benefits. As of December 31, 2009, there were five participants in the plan of which only one is an active employee.

Remy Automotive UK Ltd., a United Kingdom subsidiary has a defined benefit pension plan. This plan covers a limited number of employees who were part of an acquisition in 1998. In addition, some of our international subsidiaries have other postretirement benefit plans although most participants are covered by government sponsored and administered programs.

We maintained certain U.S. hourly and salaried benefit plans that provided postretirement health care and life insurance to retirees and eligible dependents. The benefits were payable for life, although we retain the right to modify or terminate the plans. The salaried postretirement plan had cost sharing features such as deductibles and co-payments. Salaried employees who were not

GM employees prior to 1992 are not eligible for the above described postretirement benefits. It is our policy to fund these benefits as claims are incurred.

In December 2006, we amended the postretirement health care benefits for the salaried postretirement plan. After this amendment, salaried retirees paid 50% of the costs in 2007, and will pay increases in increments of 10% for each following year until the full costs are paid by the participants in 2012. This resulted in a negative plan amendment of \$4,447,000 in 2006 which reduced the benefit obligation and had no impact on net periodic benefit cost.

On December 31, 2006, we adopted the recognition and disclosure provisions of FASB ASC Topic 715-20-50, *Compensation-Retirement Benefits*. ASC Topic 715-20-50 requires that we recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation for our defined benefit pension plans and the accumulated postretirement benefit obligation for our retiree health benefit plans) of our defined benefit pension plans and retiree health benefit plans in the balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax. The adjustment to accumulated other comprehensive income at adoption represents the unrecognized actuarial losses and unrecognized prior service costs, which were previously netted against the plans' funded status in our consolidated balance sheets pursuant to the prior accounting rules. The amounts in accumulated other comprehensive income will be subsequently recognized as net periodic pension cost pursuant to the prior accounting rules for amortizing such amounts, which were not changed by FASB ASC Topic 715-20-50. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same period will be recognized as a component of other comprehensive income (loss). Those amounts will be subsequently recognized as a component of net periodic cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of FASB ASC Topic 715-20-50. Upon emergence from bankruptcy, the amount remaining in accumulated other comprehensive income was recognized as a reorganization expense.

GM hourly postretirement benefits associated with employees who retired or will retire from GM

On November 20, 2008, GM informed us of their decision to not charge us for a prorated share of retiree health claims for our eligible former hourly employees who are receiving or who will receive in the future retiree healthcare under the current GM retiree healthcare plan. This decision will be implemented beginning with 2010 retiree claims, and will coincide with the transition of these hourly employees to coverage under the International Union, United Automobile, Aerospace and Agriculture Workers of America (UAW) sponsored Voluntary Employee Benefit Association Trust (VEBA) being established to cover future health care retiree costs. As a result, the Accumulated Postretirement Benefit Obligation (APBO), disclosed as of December 31, 2008, did not include any charges after 2009 for former employees who retired from GM.

In July 2009, we entered into an agreement with new GM for our pro rated share of retiree health claims for our eligible former hourly employees who are receiving or who will receive retiree healthcare under the current GM retiree healthcare plan in connection with their bankruptcy proceedings. As a result of the agreement for the former hourly employees who are under the GM retiree healthcare plan, we recorded a noncash gain of \$11,987,000 in cost of goods sold.

Remy postretirement benefit plans

In connection with old GM's rejection of the cost-sharing arrangement of the postretirement benefit provision as part of their bankruptcy proceedings, we entered into an agreement with new GM for their portion of the postretirement cost sharing arrangement.

In September 30, 2009, Remy decided to terminate the Remy postretirement healthcare benefits under the hourly and salaried postretirement plans effective December 31, 2009. In connection with the termination of these plans, we established a Voluntary Retiree Reimbursement Account Program ("VRRAP") effective January 1, 2010. Under the VRRAP plan, participants will be credited a defined lifetime capped benefit amount to cover qualifying medical expenses. The new GM agreement and plan amendment resulted in a net decrease of the benefit obligation of \$2,570,000 and an increase in other comprehensive income of \$10,170,000 to the Remy postretirement benefit plans in 2009.

The changes in benefit obligations and plan assets, components of expense and assumptions for the postretirement healthcare and life insurance plans relating to continuing operations are as follows:

Postretirement Healthcare and Life Insurance Plans

	<u>Successor</u>			<u>Predecessor</u>
	Year ended December 31, 2009	Year ended December 31, 2008	One month ended December 31, 2007	Eleven months ended November 30, 2007
<i>(In thousands of dollars)</i>				
Change in benefit obligations				
Benefit obligation at beginning of period	\$ 6,413	\$ 15,493	\$ 16,102	\$ 15,182
Service cost	-	-	-	-
Interest cost	293	1,196	82	932
Amendments	(25,697)	(92)	-	-
Gain due to GM-UAW VEBA adoption	-	(13,279)	-	-
Actuarial loss (gain)	(479)	3,719	(498)	1,703
Benefits paid	(271)	(624)	(193)	(1,715)
Settlements	22,318	-	-	-
Benefit obligation at end of period	\$ 2,577	\$ 6,413	\$ 15,493	\$ 16,102
Change in plan assets				
Fair value of plan assets at beginning of period	\$ -	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-	-
Employer contributions	271	624	193	1,715
Benefits paid	(271)	(624)	(193)	(1,715)
Fair value of plan assets at end of period	\$ -	\$ -	\$ -	\$ -
Funded status	\$ (2,577)	\$ (6,413)	\$ (15,493)	\$ (16,102)
Amounts recognized in the balance sheets consist of:				
Current liabilities	\$ (1,025)	\$ (1,152)	\$ (985)	
Noncurrent liabilities	(1,552)	(5,261)	(14,508)	
Net amount recognized	\$ (2,577)	\$ (6,413)	\$ (15,493)	
Amounts recognized in accumulated other comprehensive income consist of:				
Net actuarial loss (gain)	\$ 15,286	\$ (10,084)	\$ (497)	
Prior service credit	(23,784)	(92)	-	
Accumulated other comprehensive loss (income)	\$ (8,498)	\$ (10,176)	\$ (497)	
Components of net periodic benefit cost and other amounts recognized in other comprehensive income				
Net Periodic Benefit Cost				
Service cost	\$ -	\$ -	\$ -	\$ -
Interest cost	293	1,196	81	932
Amortization of prior service cost	(2,005)	-	-	(815)
Recognized net actuarial loss	856	27	-	281
Fresh start accounting adjustments	-	-	-	1,272
Settlement gain	(11,987)	-	-	-
Net periodic pension cost (benefit)	\$ (12,843)	\$ 1,223	\$ 81	\$ 1,670
Other changes in plan assets and benefit obligations recognized in other comprehensive income				
Net actuarial loss (gain)	\$ 14,239	\$ (9,560)	\$ (497)	\$ 1,703
Prior service credit	(25,697)	(92)	-	-
Amortization of prior service cost	2,005	-	-	4,446
Recognized net actuarial (loss) gain	11,131	(27)	-	(5,184)
Total recognized in other comprehensive loss (income)	1,678	(9,679)	(497)	965
Total recognized in net (benefit) cost and OCI	\$ (11,165)	\$ (8,456)	\$ (416)	\$ 2,635
Weighted-average assumptions				
U.S. assumptions:				
Discount rate for benefit obligation	5.87%	6.00%	6.50%	6.25%
Discount rate for net periodic benefit cost	6.00%	6.50%	6.00%	6.00%
Rate of compensation increase	5.00%	5.00%	5.00%	5.00%

