

# **Remy International, Inc.**

## **Annual Report December 31, 2007**

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## REPORT OF INDEPENDENT AUDITORS

To 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, 2007 (Successor) and December 31, 2006 (Predecessor), and the related consolidated statements of operations, shareholders' equity, and cash flows for the one month ended December 31, 2007 (Successor), and for the eleven months ended November 30, 2007 (Predecessor), and the years ended December 31, 2006 and 2005 (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 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, 2007 (Successor) and December 31, 2006 (Predecessor), and the consolidated results of its operations and its cash flows for the one month ended December 31, 2007 (Successor) and the eleven months ended November 30, 2007 (Predecessor), and the years ended December 31, 2006 and 2005 (Predecessor), in conformity with U.S. generally accepted accounting principles.

As discussed in Note 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 of the Successor Company have been prepared in conformity with AICPA Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, as a new entity with assets, liabilities, and a capital structure having carrying values not comparable with prior periods as described in Note 2.

As discussed in Notes 2 and 16 to the consolidated financial statements, effective December 31, 2006, the Predecessor adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

/S/ ERNST & YOUNG LLP

Indianapolis, Indiana  
April 14, 2008

**Remy International, Inc.**  
**Consolidated Balance Sheets**

(In thousands of dollars, except share information)	<u>Successor</u> December 31, 2007	<u>Predecessor</u> December 31, 2006
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 24,726	\$ 28,378
Trade accounts receivable (less allowance for doubtful accounts of \$2,131 and \$2,562)	147,668	154,142
Other receivables	27,724	19,776
Inventories	189,764	190,076
Deferred income taxes	2,731	1,405
Assets of discontinued operations	-	121,164
Other current assets	5,341	4,223
Total current assets	397,954	519,164
Property, plant and equipment	167,531	359,163
Less accumulated depreciation and amortization	1,754	207,019
Property, plant and equipment, net	165,777	152,144
Deferred financing costs, net of amortization	3,931	9,665
Goodwill, net	270,742	113,374
Other noncurrent assets	167,371	48,481
Total assets	\$ 1,005,775	\$ 842,828
<b>Liabilities and Shareholders' Equity (Deficit):</b>		
Current liabilities:		
Short-term debt	\$ 22,066	\$ 36,511
Accounts payable	144,577	182,269
Accrued interest	3,878	10,552
Accrued restructuring	1,641	3,170
Liabilities of discontinued operations	-	57,814
Other current liabilities and accrued expenses	146,109	150,804
Current maturities of long-term debt	6,149	721,492
Total current liabilities	324,420	1,162,612
Long-term debt, less current maturities:		
Senior Secured Revolver Credit Agreement	31,957	-
First Lien Credit Agreement	150,226	-
Second Lien Credit Agreement	49,504	-
Third-Priority Floating Secured PIK Notes	100,000	-
Capital leases	1,377	7,670
Foreign and other debt	6,460	9,979
Total long-term debt, net of current maturities	339,524	17,649
Postretirement benefits other than pensions	14,508	14,312
Accrued pension benefits	5,668	11,441
Accrued restructuring	-	895
Deferred income taxes	27,492	5,864
Other noncurrent liabilities	58,779	40,303
Minority interest	5,761	4,698
Preferred stock:		
Class A shares, 27,000 shares issued and outstanding	26,971	-
Class B shares, 60,000 shares issued and outstanding	59,848	-
<b>Shareholders' equity (deficit):</b>		
Common stock:		
Successor at par value of \$.0001; 20,000,000 shares authorized; 10,489,474 shares issued	1	-
Predecessor at par value of \$.001; 6,000,000 shares authorized; 2,503,024 shares issued	-	3
Additional paid-in capital	148,081	334,336
Accumulated deficit	(6,056)	(750,637)
Accumulated other comprehensive income	778	1,352
Total shareholders' equity (deficit)	142,804	(414,946)
Total liabilities and shareholders' equity (deficit)	\$ 1,005,775	\$ 842,828

See accompanying notes to consolidated financial statements.