The changes in benefit obligations and plan assets, components of expense and assumptions for the pension plans are as follows:

	Pension Benefits					
	Successor				Predecessor	
	Year ended December 31, 2009	Year ended December 31, 2008	One month ended December 31, 2007		Eleven months ended November 30, 2007	
(In thousands of dollars)			(Funded)	(Underfunded)	(Funded)	(Underfunded)
Change in benefit obligations						
Benefit obligation at beginning of period	\$ 53,958	\$ 53,544	\$ 17,996	\$ 37,028	\$ 16,987	\$ 37,494
Service cost	263	257	-	17	-	256
Interest cost	3,221	3,205	91	125	987	2,025
Amendments	-	-	-	-	-	(1,633)
Actuarial loss (gain)	2,720	(510)	(642)	(814)	601	696
Benefits Paid	(2,520)	(2,538)	(55)	(202)	(579)	(1,810)
Benefit obligation at end of period	\$ 57,642	\$ 53,958	\$ 17,390	\$ 36,154	\$ 17,996	\$ 37,028
Change in plan assets						
Fair value of plan assets at beginning of period	\$ 32,656	\$ 48,999	\$ 18,912	\$ 30,279	\$ 15,283	\$ 27,440
Actual return on plan assets	8,359	(14,882)	(4)	70	1,676	2,404
Employer contributions	982	1,077	-	(1)	2,532	2,245
Benefits paid	(2,520)	(2,538)	(55)	(202)	(579)	(1,810)
Fair value of plan assets at end of period	\$ 39,477	\$ 32,656	\$ 18,853	\$ 30,146	\$ 18,912	\$ 30,279
Funded status	\$ (18,165)	\$ (21,302)	\$ 1,463	\$ (6,008)	\$ 916	\$ (6,749)
Amounts recognized in statement of financial position consist of:						
Noncurrent assets	\$ -	\$ -	\$ 1,463	\$ -		
Current liabilities	(349)	(353)	-	(340)		
Noncurrent liabilities	(17,816)	(20,949)	-	(5,668)		
Net amount recognized	\$ (18,165)	\$ (21,302)	\$ 1,463	\$ (6,008)		
Amounts recognized in accumulated other comprehensive income consist of:						
Net actuarial loss (gain)	\$ 12,616	\$ 16,745	\$ (529)	\$ (258)		
Prior service cost	-	-	-	-		
Accumulated other comprehensive loss (income)	\$ 12,616	\$ 16,745	\$ (529)	\$ (258)		
Information for pension plans with an accumulated benefit obligation in excess of plan assets						
Projected benefit obligation	\$ 57,642	\$ 53,958	\$ 17,390	\$ 36,154		
Accumulated benefit obligation	57,395	53,746	17,390	36,058		
Fair value of plan assets	39,477	32,656	18,853	30,146		
Components of net periodic benefit cost and other amounts recognized in other comprehensive income						
Net Periodic Benefit Cost						
Service cost	\$ 263	\$ 257	\$ -	\$ 17	\$ -	\$ 256
Interest cost	3,221	3,205	91	125	987	2,025
Expected return on plan assets	(2,142)	(3,161)	(108)	(112)	(1,085)	(1,768)
Amortization of prior service cost	-	-	-	-	-	174
Recognized net actuarial loss (gain)	632	-	-	-	-	181
SERP plan reversal	-	-	-	-	-	(888)
Fresh start accounting adjustments	-	-	-	-	(1,264)	6,820
Curtailments	-	-	-	-	-	-
Net periodic pension cost (benefit)	\$ 1,974	\$ 301	\$ (17)	\$ 30	\$ (1,362)	\$ 6,800
Other changes in plan assets and benefit obligations recognized in other comprehensive income						
Net actuarial loss (gain)	\$ (3,497)	\$ 17,532	\$ (529)	\$ (258)	\$ 10	\$ (1,173)
Prior service cost	-	-	-	-	-	-
Amortization of prior service cost	-	-	-	-	-	(917)
Recognized net actuarial (loss) gain	(632)	-	-	-	1,264	(5,369)
Total recognized in other comprehensive loss (income)	(4,129)	17,532	(529)	(258)	1,274	(7,459)
Total recognized in net (benefit) cost and OCI	\$ (2,155)	\$ 17,833	\$ (546)	\$ (228)	\$ (88)	\$ (659)
Weighted-average assumptions						
U.S. assumptions:						
Discount rate for benefit obligation	5.87%	6.00%	6.50%	6.50%	6.25%	6.25%
Discount rate for net periodic benefit cost	6.00%	6.50%	6.00%	6.25%	6.00%	6.00%
Rate of compensation increase	5.00%	5.00%	Not applicable	5.00%	5.00%	5.00%
Expected return on plan assets	6.50%	6.50%	7.00%	7.00%	7.00%	7.00%
U.K. assumptions:						
Discount rate for benefit obligation	5.70%	6.20%		5.50%		5.50%
Discount rate for net periodic cost	6.20%	5.50%		4.10%		4.10%
Rate of compensation increase	3.25%	3.00%		3.00%		3.00%
Expected return on plan assets	6.50%	6.85%		6.80%		6.80%

Amounts in accumulated other comprehensive (loss) income expected to be recognized as components of net periodic benefit cost over the next fiscal year:

(In thousands of dollars)	<u>Pension</u>	<u>Life Insurance Plans</u>
Amortization of actuarial losses	\$ 447	\$ 5,095
Amortization of prior service cost	-	(7,928)
Total	<u>\$ 447</u>	<u>\$ (2,833)</u>

The projected benefit obligations for U.K. pension plans included above are \$9,785,000, \$7,461,000, and \$12,246,000 as of December 31, 2009, 2008, and 2007, respectively. The fair value of the plan assets for U.K. pension plans included above are \$8,266,000, \$6,314,000, and \$10,389,000 as of December 31, 2009, 2008, and 2007, respectively.

To develop the expected long-term rate of return on assets assumption, we considered the historical returns and future expectations for returns for each asset class, as well as the target asset allocation of the present portfolio. This resulted in the selection of the 6.5% for long-term rate of return on asset assumption for U.S. plans and 6.5% for U.K. plans.

Our investment strategies with respect to U.S. pension assets are as follows:

- The assets are managed in compliance with provisions of the Employee Retirement Income Security Act.
- The assets are to be invested with expectations of achieving real growth with respect to inflation, the belief that the U.S. capital markets will remain viable, maintaining a level of liquidity to meet timely payment of benefits to participants and minimizing risk and achieving growth through prudent diversification of assets among investment categories.