**Remy International, Inc.**  
**Consolidated Statements of Operations**

(In thousands of dollars)	<b>Successor</b>	<b>Predecessor</b>		
	One month ended December 31, 2007	Eleven months ended November 30, 2007	Year ended December 31, 2006	Year ended December 31, 2005
<b>Net Sales</b>	\$ 78,090	\$ 1,050,941	\$ 1,193,084	\$ 1,059,263
Cost of goods sold	69,088	923,733	1,080,931	929,099
Gross profit	9,002	127,208	112,153	130,164
Selling, general and administrative expenses	8,217	97,380	122,477	127,608
Loss on sales of accounts receivable	745	8,277	8,197	6,076
Prepetition debt restructuring expenses	-	34,481	-	-
Reorganization items	1,097	(422,229)	-	-
Goodwill impairment charges	-	-	28,606	-
Restructuring and other charges	404	1,815	6,266	3,527
<b>Operating (Loss) Income</b>	(1,461)	407,484	(53,393)	(7,047)
Interest expense	3,564	73,541	73,022	61,605
Gain on sale of assets	-	(545)	-	-
Income (loss) from continuing operations before income taxes, minority interest and income (loss) from unconsolidated subsidiaries	(5,025)	334,488	(126,415)	(68,652)
Income tax (credit) expense	(594)	9,293	126	13,154
Minority interest	106	961	377	427
Impairment of investment in unconsolidated subsidiary	-	2,559	3,849	-
Loss (income) from unconsolidated subsidiaries	-	23	(417)	(208)
Net (loss) income from continuing operations	(4,537)	321,652	(130,350)	(82,025)
Discontinued operations:				
Income (loss) from discontinued operations, net of tax	-	1,018	7,403	(15,885)
Gain on disposal of discontinued operations, net of tax	-	88,959	430	926
Net income (loss) from discontinued operations, net of tax	-	89,977	7,833	(14,959)
<b>Net (Loss) Income</b>	\$ (4,537)	\$ 411,629	\$ (122,517)	\$ (96,984)
Preferred stock dividends	(1,519)	-	-	-
Net (loss) income attributable to common shareholders	\$ (6,056)	\$ 411,629	\$ (122,517)	\$ (96,984)

*See accompanying notes to consolidated financial statements.*

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

(In thousands of dollars)	Class B Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Predecessor balances at December 31, 2004	\$ 3	\$ 334,336	\$ (531,136)	\$ (5,803)	\$ (202,600)
Net loss	-	-	(96,984)	-	(96,984)
Foreign currency translation	-	-	-	(4,684)	(4,684)
Unrealized gain on derivative instruments	-	-	-	398	398
Minimum pension liability	-	-	-	(441)	(441)
Total comprehensive loss					(101,711)
Predecessor balances at December 31, 2005	3	334,336	(628,120)	(10,530)	(304,311)
Net loss	-	-	(122,517)	-	(122,517)
Foreign currency translation	-	-	-	9,323	9,323
Unrealized losses on derivative instruments	-	-	-	(357)	(357)
Minimum pension liability	-	-	-	1,939	1,939
Total comprehensive loss					(111,612)
Adoption of SFAS No. 158	-	-	-	977	977
Predecessor balances at December 31, 2006	3	334,336	(750,637)	1,352	(414,946)
Net income	-	-	411,629	-	411,629
Foreign currency translation	-	-	-	5,030	5,030
Unrealized losses on derivative instruments	-	-	-	(689)	(689)
Employee benefit plans	-	-	-	(1,097)	(1,097)
Total comprehensive income					414,873
Predecessor balances at November 30, 2007	3	334,336	(339,008)	4,596	(73)
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
Net loss	-	-	(4,537)	-	(4,537)
Foreign currency translation	-	-	-	(132)	(132)
Unrealized losses on derivative instruments	-	-	-	(374)	(374)
Defined benefit plans	-	-	-	1,284	1,284
Total comprehensive loss					(3,759)
Preferred stock dividends	-	-	(1,519)	-	(1,519)
Successor balances at December 31, 2007	\$ 1	\$ 148,081	\$ (6,056)	\$ 778	\$ 142,804