The 2010 target plan asset allocation is:

	<u>Target Allocation</u>
Equity Investments	50% - 70%
Fixed Income Investments	30% - 50%
Cash and Short Term Investments	0% - 10%

The asset allocations were:

(In thousands of dollars)	December 31,			
	<u>2009</u>		<u>2008</u>	
Asset Allocation for Plan Assets				
Interest-bearing cash	\$ 1,870	4.7%	\$ 2,565	7.9%
Bond Mutual Funds	13,162	33.3%	11,334	34.7%
Equity Mutual Funds	24,445	62.0%	17,043	52.2%
Common stock	-	0.0%	1,714	5.2%
Total plan assets	<u>\$ 39,477</u>	<u>100.0%</u>	<u>\$ 32,656</u>	<u>100.0%</u>

The assumptions used in deriving our postretirement costs and the sensitivity analysis thereon are:

	December 31,	
	<u>2009</u>	<u>2008</u>
Assumed Health Care Cost Trend Rates		
Health care cost trend rate assumed for next year	9%	9%
Rate to which the cost trend is expected to decline	5%	5%
Year that the rate reaches the ultimate trend rate	<u>2013</u>	<u>2012</u>

Sensitivity Analysis

An increase or decrease of one percentage point in the assumed health care trends would have the following approximate effects for the year ended December 31, 2009. (In thousands of dollars)

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 29	\$ (24)
Effect on the health care component of the accumulated postretirement benefit obligation	2	(3)

Payments to Pension and Postretirement Plans

We contributed \$982,000 to our pension plans in 2009 and \$1,077,000 in 2008. In June 2006, we filed an application with the IRS requesting a funding waiver for the balance of the 2006 U.S. pension plans' contributions. The IRS responded that they would defer rendering a decision on the funding waiver request until after the receipt of our 2006 year end financial information. The cumulative impact of the funding waiver request on 2006 cash flow through December 31, 2006, was a deferral of \$2,224,000. In the first quarter of 2007 we withdrew our application with the IRS and our 2006 payments were brought up to date.

In 2010, we plan to contribute approximately \$1,183,000 to our US pension plans and nothing to our UK pension plans. The benefits of the postretirement health care plan are funded on a pay-as-you go basis and are funded on a cash basis as benefits are paid.

The following reflects the estimated future benefit payments to be paid from the plans:

(In thousands of dollars)	Post-retirement	
	<u>Pension</u>	<u>healthcare</u>
2010	\$2,414	\$1,169
2011	2,450	1,059
2012	2,514	502
2013	2,623	308
2014	2,677	117
Years 2015-2019	14,662	45

Defined Contribution Plans

We sponsor two voluntary savings plans for U.S. employees. One plan is for eligible salaried employees and the other plan is for hourly employees covered by certain labor agreements. These plans allow participants to make contributions pursuant to section 401(k) of the Internal Revenue Code. The salaried plan has Company matching contribution provisions, while the hourly plan does not. Charges relating to continuing operations were \$1,182,000 for the year ended December 31, 2009, \$1,177,000 for the year ended December 31, 2008, \$92,000 for the one month ended December 31, 2007 and \$1,300,000 for the eleven months ended November 30, 2007. Charges relating to discontinued operations were \$163,000 for the eleven months ended November 30, 2007.

15. OTHER INCOME

On June 2, 2008, Remy Automotive Europe ("Remy Europe"), our wholly-owned subsidiary and Cardone Industries, Inc. ("Cardone"), entered into an agreement whereby Remy Europe sold three plants in the United Kingdom which manufactured and remanufactured the Multiline product group. As a result of the sale, Cardone acquired the employees, production equipment, and inventory related to the three plants. Cardone will supply Remy Europe with its demands for Multiline products to allow Remy Europe to continue to sell the products to its existing customer base. This transaction did not qualify for discontinued operations treatment. The total net carrying value of the assets sold was \$4,941,000 and consisted of \$4,017,000 of inventory and \$924,000 of fixed assets. Liabilities with a carrying value of \$556,000 were also assumed by Cardone in conjunction with the sale. Proceeds of the sale totaled \$5,139,000 and resulted in a gain of \$754,000, which is recorded in other income from continuing operations in the consolidated statement of operations for the year ended December 31, 2008.

On November 18, 2005, we issued promissory notes totaling \$4,500,000 due October 31, 2015, to the owners of an Anderson, Indiana, building that we were obligated to under a capital lease that we terminated. On August 31, 2007, these notes were amended to allow us to prepay the outstanding principal at a 40% discount if paid on or before June 30, 2008. We paid the

remaining balance on notes prior to June 30, 2008, resulting in a gain of \$1,469,000, which is recorded in other income from continuing operations in the consolidated statement of operations for the year ended December 31, 2008.

16. INCOME TAXES

Under the liability method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Income (loss) from continuing operations before income taxes and income (loss) from unconsolidated subsidiaries was taxed in the following jurisdictions:

(In thousands of dollars)	Successor			Predecessor
	Year ended December 31, 2009	Year ended December 31, 2008	One month ended December 31, 2007	Eleven months ended November 30, 2007
Domestic	\$ 5,788	\$ (4,479)	\$ (3,916)	\$ 331,364
Foreign	21,290	6,924	(1,109)	3,124
	<u>\$ 27,078</u>	<u>\$ 2,445</u>	<u>\$ (5,025)</u>	<u>\$ 334,488</u>

The following is a summary of the components of the provision for income tax expense (benefit) for continuing operations:

(In thousands of dollars)	Successor			Predecessor
	Year ended December 31, 2009	Year ended December 31, 2008	One month ended December 31, 2007	Eleven months ended November 30, 2007
Current:				
Federal	\$ (537)	\$ -	\$ -	\$ -
State and local	761	610	-	464
Foreign	12,103	5,908	(133)	7,449
Deferred:				
Federal	48	948	123	1,351
State and local	6	141	17	194
Foreign	637	(789)	(601)	(165)
Income tax expense (benefit)	<u>\$ 13,018</u>	<u>\$ 6,818</u>	<u>\$ (594)</u>	<u>\$ 9,293</u>

At December 31, 2009, and 2008, the United States federal and state deferred tax expense relates to goodwill amortization for tax purposes creating tax loss carryforwards to which a full valuation allowance has been recorded.

A reconciliation of income taxes at the United States federal statutory rate to the effective income tax rate follows:

	Successor			Predecessor
	Year ended December 31, 2009	Year ended December 31, 2008	One month ended December 31, 2007	Eleven months ended November 30, 2007
Federal statutory income tax rate	35.0 %	35.0 %	35.0 %	35.0 %
State and local income taxes, net of Federal tax benefit, if applicable	1.8	24.9	-	0.1
Permanent items	6.4	79.3	2.4	-
Foreign operations	19.6	110.1	6.9	1.9
Goodwill	0.2	44.5	(2.8)	0.5
Valuation changes affecting the provision	(14.9)	-	-	-
Losses not benefited	-	(15.3)	(29.7)	(34.7)
Effective income tax rate	<u>48.1 %</u>	<u>278.5 %</u>	<u>11.8 %</u>	<u>2.8 %</u>

The following table summarizes the total provision (benefit) for income taxes by component:

(In thousands of dollars)	Successor			Predecessor
	Year ended December 31,	Year ended December 31,	One month ended December 31,	Eleven months ended November 30,
	2009	2008	2007	2007
Income tax expense (benefit)	\$ 13,018	\$ 6,818	\$ (594)	\$ 9,293
Adjustment to goodwill	-	(766)	-	-
Allocated to other comprehensive income:				
Currency hedges	(2,093)	1,934	160	295

The following is a summary of the significant components of our deferred income tax assets and liabilities:

(In thousands of dollars)	Successor	
	December 31, 2009	December 31, 2008
Deferred tax assets:		
Restructuring charges	\$ 4,072	\$ 7,261
Employee benefits	14,213	12,839
Inventories	2,761	2,918
Warranty	8,154	9,170
Alternative minimum tax credits	3,040	3,392
Foreign deferred assets	32,910	34,975
Net operating loss carryforwards	63,650	66,678
Other comprehensive income	1,371	6,144
Customer contract intangibles	2,335	2,626
Other	26,442	25,735
Total deferred income tax assets	158,948	171,738
Valuation allowance	(126,522)	(131,713)
Deferred income tax assets net of valuation allowance	32,426	40,025
Deferred tax liabilities:		
Depreciation	(4,180)	(6,431)
Foreign deferred liabilities	(10,069)	(8,140)
Goodwill and other intangibles	(23,296)	(25,223)
Trade names	(21,194)	(22,753)
Other	(546)	(258)
Total deferred income tax liabilities	(59,285)	(62,805)
Net deferred income tax liability	\$ (26,859)	\$ (22,780)

As a result of our emergence from bankruptcy in 2007, we recorded a net deferred tax liability of \$25,443,000, resulting from the excess book over tax deductions for domestic and foreign operations. The excess book deduction primarily represents the difference between the fair value of the tangible and intangible assets and the related tax basis. Upon application of fresh-start accounting in 2007, we recorded a valuation allowance of \$125,426,000 against our net operating loss carryforwards' deferred income tax asset. A federal refund of \$766,000 was received in December 2008 associated with the 2007 federal income tax filing and was not reflected in the fresh-start valuation due to lack of information for a proper estimate. Accordingly, the refund represented a pre-acquisition contingency and was resolved within the allocation period. Therefore, goodwill has been adjusted accordingly. Beginning January 1, 2009, any realization of income tax benefits associated with these net operating loss carryforwards resulting in a reduction to the valuation allowance will be adjusted through the current year's deferred income tax provision in accordance with FASB ASC Topic 805.

In 2007, the consummation of the bankruptcy plan resulted in the forgiveness of \$346,000,000 of our pre-petition debt and interest subject to compromise. We utilized \$167,953,000 of our net operating loss carryforward tax attribute generated from such debt forgiveness. As a result of the consummation of the Plan, the "change in ownership" rules as defined by the Internal Revenue Code of 1986 will limit our ability to utilize any remaining U.S. net operating loss carryforwards.

At December 31, 2009, we had unused U.S. federal net operating loss carryforwards of approximately \$161,565,000 that expire during 2023 through 2028. We also had unused U.S. alternative minimum tax credit carryforwards of \$3,040,000 that may be carried forward indefinitely.

Income tax payments, net of refunds including state taxes, for the year ended December 31, 2009, were \$8,733,000, December 31, 2008, were \$6,351,000, one month ended December 31, 2007, were \$912,000, and for the eleven months ended November 30, 2007, were \$5,338,000. Pursuant to Internal Revenue Code Section 382, we are limited to approximately \$10,555,000 use in any one year of the pre-bankruptcy net operating loss carry forward in our federal income tax return.

At December 31, 2009 and 2008, we had unused foreign loss carryforwards totaling \$92,006,000 and \$111,626,000, respectively. Net operating loss carryforwards totaling \$35,200,000 will expire during 2010 through 2014, \$5,541,000 will expire during 2010 through 2019, \$11,274,000 will expire during 2010 through 2029, and carryforwards totaling \$39,990,000 have no expiration.

The Predecessor Company adopted, *Accounting for Uncertainty in Income Taxes provisions*, now codified within FASB ASC Topic 740, as of January 1, 2007. This guidance clarifies the accounting for uncertainty in income taxes recognized in companies' financial statements. As a result, we apply a more-likely-than-not recognition threshold for all tax uncertainties. It only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities. At the time of implementation, no significant uncertain tax positions were identified that required a deferred tax liability or a reduction of a deferred tax asset. Hence, no unrecognized tax benefits were recorded from the cumulative effect of adopting, *Accounting for Uncertainty in Income Taxes provisions*, now codified within FASB ASC Topic 740 and no adjustment was made to retained earnings as of January 1, 2007. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 1, 2009	\$ -
Additions based on tax positions related to the current year	471
Additions for tax positions of prior years	954
Reductions for tax positions of prior years	-
Settlements	-
Balance at December 31, 2009	<u>\$ 1,425</u>

At December 31, 2009, we have total unrecognized tax benefits of \$1,600,000 that have been recorded as liabilities, and we are uncertain as to if or when such amounts may be settled. We recognized interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the year ended December 31, 2009, we recognized approximately \$175,000 for the payment of interest and penalties accrued.

U.S. Federal and state deferred income taxes have not been recorded on undistributed earnings of foreign subsidiaries totaling \$112,725,000 because such earnings are intended to be indefinitely reinvested in these foreign operations.

We operate in multiple jurisdictions throughout the world. We are no longer subject to U.S. federal tax examinations for years before 2006 or state and local for years before 2004, with limited exceptions. For federal purposes, the tax attributes carried forward could be adjusted through the examination process and are subject to examination 3 years from the date of utilization. Furthermore, we are no longer subject to income tax examinations in major foreign tax jurisdictions for years prior to 2003, with limited exceptions.

17. REDEEMABLE PREFERRED STOCK

Series A Preferred Stock — In connection with our reorganization, 27,000 shares of Series A Preferred Stock, with a par value of \$0.0001 per share, were issued in the amount of \$27,000,000, the liquidation preference amount. As part of the Plan of Reorganization these Preferred Shareholders received a “Backstop Fee” of \$500,000, which has been netted against the issuance proceeds. Series A Preferred Shareholders have no voting rights, except as defined in Exhibit A of the Amended and Restated Certificate of Incorporation. Dividends are cumulative whether or not declared by the Board of Directors and have been accrued in the amount of \$7,939,000 for the year ended December 31, 2009, \$7,183,000 for the year ended December 31, 2008, and \$471,000 for the month ended December 31, 2007. Cumulative dividends in arrears at December 31, 2009, are \$15,593,000.

Series B Preferred Stock — In connection with our reorganization, 60,000 shares of Series B Preferred Stock, with par value of \$0.0001 per share, were issued in the amount of \$60,000,000, the liquidation preference amount. As part of the Plan of Reorganization these Preferred Shareholders received a “Backstop Fee” of \$1,200,000, which has been netted against the issuance proceeds. Series B Preferred Shareholders have no voting rights, except as defined in Exhibit B of the Amended and Restated Certificate of Incorporation. Dividends are cumulative whether or not declared by the Board of Directors and have been accrued in the amount of \$17,642,000 for the year ended December 31, 2009, \$15,962,000 for the year ended December 31, 2008, and \$1,048,000 for the month ended December 31, 2007. Cumulative dividends in arrears at December 31, 2009, are \$34,652,000.

In the event of any liquidation transaction, the holders of the Preferred Stock will be entitled to receive, prior and in preference to any distribution of our assets to holders of Common Stock, an amount per share equal to the purchase price for each share held plus accrued and unpaid PIK dividends. If the assets are insufficient to permit full payment to the Preferred Shareholders, then our assets and funds that are legally available for distribution shall be distributed ratably among the holders of the Preferred Stock in proportion to the liquidation preference each holder is otherwise entitled to receive.

The Preferred Stock does not give the holders any conversion rights, and there are no mandatory redemption provisions other than upon the occurrence of a change in control or a qualified initial public offering (“IPO”). A redemption occurs in the event of a Qualified IPO (“IPO Conversion”); or a change in control. The redemption price will be equal to the par value plus accrued PIK dividends and accrued and unpaid cash dividends.