*See accompanying notes to consolidated financial statements.*

**Remy International, Inc.**  
**Consolidated Statements of Cash Flows**

(In thousands of dollars)	Successor	Predecessor		
	One month ended December 31, 2007	Eleven months ended November 30, 2007	Year ended December 31, 2006	Year ended December 31, 2005
<b>Cash Flows from Operating Activities:</b>				
Net (loss) income from continuing operations	\$ (4,537)	\$ 321,652	\$ (130,350)	\$ (82,025)
Adjustments to reconcile net (loss) income to cash provided by (used in) operating activities from continuing operations:				
Gain on extinguishment of debt	-	(193,400)	-	-
Accrued interest converted to Series A Preferred Stock	-	2,000	-	-
Other reorganization items, net	-	5,050	-	-
Fresh-start reporting adjustments	-	(262,056)	-	-
Depreciation and amortization	3,405	32,111	33,419	27,284
Amortization of debt issuance costs	49	6,422	4,297	3,438
Impairment charges	-	2,559	32,455	-
Minority interest and income from unconsolidated subsidiaries, net	106	984	(40)	219
Deferred income taxes	(682)	1,197	(4,945)	6,203
Accrued pension and post-retirement benefits, net	(2,350)	(3,227)	(187)	(2,389)
Restructuring and other charges	404	1,815	6,266	3,527
Cash payments for restructuring charges	(124)	(3,141)	(12,419)	(7,098)
Changes in operating assets and liabilities, net of acquisitions and restructuring charges:				
Accounts receivable	26,623	(40,511)	4,576	(13,284)
Inventories	(540)	(1,724)	23,094	6,122
Accounts payable	(13,898)	(20,385)	12,915	1,542
Other current assets and liabilities, net	(5,731)	14,132	39,346	(1,282)
Other noncurrent assets and liabilities, net	620	(6,182)	4,430	5,841
Net cash provided by (used in) operating activities of continuing operations	3,345	(142,704)	12,857	(51,902)
<b>Cash Flows from Investing Activities:</b>				
Acquisitions, net of cash acquired	-	-	(2,101)	(57,641)
Net proceeds on sale of assets and businesses	-	174,998	767	10,693
Purchase of property, plant and equipment	(1,708)	(13,782)	(17,735)	(37,104)
Net cash (used in) provided by investing activities of continuing operations	(1,708)	161,216	(19,069)	(84,052)
<b>Cash Flows from Financing Activities:</b>				
Change in short-term debt and revolver	4,727	(34,583)	15,212	34,987
Proceeds from issuance of long-term debt	-	201,700	-	77,600
Payments made on long-term debt, including capital leases	(446)	(253,426)	-	(12,500)
Issuance of preferred stock	-	83,300	-	-
Debt issuance costs	-	(11,956)	-	(2,476)
Distributions to minority interests	-	-	(986)	(2,382)
Net cash provided by (used in) financing activities of continuing operations	4,281	(14,965)	14,226	95,229
<b>Cash Flows from Discontinued Operations:</b>				
Operating activities	-	(10,244)	5,571	2,847
Investing activities	-	(801)	(6,885)	(4,278)
Financing activities	-	(3,873)	-	-
Net cash used in discontinued operations	-	(14,918)	(1,314)	(1,431)
Effect of exchange rate changes on cash and cash equivalents	328	1,473	1,656	(367)
Net increase (decrease) in cash and cash equivalents	6,246	(9,898)	8,356	(42,523)
Cash and cash equivalents at beginning of period	18,480	28,378	20,022	62,545
Cash and cash equivalents at end of period	\$ 24,726	\$ 18,480	\$ 28,378	\$ 20,022

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" brand name, the "Remy" brand name, the "World Wide Automotive" brand name 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 transmission components. 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. At the time of our separation from General Motors Corporation ("GM") in August 1994, we were predominantly a North American original equipment manufacturer with a majority of our 1995 sales derived from GM. Since that time, we have become a low cost, global manufacturer and remanufacturer with a more balanced business mix between the aftermarket and the original equipment 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.

##### Liquidity

Effective December 6, 2007, Remy International, Inc. emerged from Bankruptcy as explained further in Note 2. In connection with this process, we developed a plan to continue as a going concern, which included post-emergence financing. This financing contains certain restrictive loan covenants which continue to be more restrictive over time as outlined in the indenture agreements. We have also developed specific actions to increase revenues and reduce certain expenses in order to meet our loan covenants, which include meeting required levels of earnings before interest, taxes, depreciation, amortization, and restructuring charges (EBITDAR) along with remaining in compliance with other covenants specified in the indentures. These actions include modifications to existing customer agreements, price increases, cost savings programs and certain restructuring actions. While there can be no certainty as to the ability to achieve the results as specified, 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 2008 and maintain a level of liquidity sufficient to meet our obligations as they become due through 2008. If we are unable to meet the covenants 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.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of Remy International, Inc. and its subsidiaries. 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 have stated our assets and liabilities using November 30, 2007, as the convenience date due to the immateriality of the results of operations from December 1, 2007 to December 6, 2007, at fair value in accordance with the American Institute of Certified Public Accountants' Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" (SOP 90-7). 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 for the one month ended and as of December 31, 2007, are those of the Successor Company. All other financial statements dated prior to December 1, 2007, are those of the Predecessor Company.

### **Use of Estimates**

Preparation of the consolidated financial statements 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.

### **Accounting for Remanufacturing Operations**

#### *Revenue*

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 \$14,135,000 for the one month ended December 31, 2007. Predecessor Company had deposits charged of \$196,613,000, \$324,594,000 and \$309,559,000 for the eleven months ended November 30, 2007, and years ended December 31, 2006 and 2005, respectively. 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 Obligations*

Customer obligations relate to liabilities when we enter into 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 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 \$2,475,000 for the one month ended December 31, 2007; \$21,518,000 for the eleven months ended November 30, 2007, and \$22,146,000 and \$23,270,000 for the years ended December 31, 2006 and 2005, respectively.

Customer-funded research and development expenses were approximately \$9,116,000 for the eleven months ended November 30, 2007, and \$6,299,000 and \$1,987,000 for the years ended December 31, 2006 and 2005, respectively.

#### **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.

Cash overdrafts of \$3,409,000 at December 31, 2006 are reflected in accounts payable.

#### **Concentrations of Credit Risk and Other Risks**

Substantially all of our trade accounts receivable are due from customers in the original equipment and aftermarket automotive industries, both domestically and internationally. 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.

We have entered into factoring agreements with various domestic and European financial institutions to sell our accounts receivable under nonrecourse agreements. In accordance with Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", 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. The cost of factoring such receivables is reflected in the statement of operations as a loss on sales of accounts receivable. The amounts sold at December 31, 2007, and 2006 were \$148,066,000 and \$102,574,000, respectively. Any change in the availability of these factoring arrangements could have a material adverse effect on our financial condition.

## **Reliance on Major Customers**

We conduct a significant amount of business with General Motors Corporation (GM), Advance Auto Parts, and AutoZone. Net sales to these customers in the aggregate represent 35.0% of consolidated net sales for the one month ended December 31, 2007, 43.7% for the eleven months ended November 30, 2007, and 43.6% and 41.6% of consolidated net sales for the years ended December 31, 2006 and 2005, respectively.

## **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 determined by independent appraisals. Predecessor assets and 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 machinery and equipment). Capital leases and leasehold improvements are amortized over the shorter of the lease term or their estimated useful life with the amortization being recorded as "Depreciation and amortization expense" in the consolidated statements of operations.

## **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 in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." When such events or circumstances arise, 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.

## **Asset Retirement Obligations**

In accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations" and Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations", we recognize liabilities for legal obligations primarily related to restoring leased facilities to their original condition. Our asset retirement liabilities are recorded at their estimated fair value with a corresponding increase to property, plant and equipment. This increase is then depreciated over the useful life of the long-lived asset to which that liability relates. An ongoing expense is also recognized for changes in the value of the liability as a result of the passage of time, which we record as accretion expense in our consolidated statements of operations. Asset retirement obligations are not material to us.

## **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 at December 31, 2007, 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 SOP 90-7. Indefinite-lived intangible assets, consisting of trade names, were stated at estimated fair value as a result of fresh-start reporting. Goodwill at December 31, 2006, represents the excess of purchase price over fair value of the net assets acquired. In accordance with SFAS No. 142 "Goodwill and Other Intangible Assets", 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, unless

circumstances dictate more frequent assessments. The 2006 annual impairment reviews resulted in impairment charges recorded in continuing operations of \$28,606,000.

Definite-lived intangible assets have been stated at estimated fair value as a result of fresh-start reporting. The values of other intangible assets at December 31, 2007, with determinable useful lives, are amortized on an accelerated basis to reflect the pattern of economic benefit consumed. Prior to the application of fresh-start, intangible assets were stated at cost.

### Foreign Currency Translation

Each of our foreign subsidiaries' functional currency is primarily 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.

### Derivative Financial Instruments

As a policy, we do not engage in speculative or leveraged transactions, nor do we hold or issue derivative financial instruments for trading purposes. Management routinely reviews the effectiveness of the use of derivative financial instruments. We report all derivative financial instruments on the consolidated balance sheets at fair value and establish criteria for the designation and effectiveness of hedging relationships.

In the normal course of business, operations of ours 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 and interest rate exposures, which exist as a part of ongoing business operations.

### Currency Rate Hedging

We primarily utilize forward exchange contracts with maturities generally within 18 months to hedge against currency rate fluctuations, some of which are designated as hedges under SFAS No. 133. For U.S. dollar-denominated intercompany sales of inventory from our South Korean subsidiary to the U.S., we enter into a series of currency forward contracts to hedge against foreign currency exchange risk related to fluctuations between the South Korean Won and U.S. dollar. The critical terms of the hedges are the same as the underlying forecasted transactions, and the hedges are considered highly effective to offset the changes in the fair value of cash flows from the transactions being hedged. These derivative contracts are initially designated as cash flow hedges to hedge the variability of cash flows attributable to foreign currency exchange risk for a forecasted sale, and accordingly, changes in fair value prior to the underlying transaction are charged to Other Comprehensive Income. Upon shipment of inventory, the hedges are redesignated as fair value hedges and mark to market accounting is applied. 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 earnings. Ineffectiveness for the hedges were not material for all periods presented. Derivatives not designated as hedges are adjusted to fair value through the consolidated statements of operations.

Our foreign exchange forward contracts outstanding at year end, in thousands of dollars, are summarized as follows:

December 31,			
2007		2006	
Notional Amount	Fair Value Loss	Notional Amount	Fair Value Gain
\$ 46,205	\$ 941	\$ 67,682	\$ 779

### Interest Rate Hedging

We are exposed from time to time to interest rate risk through our corporate borrowing activities. No interest rate hedges were outstanding at December 31, 2007 or at December 31, 2006.

## **Net Investments Hedging**

We may enter into foreign-denominated debt as a nonderivative hedging instrument on our net investment in foreign subsidiaries. The changes in carrying amount of the foreign-denominated debt on our books, attributable to changes in the spot foreign exchange rate, are a hedge of the net investment in our foreign subsidiaries and are reported in Other Comprehensive Income when such a hedge is in place; no hedges were in place at December 31, 2007 or at December 31, 2006.

## **Commodity Purchases**

We purchase certain commodities during the normal course of business which result in physical delivery and are excluded from SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended.