The holders of the Preferred Stock are entitled to dividends which accrue on a daily basis at an annual rate of three month LIBOR plus 20% on the liquidation preference amount. If not declared and paid quarterly, such dividends are added to the liquidation preference and accrue and compound at such dividend rate (i.e. compounded quarterly with PIK). The dividends will accrue and remain unpaid until conversion or liquidation, prior and in preference to any declaration or payment of any dividend on the Common Stock. Any partial payments, for dividends or in liquidation, will be made pro rata among the holders of the Preferred Stock.

No dividend or distribution to common shareholders may be made unless all prior dividends on the Preferred Stock, since the closing date, are paid or declared and sufficient funds for the payment have been set aside.

18. SHAREHOLDERS’ EQUITY

2007 Reorganization

In conjunction with the confirmation of the prepackaged Plan of Reorganization under the U.S. Bankruptcy Code and upon emergence from bankruptcy, the holders of the then outstanding 11% Senior Subordinated Notes and the 9 3/8% Senior Subordinated Notes exchanged their notes and earned accrued interest for 10,000,000 shares of common stock in the emerged Company, and for rights to purchase preferred stock shares in the amount of \$60,000,000. On November 20, 2007, we amended and restated our Certificate of Incorporation. The Amended and Restated Certificate of Incorporation authorizes the Corporation to issue 20,087,000 shares, consisting of 20,000,000 shares of common stock, par value \$0.0001 per share and 87,000 shares of preferred stock, par value \$0.0001 per share.

Common Stock

The holders of Common Stock are entitled to one vote on all matters properly submitted on which the common shareholders are entitled to vote. Common shareholders have certain restrictions on the transferability of their shares. Shares shall not be transferred except upon the conditions set forth in the Amended and Restated Certificate of Incorporation.

In conjunction with our bankruptcy filing, Remy Worldwide Holdings, Inc., the former parent of Remy International, Inc., was dissolved and all Remy Worldwide Holdings, Inc. Preferred Stock was cancelled. In addition, all common stock of Remy International, Inc. issued prior to December 6, 2007, held by Remy Worldwide Holdings, Inc. was cancelled.

19. STOCK-BASED COMPENSATION

In connection with our emergence from bankruptcy on December 6, 2007, our executive officers received restricted stock awards of 489,474 common shares in the Successor Company at no cost to them. An additional award of 83,335 was made on April 30, 2008 to certain other key employees. Both of the awards will vest at 12% on each of the first three years’ anniversaries of the grant date, and 32% each on the fourth and fifth anniversaries, based upon continuation of employment. In February and

November 2008, our Board of Directors received restricted stock grants of 160,000 that vest 50% upon the first and second anniversaries. Additionally, there is a change of control provision in the aforementioned awards. As a nonpublic company, there is not an active viable market for our common stock; accordingly, we used a calculated value of \$3.00, \$8.00, and \$11.55 on a per share basis to determine the value of the awards related to the November 2008 grant, the April 2008 grant, and the December 2007 and February 2008 grants, respectively. During 2009 and 2008, we had 38,070 and 65,000 restricted stock awards forfeited, respectively. Our calculation assumed a risk-free interest rate of 3.0%; volatility of 39.1%; and that no dividends would be paid. Noncash compensation expense related to the awards for the year ended December 31, 2009, and for the year ended December 31, 2008 was \$1,825,000, and \$1,800,000, respectively.

If factors change and we employ different assumptions, stock-based compensation expense may differ significantly from what we have recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards to employees or we assume unvested equity awards in connection with acquisitions.

20. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Our other comprehensive income (loss) consists of the following;

(In thousands of dollars)	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Currency Hedges	Unrealized Gains (Losses) on Commodity Hedges	Interest Rate Swaps	Employee Benefit Plan Adjustment
Predecessor balances at January 1, 2007	\$ 6,603	\$ 480	\$ -	\$ -	\$ (5,731)
			-		
Current period amount	5,030	(984)	-	-	(1,097)
Applicable income taxes	-	295	-	-	-
Other comprehensive income (loss)	<u>5,030</u>	<u>(689)</u>	<u>-</u>	<u>-</u>	<u>(1,097)</u>
Predecessor balances at November 30, 2007	11,633	(209)	-	-	(6,828)
Application of fresh-start reporting	<u>(11,633)</u>	<u>209</u>	<u>-</u>	<u>-</u>	<u>6,828</u>
Successor balances at November 30, 2007	-	-	-	-	-
Amount for the month ended December 31, 2007	(132)	(534)	-	-	1,284
Applicable income taxes	-	160	-	-	-
Other comprehensive income (loss)	<u>(132)</u>	<u>(374)</u>	<u>-</u>	<u>-</u>	<u>1,284</u>
Successor balances at December 31, 2007	(132)	(374)	-	-	1,284
Current year amount	(24,058)	(6,498)	-	(4,177)	(7,853)
Applicable income taxes	-	1,934	-	-	-
Other comprehensive loss	<u>(24,058)</u>	<u>(4,564)</u>	<u>-</u>	<u>(4,177)</u>	<u>(7,853)</u>
Successor balances at December 31, 2008	(24,190)	(4,938)	-	(4,177)	(6,569)
Current year amount	4,435	7,369	93	151	2,451
Applicable income taxes	-	(2,093)	-	-	-
Other comprehensive income	<u>4,435</u>	<u>5,276</u>	<u>93</u>	<u>151</u>	<u>2,451</u>
Successor balances at December 31, 2009	<u>\$ (19,755)</u>	<u>\$ 338</u>	<u>\$ 93</u>	<u>\$ (4,026)</u>	<u>\$ (4,118)</u>

21. LEASE COMMITMENTS

We occupy space and use certain equipment under operating lease arrangements. Rent expense, calculated on a straight-line basis, relating to continuing operations totaled \$6,077,000 for the year ended December 31, 2009, and \$8,769,000 for the year ended December 31, 2008, and \$830,000 for the one month ended December 31, 2007 for Successor Company. Predecessor Company had rent expense of \$9,269,000 for the eleven months ended November 30, 2007. Rental commitments at December 31,

2009, for long-term non cancellable operating leases consummated as of December 31, 2009 (not reflected as accrued restructuring) are as follows:

(In thousands of dollars)	
2010	\$ 5,076
2011	3,872
2012	3,368
2013	1,374
2014	1,044
Thereafter	937

22. OTHER COMMITMENTS AND CONTINGENCIES

We are party to various legal actions and administrative proceedings and subject to various claims arising in the ordinary course of business, including those relating to commercial transactions, product liability, safety, health, taxes, environmental and other matters. We believe that the ultimate liability, if any, in excess of amounts already provided for in the financial statements or covered by insurance on the disposition of these matters and the matters discussed below would not have a material adverse effect on our financial position.

Oakley vs. Remy International, Inc.

In connection with Remy's termination of its retiree medical program and modification of its retiree life insurance coverage, certain retirees filed a lawsuit challenging Remy's right to terminate such coverage provided to UAW retirees and their spouses. Remy then filed a declaratory judgment action against plaintiffs to confirm its authority to modify retiree medical coverage. Remy continues to deny liability and intends to vigorously defend the action.

HCS Factoring Litigation

We have previously recorded a receivable of approximately \$2,500,000 based on a favorable judgment we received in 2007 against certain parties relating to the recovery of \$6,000,000 of alleged misappropriations of funds due us under a factoring agreement we had with the defendants. The defendants had appealed this judgment. We settled this issue for approximately \$3,200,000 in the first quarter of 2009 and have accordingly adjusted the receivable at December 31, 2008. We settled with our insurance provider related to this issue for \$875,000 in 2010. We have accordingly recorded an other receivable and credit to selling, general, and administrative expenses as of December 31, 2009.

GM Supply Agreements

On July 31, 1994, we purchased substantially all of the assets, other than facilities, and assumed certain liabilities of specific business activities of the Delco Remy Division of GM (the "GM Acquisition"). The specific business activities purchased were engaged in the design, manufacture, remanufacture and sale of heavy-duty starters and alternators, automotive starters, and related components.

Concurrent with the GM Acquisition, we entered into certain supply agreements with GM whereby we would be the sole source supplier to GM for component parts we manufactured at the date of the acquisition. The supply agreement for automotive starters had an initial term of ten years, while the supply agreement for heavy-duty starters and alternators had an initial term of six years. In 1999, we and GM amended the agreement for our price of automotive products and extended the agreement term to July 31, 2008. In April 2002, the price and product offering was adjusted (as to price, technology and design) in accordance with the competitive clause of the original agreement. The Supply Agreement for heavy-duty products terminated on July 31, 2000. Sales to GM were not adversely affected by the termination and we now have the ability to provide an expanded heavy-duty product offering to GM and other customers. On July 31, 2007, we executed a new Supply Agreement with GM, which became fully effective upon the consummation of our financial restructuring, and extended and further expanded the existing supply relationship between us and GM.

GM and certain of its direct and indirect subsidiaries on June 1, 2009, filed for protection under chapter 11 of the United States Bankruptcy Code (old GM). On July 10, 2009, a substantial portion of GM began operations under a new corporate legal structure (new GM) that had purchased substantially all of the assets of the old GM. We have received payment on substantially

all amounts invoiced at the time old GM filed for bankruptcy. Additionally, new GM and Remy have entered into a Cure Agreement to allow new GM to assume all principal contracts under which we conduct our business with them.

Lease Rejections Under Bankruptcy Proceeding

In connection with our bankruptcy proceeding, we rejected the lease on our former headquarters office facility we rented in Anderson, Indiana. At December 31, 2007, we accrued for what we believed the landlord was entitled to under the U.S. Bankruptcy Code for such lease rejections (approximately \$1,428,000). In June 2008, a final settlement was reached whereby we would pay a total of \$2,000,000 in three quarterly installments commencing July 15, 2008, with the final payment due January 15, 2009. The \$572,000 increase in the accrual was recorded in reorganization items in the consolidated statement of operations for the year ended December 31, 2008.

Grissom Air Force Base Environmental Issue

We have been notified by the United States Department of Justice (DOJ) that they are seeking reimbursement from us on behalf of the United States Air Force of a maximum of fifty-percent (50%) of the costs incurred to date and future costs to cleanup trichloroethylene (TCE) contamination that in some measure was allegedly caused by our production process at a former facility we rented on the Grissom Air Force Base. We recorded an environmental liability accrual in November 2007 for this contingency, which we believed was the best estimate at that time of the total cost associated with this issue. We continue to evaluate the accrual each quarter based on new developments and information.

23. BUSINESS SEGMENTS AND GEOGRAPHIC AREA INFORMATION.

We are a leading global vehicular parts designer, manufacturer, remanufacturer, marketer and distributor. Products we manufacture include starters, alternators, and hybrid transmission motors which are principally sold or distributed to OEMs for both original equipment manufacture and aftermarket operations, as well as to warehouse distributors and retail automotive parts chains. We manage our business and operate in a single reportable business segment. The operations have been aggregated for segment reporting purposes because of the similar economic characteristics of the operations, including the nature of products, production processes, customers and methods of distribution.

We are a multi-national corporation with operations in many countries, including the U.S., Canada, Mexico, Brazil, China, Hungary, South Korea, the United Kingdom, Belgium and Tunisia. As a result, our financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which we distribute our products. Our operating results are exposed to changes in exchange rates between the U.S. dollar and non U.S. currencies. Exposure to variability in foreign currency exchange rates is managed primarily through the use of natural hedges, whereby funding obligations and assets are both denominated in the local currency, and through selective currency hedges. From time to time, we enter into exchange agreements to manage our exposure arising from fluctuating exchange rates related to specific transactions. Sales are attributed to geographic locations based on the point of sale.

Information for continuing operations is as follows:

	Successor			Predecessor
	Year ended December 31, 2009	Year ended December 31, 2008	One month ended December 31, 2007	Eleven months ended November 30, 2007
(In thousands of dollars)				
Net sales to external customers:				
United States	\$ 603,353	\$ 757,370	\$ 51,257	\$ 742,491
Europe	106,184	128,090	8,909	117,307
Other Americas	79,710	102,250	6,902	83,126
Asia Pacific	121,498	113,095	11,022	108,017
Total net sales	\$ 910,745	\$ 1,100,805	\$ 78,090	\$ 1,050,941

(In thousands of dollars)	December 31,	
	2009	2008
Long-lived assets:		
United States	\$ 461,071	\$ 443,789
Europe	36,788	44,261
Other Americas	49,402	51,931
Asia Pacific	27,387	27,990
Total long-lived assets	<u>\$ 574,648</u>	<u>\$ 567,971</u>

24. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is as follows:

(In thousands of dollars)	Successor			Predecessor
	Year ended December 31, 2009	Year ended December 31, 2008	One month ended December 31, 2007	Eleven months ended November 30, 2007
Cash paid for interest	\$ 22,665	\$ 31,696	\$ 354	\$ 77,495
Cash paid for income taxes, net of refunds received	8,733	6,351	912	5,338

During the first quarter of 2008, we acquired the use of certain property, plant and equipment by entering into a capital lease in the amount of \$1,600,000. The statement of cash flows excludes the initial noncash investing and financing activity. The principal portion of subsequent lease payments is reported in financing activities.

During the year ended December 31, 2009, we entered into certain customer agreements which extinguished certain customer obligations of approximately \$23,038,000 and resulted in a deferred gain of approximately \$8,152,000. The gain is being deferred and recognized to reflect the pattern of economic benefit consumed. The amount recognized as a reduction of cost of goods sold during the year ended December 31, 2009, was \$2,270,000.

As a result of entering into new customer agreements, we recorded customer contract intangibles of \$31,925,000 during the year ended December 31, 2009, by incurring customer obligations of \$28,908,000. These obligations are paid monthly and quarterly over the life of the agreements.

25. RELATED PARTY TRANSACTIONS – PREDECESSOR

In 2002 we entered into to an advisory agreement with CVC Management LLC (the “Advisor”), an affiliate of Court Square and CVC Equity Partners, our majority shareholder at that time. Under the terms of the agreement, the Advisor was required to provide executive, management, consulting and support services to us and certain of our subsidiaries. The Advisor was entitled to receive an initial advisory fee of \$1,000,000 for 2002 and an advisory fee of \$1,000,000 for each year thereafter, payable in equal quarterly installments. We made payments to the Advisor for the advisory fee of \$1,000,000 in 2005. The advisory agreement continued until December 31, 2006, and was to be automatically renewed from year to year thereafter unless terminated by either of the parties. We had a liability to CVC of \$1,250,000 at December 31, 2006. As part of our Plan of Reorganization we made a \$4,000,000 payment to CVC as consideration for settlement of this liability and forbearance of CVC claiming certain tax positions that might have otherwise resulted in limitations on the use of tax loss carryforwards during 2007.