## **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.

## **Investments in Unconsolidated Subsidiaries**

Investments in companies in which we hold an ownership interest of 20% to 50% over which we exercise significant influence and to which FIN 46, "Consolidation of Variable Interest Entities (revised December 2003)" does not apply, 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, 2007, and 2006.

## **Income Taxes**

We account for income taxes in accordance with SFAS No. 109, "Accounting for 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. SFAS No. 109 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 periodically evaluate the realizability of our deferred tax assets by assessing our valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are our forecast of future taxable income and available tax planning strategies that could be implemented to support the realization of certain deferred tax assets.

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.

Effective December 31, 2006, we adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – An Amendment of FASB Statement No. 87, 88, 106 and 132," which requires us to recognize the over funded or under funded status of a single employer defined benefit postretirement plan as an asset or liability on our consolidated balance sheets and to recognize changes in the funded status in other comprehensive income in the year in which the change occurred.

## Earnings Per Share

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

## Fair Value of Financial Instruments

Our financial instruments generally consist of cash and cash equivalents, trade and other receivables, accounts payable and debt. Because of their short-term nature, we believe the carrying value for cash and cash equivalents, trade and other receivables, accounts payable, and short-term debt closely approximates their fair value. Our long-term debt outstanding at December 31, 2007, was primarily issued in December 2007 at interest rates tied to either LIBOR or an Index Rate. We believe the carrying value of our debt is at fair value as its variable interest rate approximates what we believe the December 31, 2007 market rate to be. The fair value of our 2006 debt in the table below was estimated using the closing market price of each security as of December 31, 2006. With the exception of our debt instruments included in the table below, the carrying amounts of the other long-term debt related instruments approximated their fair value at December 31, 2007, and 2006. The face value and estimated fair value of our major long-term debt at December 31, 2007, and the estimated fair value of the Predecessor Company's debt at December 31, 2006, are as follows:

(In thousands of dollars)	Face Value	Fair Value	
		2007	2006
Senior Secured Revolver	\$ 31,957	\$ 31,957	
First Lien Credit Agreement	160,000	151,826	
Second Lien Credit Agreement	50,000	49,504	
Third-Priority Floating Rate Secured PIK Notes	100,000	100,000	
Senior Credit Facility	133,173		\$ 131,741
Senior Secured Floating Rate Notes	125,000		120,469
8 <sup>5/8</sup> % Senior Notes	145,000		125,063
11% Senior Subordinated Notes	165,000		75,900
9 <sup>3/8</sup> % Senior Subordinated Notes	150,000		61,500

## Implementation of New Financial Accounting Pronouncements

At our emergence from Bankruptcy on December 6, 2007, we adopted all accounting pronouncements that are effective within one year from the date of emergence, as required by SOP 90-7.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". This statement permits all entities to choose, at specified election dates, to measure eligible items at fair value (the "fair value option"). A business entity should report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins with the full adoption of SFAS No. 157 as discussed below. We do not expect the adoption of SFAS No. 159 to have a significant impact on our financial position or results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" – an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS No. 158, gains and losses, prior service costs and credits and any remaining transition amounts under SFAS No. 87 and SFAS No. 106 that have not yet been recognized through net periodic benefit cost are recognized in accumulated other comprehensive income (loss), net of tax effects, until they are amortized as a component of net periodic benefit cost. Also, the measurement date – the date at which the benefit obligation and plan assets are measured – is required to be the company's fiscal year-end. We adopted the balance sheet recognition provisions of SFAS No. 158 at December 31, 2006, and we adopted the year-end measurement date at December 31, 2007.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS No. 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition and disclosure purposes under generally accepted accounting principles. SFAS No. 157 will require the fair value of an asset or liability to be based on a market-based measure which will reflect the credit risk of the company. SFAS No. 157 will also require expanded disclosure requirements which will include the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. SFAS No. 157 will be applied prospectively and will be effective for fiscal years beginning after November 15, 2007, and to interim periods within

those fiscal years. The FASB recently issued FASB Staff Position 157-2 that defers the application of SFAS No. 157 for certain nonfinancial assets and liabilities until years beginning after November 15, 2008. As required by SOP 90-7, we adopted the provisions of SFAS No. 157 for financial assets and liabilities in establishing the valuation of the Successor Company. We are currently assessing the impact SFAS No. 157 will have on the consolidated financial statements for non-financial assets and liabilities.

In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109". FIN 48 clarifies what criteria must be met prior to recognition of the financial statement benefit of a position taken in a tax return. FIN 48 requires companies to include additional qualitative and quantitative disclosures within their financial statements. The disclosures include potential tax benefits from positions taken for tax return purposes that have not been recognized for financial reporting purposes and a tabular presentation of significant changes during each period. The disclosures also include a discussion of the nature of uncertainties, factors which could cause a change, and an estimated range of reasonably possible changes in tax uncertainties. FIN 48 also requires a company to recognize a financial statement benefit for a position taken for tax return purposes when it will be more-likely-than-not that the position will be sustained. FIN 48 had an initial effective date for fiscal years beginning after December 15, 2006. We adopted FIN 48 on January 1, 2007. The adoption of FIN 48 did not have a material effect on our financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations". This statement revises SFAS No. 141, "Business Combinations". This statement retains the fundamental requirements of SFAS No. 141 that the acquisition method of accounting (which SFAS No. 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141(R) will significantly change the accounting for business combinations in a number of areas. This statement 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. SFAS No. 141 (R) will impact our future accounting for business combinations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements", which is an amendment of Accounting Research Bulletin ("ARB") No. 51. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 changes the way the consolidated income statement is presented, thus requiring consolidated net income to be reported at amounts that include the amounts attributable to both parent and noncontrolling interest. This statement will become effective for the fiscal year beginning after December 15, 2008. For the eleven months ended November 30, 2007, the Predecessor Company recognized a \$961,000 minority interest charge that would not be recognized in the future when we adopt this opinion.

### 3. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The activity in the allowance for doubtful accounts was as follows:

(In thousands of dollars)	<u>Successor</u>	<u>Predecessor</u>		
	One month ended December 31,	Eleven months ended		Year ended December 31,
	2007	November 30, 2007	2006	2005
Balance at beginning of period	\$ 2,123	\$ 2,562	\$ 2,244	\$ 2,206
Additions charged to costs and expenses	8	221	1,151	871
Uncollectible accounts written off, net of recoveries	-	(660)	(833)	(833)
Balance at end of period	\$ 2,131	\$ 2,123	\$ 2,562	\$ 2,244

### 4. INVENTORIES

Raw materials includes supplies and repair parts, which consist of materials consumed in the manufacturing and remanufacturing process, but not directly incorporated into the finished products. Inventories consist of the following:

(In thousands of dollars)	<u>Successor</u>	<u>Predecessor</u>
	December 31, 2007	December 31, 2006
Raw materials	\$ 99,930	\$ 96,615
Work-in-process	4,934	8,769
Finished goods	84,900	84,692
	\$ 189,764	\$ 190,076

The inventory balance of discontinued operations was \$57,618,000 at December 31, 2006.

## 5. OTHER CURRENT ASSETS

Other current assets consist primarily of prepaid expenses, advances and unrealized foreign currency exchange gains.

Other current assets consist of the following:

(In thousands of dollars)	<u>Successor</u>	<u>Predecessor</u>
	December 31, 2007	December 31, 2006
Prepaid insurance	\$ 1,384	\$ 1,347
Unrealized exchange gain	-	779
Escrow accounts	700	-
Advances	999	239
Prepaid leases/rent	206	639
Maintenance and legal agreements	714	495
Other	1,338	724
	<u>\$ 5,341</u>	<u>\$ 4,223</u>

## 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

(In thousands of dollars)	<u>Successor</u>	<u>Predecessor</u>
	December 31, 2007	December 31, 2006
Land and buildings	\$ 46,067	\$ 51,871
Leasehold improvements	12,415	11,212
Machinery and equipment	109,049	296,080
	<u>\$ 167,531</u>	<u>\$ 359,163</u>

The December 31, 2007's carrying value of property, plant and equipment primarily represents fair value established when we emerged from Bankruptcy.

## 7. OTHER NONCURRENT ASSETS

Other noncurrent assets consist of the following:

(In thousands of dollars)	<u>Successor</u>	<u>Predecessor</u>
	December 31, 2007	December 31, 2006
Trade names	\$ 59,700	\$ -
Customer relationships	35,237	-
Customer contract intangibles	28,648	9,327
Core return rights	24,794	22,801
Intellectual property intangibles	8,879	-
Intellectual property agreements	-	4,590
Investment in unconsolidated subsidiary	151	2,485
Security deposits on Mexican leases	5,121	5,438
Deposits and other	4,841	3,840
	<u>\$ 167,371</u>	<u>\$ 48,481</u>

The intangible values at December 31, 2007, were primarily established at fair value when we emerged from Bankruptcy.

## 8. OTHER CURRENT LIABILITIES AND ACCRUED EXPENSES

Other current liabilities and accrued expenses consist of the following:

(In thousands of dollars)	<u>Successor</u>	<u>Predecessor</u>
	December 31, 2007	December 31, 2006
Accrued warranty	\$ 35,654	\$ 41,156
Accrued wages and benefits	26,860	26,618
Current portion of customer obligations	17,654	21,790
Rebates, stocklifts, discounts and returns	10,173	10,437
Accrued core liability	9,159	14,501
Taxes other than income	8,972	7,123
Current portion of fair value of contract obligations	8,000	-
Accrued legal and audit fees	7,138	2,964
Accrued freight	5,960	4,460
Accrued tooling and other suppliers costs	1,843	6,426
Accrued customs and duties	1,019	7,951
Accrued current environmental costs	1,500	-
Accrued lease termination costs	1,428	-
Unrealized exchange loss	941	-
Other	9,808	7,378
	<u>\$ 146,109</u>	<u>\$ 150,804</u>