26. VOLUNTARY REORGANIZATION UNDER CHAPTER 11

On December 6, 2007, (the Effective Date of the Plan of Reorganization) our Predecessor Company (the Debtors) emerged from its prepackage bankruptcy following confirmation on November 20, 2007, by the Bankruptcy Court of the Plan of Reorganization pursuant to chapter 11 of the United States Bankruptcy Code (the “Plan of Reorganization”). Accordingly, we adopted fresh-start reporting as of December 6, 2007. We analyzed the transactions that occurred during the six-day period from November 30, 2007, through December 6, 2007, and concluded that such transactions were not material individually or in the aggregate. We therefore used November 30, 2007, as the date for adopting fresh-start reporting in order to coincide with our normal financial closing for the month of November. Upon adoption of fresh-start reporting, the recorded amounts of assets and liabilities were adjusted to reflect their estimated fair values in accordance with FASB ASC Topic 805 *Business Combinations*. Consequently, the reported historical financial statements of the Predecessor Company prior to the adoption of fresh-start reporting are not comparable to those of the Successor Company.

The Plan of Reorganization generally provided for the full payment or reinstatement of allowed administrative claims, priority claims and secured claims, and the distribution of new equity and debt securities of Remy International, Inc. as Successor Company, the successor parent company, to the Debtors' creditors in full satisfaction of allowed unsecured claims. The Plan of Reorganization contemplated the Successor Company issuing 10,489,474 shares of common stock out of the 20,000,000 shares of new common stock authorized. The distributions of new common stock were as follows:

- 10,000,000 shares to unsecured creditors; and
- 489,474 shares subject to a vesting schedule under the management equity incentive plan.

The Plan of Reorganization also provided for the issuance of the following securities by the Successor Company:

- 27,000 shares of Series A Preferred Stock issued to unsecured creditors;
- 60,000 shares of Series B Preferred Stock issued to unsecured creditors;
- \$160,000,000 in aggregate principal amount of the Exit First Lien Credit Agreement;
- \$50,000,000 in aggregate principal amount of the Exit Second Lien Credit Agreement; and
- \$100,000,000 in aggregate principal amount of the Third Priority Floating Rate Secured Paid-in-Kind Notes.

Pursuant to the Plan of Reorganization, any Predecessor's common stock and preferred stock issued were canceled on the Effective Date and no distribution was made to holders of those securities.

On the Effective Date, we secured access to \$330,000,000 in secured exit financing (the "Revolving Credit Facility"). Also on the Effective Date, funds of \$26,700,000 of the Revolving Credit Facility, \$151,756,000 of the First Lien Term Loan, and \$49,500,000 of the Second Lien Term Loan were drawn and used to make payments required upon exit from Bankruptcy, as well as to provide ongoing liquidity to conduct post-reorganization operations.

Financial Statement Presentation. We have prepared the accompanying Successor consolidated financial statements in accordance with FASB ASC Topic 852, *Reorganizations*, and on a going-concern basis, which assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business.

FASB ASC Topic 852 requires that the financial statements for periods after a Chapter 11 filing disclose all transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, all transactions (including, but not limited to, all professional fees, realized gains and losses and provisions for losses) directly associated with the reorganization and restructuring of the business are reported separately in the financial statements as reorganization items, net. For the eleven months ended November 30, 2007 and the one month ended December 31, 2007, we have recognized the following reorganization income (expense) in our consolidated financial statements:

	<u>Successor</u>	<u>Predecessor</u>
	One month ended December 31, 2007	Eleven months ended November 30, 2007
(In thousands of dollars)		
Gain on debt extinguishment	\$ -	\$ 193,400 <i>a</i>
Fresh start adjustments	-	262,056 <i>b</i>
Professional fees	(1,097)	(8,915)
Consent fee paid to Senior Noteholders	-	(10,000) <i>c</i>
Financing costs	-	(8,029) <i>d</i>
Debt related expenses	-	(2,833) <i>e</i>
Employee related charges	-	(2,900) <i>f</i>
Lease termination costs	-	2,200 <i>g</i>
CVC fee	-	(2,750) <i>h</i>
	<u>\$ (1,097)</u>	<u>\$ 422,229</u>

- (a) In accordance with the Plan of Reorganization, we discharged our obligations to unsecured creditors in exchange for the distribution of 10,000,000 new Remy common shares and the issuance of certain other securities.
- (b) In accordance with fresh-start reporting, we revalued our assets at their estimated fair value and liabilities at estimated fair value. This resulted in a noncash reorganization gain, primarily as a result of recognizing new intangible assets and increased

tangible property and equipment due to higher fair value than their previous recorded book value. In addition, the Predecessor's accumulated deficit has been eliminated and the Successor's new debt and equity have been recorded in accordance with the Plan of Reorganization.

- (c) The holders of the Predecessor's 8 5/8% Senior Notes received a consent fee of \$10,000,000 in addition to other cash payments of \$45,000,000 and securities with a face value of \$100,000,000 in full satisfaction of their claim.
- (d) During the course of the bankruptcy proceedings, certain debt was paid along with prepayment penalties of \$3,675,000. In addition, financing fees, excluding amounts representing interest, were paid on debtor-in-possession financing totaling \$4,354,000.
- (e) Noncash charges for deferred financing costs and original issue discounts related to the Predecessor's debt paid off during the course of the bankruptcy proceedings.
- (f) Emergence bonuses.
- (g) Rejection of certain leases of office facilities.
- (h) Fees paid to CVC upon emergence from Chapter 11 of \$4,000,000, net of management fees previously accrued of \$1,250,000.

Fresh-Start Reporting. Upon emergence from chapter 11 proceedings on December 6, 2007, we adopted fresh-start reporting in accordance with FASB ASC Topic 852. The effective date of the emergence was November 30, 2007, which resulted in a new reporting entity with no retained earnings or accumulated deficit. Accordingly, our consolidated financial statements on or after November 30, 2007, are not comparable to our preemergence consolidated financial statements, because the November 30, 2007 financials are those of a new entity revalued in accordance with the applicable accounting principles.

Fresh-start reporting reflects the value as determined in the confirmed Plan of Reorganization. Under fresh-start reporting, our asset values are remeasured using fair value, and are allocated in conformity with FASB ASC Topic 805. The excess of reorganization value over the fair value of net tangible and identifiable intangible assets and liabilities is recorded as goodwill in the accompanying Consolidated Balance Sheets. In addition, fresh-start reporting also requires that all liabilities, other than deferred taxes, should be stated at fair value or at the present values of the amounts to be paid using appropriate market interest rates. Deferred Taxes are determined in conformity with FASB ASC Topic 740, *Income Taxes*.

Estimates of fair value represent our best estimates, which are based on industry data and trends and by reference to relevant market rates and transactions, and discounted cash flow valuation methods, among other factors. The foregoing estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond our control. Accordingly, we cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially. In accordance with FASB ASC Topic 805, the preliminary allocation of the reorganization value is subject to certain additional adjustment within one year after emergence from Bankruptcy to provide us with the time to complete the complex valuation of our assets and liabilities. This adjustment allocation period ended November 30, 2008. We adjusted goodwill during the allocation period by \$1,838,000.

To facilitate the calculation of the enterprise value of the Successor Company, we developed a set of financial projections, which were used to estimate the enterprise value using an income approach. The income approach is a discounted cash flow analysis used to estimate future cash flows available to the Successor Company's investors. This valuation method is based on the assumption that the price an investor will pay is the present value of the future stream of income they expect to receive from the investment.