Changes to our accrued warranty were as follows:

(In thousands of dollars)	<u>Successor</u>	<u>Predecessor</u>			
	One month	Eleven months		Year ended December 31,	
	ended December 31, 2007	ended November 30, 2007	2006	2005	
Balance at beginning of period	\$ 36,368	\$ 41,156	\$ 19,975	\$ 16,319	
Provision for warranty	4,087	52,005	75,960	51,574	
Payments and charges against the accrual	(4,801)	(56,793)	(54,779)	(52,451)	
Other (including acquisitions)	-	-	-	4,533	
Balance at end of period	<u>\$ 35,654</u>	<u>\$ 36,368</u>	<u>\$ 41,156</u>	<u>\$ 19,975</u>	

## 9. OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities consist of the following:

(In thousands of dollars)	<u>Successor</u>	<u>Predecessor</u>
	December 31, 2007	December 31, 2006
Customer obligations, net of current portion	\$ 27,317	\$ 36,739
Fair value of contract obligations, net of amortization	23,403	-
U.S. Customs obligation	5,809	-
CVC management fee	-	1,250
Other	2,250	2,314
	<u>\$ 58,779</u>	<u>\$ 40,303</u>

## 10. 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. The asset purchase agreement called for a sales price of \$18,500,000 subject to working capital and other post closing adjustments. We initially received cash of \$15,130,000 and a promissory note for \$2,500,000 in the fourth quarter of 2007. We subsequently received payment of the note in January 2008 and are in the process of finalizing the sales price, which we do not believe will be significantly different from what we recorded in the results of discontinued operations for the eleven months

ended November 30, 2007. 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, and all prior periods have been reclassified accordingly.

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 and all prior periods have been reclassified accordingly. 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.

In the second quarter of 2005, we completed the sale of substantially all of the assets and the assignment of certain liabilities of our automatic transmission remanufacturing business, AutoMatic Transmission International A/S (“AMT”), based in Soborg, Denmark, for approximately \$240,000 in cash. In the third quarter of 2004, we committed to a plan to dispose of this business. An estimated loss on disposal of approximately \$2,246,000 was recorded in connection with this action in 2004. This loss was reduced by approximately \$448,000 in 2005 as a result of the sale.

In 2003, we completed the sale of Tractech Inc. and Kraftube Inc. These businesses manufactured traction control devices and components for the air-conditioning industry, respectively. In connection with the sale, we recorded net cash proceeds and gains with no income tax effect of approximately \$478,000, \$430,000, and \$430,000 in 2005, 2006, and 2007, respectively. Additional gains may be recognized based on the financial performance of these businesses in 2008.

Operating results of discontinued operations were as follows:

(In thousands of dollars)	<u>Successor</u>	<u>Predecessor</u>		
	One month ended December 31, 2007	Eleven months ended November 30 2007	Year ended December 31, 2006	Year ended December 31, 2005
Net sales	\$ -	\$ 74,040	\$ 228,783	\$ 170,660
Interest expense	-	882	11,298	7,809
Income tax expense	-	-	44	607
Net income (loss)	-	1,018	7,403	(15,885)

Assets and liabilities of discontinued operations at December 31, 2006, were as follows:

(In thousands of dollars)	
Current assets	\$ 90,180
Property, plant and equipment, net	16,736
Goodwill	14,030
Other assets	218
<b>Total assets of discontinued operations</b>	<b>\$ 121,164</b>
Current liabilities	\$ 44,842
Minority interest	10,916
Noncurrent liabilities	2,056
<b>Total liabilities of discontinued operations</b>	<b>\$ 57,814</b>

## 11. GOODWILL AND OTHER INTANGIBLE ASSETS

### Goodwill

We perform an impairment review on goodwill on an annual basis, or more frequently if impairment indicators arise. Upon emergence from Bankruptcy, we recorded goodwill of \$270,742,000. We did not perform an additional impairment review of the goodwill recorded upon emergence as the valuation of the goodwill occurred during the fourth quarter of 2007, and we are unaware of any impairment indicators. In 2006, we recorded a goodwill impairment charge of \$28,606,000 as a result of our annual impairment test as required under SFAS No. 142. In 2005, we recorded a goodwill impairment charge of \$13,917,000 related to the entire goodwill balance of Knopf, which is included in loss from discontinued operations.

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 third party valuations as well as discounted cash flow analyses. In accordance with SFAS No. 142, where the carrying value exceeds the fair value for a particular reporting unit, goodwill impairment charges may be recognized.