The estimated enterprise value, and corresponding equity value, is highly dependent upon achieving the future financial results set forth in the projections as well as the realization of certain other assumptions. The estimated equity value of the successor company was calculated to be approximately \$602,200,000. The estimates and assumptions made in this valuation are inherently subject to significant uncertainties and the resolution of contingencies beyond our reasonable. Accordingly, there can be no assurance that the estimates, assumptions, and amounts reflected in the valuations will be realized, and actual results could vary materially.

In accordance with FASB ASC Topic 852, the Successor Company was required to adopt, on November 30, 2007, all accounting guidance that would become effective within the subsequent twelve-month period. See Note 2, "Summary of Significant Accounting Policies – "Recent Accounting Adoptions".

The implementation of the Plan of Reorganization and the effects of the consummation of the transactions contemplated therein, which included issuance of certain securities, incurrence of new indebtedness, repayment of old indebtedness, and other cash payments and the adoption of fresh-start reporting in the Consolidated Balance Sheets are as follows:

(In thousands of dollars)	Predecessor as of November 30, 2007	Plan of Reorganization	Fresh-Start Accounting Adjustments	Successor as of November 30, 2007
Assets:				
Current assets:				
Cash and cash equivalents	\$ 18,289	\$ 191	\$ -	\$ 18,480
Trade accounts receivable, net	182,269	-	-	182,269
Other receivables	24,601	-	-	24,601
Inventories, net	188,460	-	1,925	190,385
Deferred income taxes	2,038	-	954	2,992
Prepaid expenses and other current assets	6,163	350	-	6,513
Total current assets	421,820	541	2,879	425,240
Property, plant and equipment	314,106	-	(149,541)	164,565
Less accumulated depreciation	180,018	-	(180,018)	-
Property, plant and equipment, net	134,088	-	30,477	164,565
Deferred financing costs, net	12,996	(9,016)	-	3,980
Goodwill, net	113,374	-	157,368	270,742
Trade names	-	-	59,700	59,700
Other intangibles	12,594	-	61,006	73,600
Investments in unconsolidated subsidiaries	150	-	-	150
Other noncurrent assets	34,181	-	128	34,309
Total Assets	\$ 729,203	\$ (8,475)	\$ 311,558	\$ 1,032,286
Liabilities and Shareholders' Equity:				
Current liabilities:				
Accounts payable	\$ 160,583	\$ (1,505)	\$ -	\$ 159,078
Accrued interest	12,804	(11,985)	-	819
Accrued restructuring	1,282	-	-	1,282
Other current liabilities and accrued expenses	156,458	(8,366)	5,829	153,921
Debt	31,271	1,200	-	32,471
Total current liabilities	362,398	(20,656)	5,829	347,571
Long-term debt, net of current portion:				
Predecessor long-term debt, net of current portion	125,000	(125,000)	-	-
1st Lien Revolver	-	26,700	-	26,700
1st Lien Term Loan	99,956	50,600	-	150,556
2nd Lien Term Loan	-	49,500	-	49,500
3rd Lien Term Loan	-	100,000	-	100,000
Capital leases	1,385	-	-	1,385
Foreign and other debt	7,027	-	-	7,027
Total long-term debt, net of current portion	233,368	101,800	-	335,168
Postretirement benefits other than pensions	15,120	-	-	15,120
Accrued pension benefits	7,406	-	-	7,406
Accrued restructuring	79	-	-	79
Deferred income taxes	7,694	-	20,741	28,435
Other noncurrent liabilities	36,617	-	22,932	59,549
Liabilities subject to compromise	495,823	(495,823)	-	-
Preferred stock:				
Class A shares	-	26,500	-	26,500
Class B shares	-	58,800	-	58,800
Equity:				
Remy International, Inc. shareholders' equity:				
Common stock	3	(2)	-	1
Additional paid-in capital	334,336	148,084	(334,339)	148,081
Accumulated deficit	(773,813)	172,822	600,991	-
Accumulated other comprehensive income	4,596	-	(4,596)	-
Total Remy International, Inc. shareholders' equity	(434,878)	320,904	262,056	148,082
Noncontrolling interest	5,576	-	-	5,576
Total shareholders' equity	(429,302)	320,904	262,056	153,658
Total Liabilities and Shareholders' Equity	\$ 729,203	\$ (8,475)	\$ 311,558	\$ 1,032,286

Plan of Reorganization. This column reflects a discharge of \$495,823,000 of liabilities subject to compromise pursuant to the terms of the Plan of Reorganization, which includes unsecured notes and accrued interest. Pursuant to the Plan of Reorganization, the unsecured creditors received 10,000,000 common shares in satisfaction of such claims. We recognized a \$193,400,000 noncash reorganization gain on the discharge of unsecured claims net of newly issued securities. This column also reflects payment of certain secured notes upon emergence, issuance of preferred stock and the issuance of other securities. We also recognized a reorganization expense of \$20,579,000 for payment of certain fees pursuant to the terms of the Plan of Reorganization.

Revaluation of Assets and Liabilities. Fresh-start adjustments are made to reflect asset values at their estimated fair value and liabilities at estimated fair value or the present value of amounts to be paid, including:

- Recognition of additional estimated fair value of \$120,834,000 for trade names, customer contracts and relationships and intellectual property;
- Fair value adjustments of \$30,477,000 to property, plant and equipment, including assets under capital leases;
- The elimination of the Predecessor Company’s equity accounts, and establishment of the opening equity of the Successor Company; and
- Net changes in deferred tax assets and liabilities, together with other miscellaneous adjustments.

Additionally, goodwill of \$270,742,000 was determined under the valuation process associated with our exit from Bankruptcy to reflect the excess of the Successor Company’s reorganization value over the estimated fair value of net tangible and identifiable intangible assets and liabilities. This amount has been adjusted by \$1,838,000 during one allocation period. In addition, deferred tax assets and liabilities were recognized for the difference between the new book value and the tax basis of the Successor Company’s assets and liabilities.

The Predecessor Balance Sheet had the following liabilities subject to compromise:

(In thousands of dollars)	
Long-term debt, including accrued interest	\$ 493,145
Terminated lease obligations	1,428
Management fees accrued	1,250
	\$ 495,823

Interest not accrued for and not recognized as interest expense in the statement of operations for the eleven months ended November 30, 2007, on long-term debt subject to compromise during the period we were in Bankruptcy amounted to approximately \$5,000,000. Liabilities subject to compromise included \$33,532,000 of accrued interest of which \$2,000,000 was converted to Series A Preferred Stock with the remainder being discharged and recognized as a reorganization gain.

27. SUBSEQUENT EVENTS

In the first quarter of 2010, we learned of a potential component deficiency in a limited number of our alternator products sold after December 31, 2009. While the investigation as to the true root cause of the instances is ongoing, the potential defect may occur in a third party supplied subcomponent that could, in certain cases on specific vehicle applications, result in a fire. To date there have been no injuries associated with this issue. We have notified the National Highway Traffic Safety Administration (“NHTSA”) of the issue and have begun to voluntarily recover the potentially affected units sold. We are no longer supplying products with the specific questionable third party supplied subcomponent. The vendor supplying the subassembly has been notified of the issue. We initiated these actions as part of a proactive effort to contain all potential products and promote consumer safety. We will likely incur certain costs and customer reimbursement obligations as a result of this issue. However, since the investigation is ongoing and the true root cause is not yet finalized, we are unable at this time to estimate the full cost impact of this effort. However, in the event we incur any costs, we will pursue recovery from the applicable vendor based upon existing contractual terms.