## Other Intangible Assets

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

	Successor			Predecessor		
	December 31, 2007			December 31, 2006		
(In thousands of dollars)	Carrying Value	Accumulated Amortization	Net	Acquisition Value	Accumulated Amortization	Net
<b>Definite life intangible assets:</b>						
Intellectual property	\$ 9,000	\$ 121	\$ 8,879	\$ 6,150	\$ 1,560	\$ 4,590
Customer relationships	35,500	263	35,237	-	-	-
Customer contracts	29,100	452	28,648	13,487	4,160	9,327
<b>Total</b>	<b>\$ 73,600</b>	<b>\$ 836</b>	<b>\$ 72,764</b>	<b>\$ 19,637</b>	<b>\$ 5,720</b>	<b>\$ 13,917</b>
<b>Indefinite life intangible assets:</b>						
Trade names	59,700	-	59,700	-	-	-
<b>Intangible assets, net</b>	<b>\$ 133,300</b>	<b>\$ 836</b>	<b>\$ 132,464</b>	<b>\$ 19,637</b>	<b>\$ 5,720</b>	<b>\$ 13,917</b>

These intangibles are included in "Other noncurrent assets" in the accompanying consolidated balance sheets. The December 31, 2007, definite life intangible assets are being amortized under accelerated methods to reflect the pattern of economic benefit consumed. The December 31, 2007, carrying values were determined in accordance with SOP 90-7.

We perform impairment testing annually or more frequently when events or circumstances indicate that the carrying amount of the above intangibles may be impaired. We did not perform impairment testing on the December 31, 2007, intangible assets with indefinite lives as the valuation of these intangible assets for fresh-start accounting occurred in the fourth quarter, and we are unaware of any impairment indicators. We performed impairment testing in the fourth quarter of 2006, and we impaired customer contracts by \$2,700,000, which was recorded as a charge to cost of goods sold. Estimated future amortization, in thousands of dollars, for intangibles with definite lives at December 31, 2007, is:

2008	\$ 11,201
2009	10,497
2010	10,495
2011	10,486
2012	7,691

## 12. RESTRUCTURING AND OTHER CHARGES

Our restructuring activities are accounted for in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", SFAS No. 112, "Employers' Accounting for Postemployment Benefits", and EITF 95-03, "Recognition of Liabilities in Connection with a Purchase Business Combination". Other charges primarily represent equipment impairment charges under SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets".

### Actions

In 2007, we completed plans for the following restructuring actions in conjunction with our ongoing cost reduction initiatives:

- Closure of four facilities in our U.S. operations resulting in a reduction in workforce of approximately 253 employees.
- Further consolidation of excess office and storage facilities.

In 2006, we completed plans for the following restructuring actions in conjunction with our ongoing cost reduction initiatives:

- Restructuring of remanufacturing operations in Europe which included consolidation of operations, and a reduction of work force including early retirements and involuntary terminations for a total reduction in workforce of approximately 38 employees.
- Closure of certain U.S. remanufacturing operations and distribution facilities and a reduction in workforce totaling approximately 305 employees.

- Closure of two U.S. warehouses and a reduction in workforce of approximately 13 employees in core services operations.
- Elimination of two U.S. senior management positions.

In 2005, we completed plans for the following restructuring actions:

- A reduction in force, including early retirements and involuntary terminations, at our headquarters operations.
- Consolidation of certain U.S. remanufacturing operations.
- A reduction in force from continued implementation of lean manufacturing initiatives in our OEM operations in Mexico.
- Closure of certain manufacturing facilities in Europe.
- Closure of two distribution centers in our core services operations.

#### *Net charges and payments*

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.

A total net charge of \$6,266,000 was recorded in 2006 relative to the 2006 and prior actions. This charge consisted of termination benefits totaling \$3,469,000, equipment and capital lease impairment charges of \$1,523,000, and other exit costs of \$1,274,000. Cash payments totaling \$12,419,000 were made in 2006, for actions taken in 2006 and prior years. The cash payments consisted of \$5,724,000 for the International Union, United Automobile, Aerospace and Agriculture Workers of America (“UAW”) settlement reached in January 2006, \$5,755,000 for other employee termination benefits, and \$940,000 for all other restructuring actions. Other adjustments to the restructuring liability primarily consisted of a \$640,000 reversal of a portion of the restructuring accrual established in 2005 upon the acquisition of UPC. The reversal reduced the amount of goodwill that was established at the acquisition date.

A total net charge of \$3,527,000 was recorded in 2005. This charge consisted of termination benefits totaling \$6,250,000, asset and leasehold improvement impairment charges of \$319,000, other exit costs of \$1,005,000, offset by a reversal of previously accrued lease termination costs of \$1,094,000, and a \$3,026,000 credit (including the extinguishment of \$2,700,000 of a liability for maintenance agreements) on the sale of production facilities in Anderson, Indiana, which were written down in 2003. The employee termination benefit charge included \$1,525,000 relative to the termination in 2003 of employees represented by the UAW. Other adjustments to the restructuring liability consisted primarily of \$5,250,000 in anticipated exit costs related to the acquisition of UPC.

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

(In thousands of dollars)	Termination Benefits	Exit Costs	Total
Accrual at December 31, 2004	\$ 5,126	\$ 5,573	\$ 10,699
Provision in 2005	6,250	(89)	6,161
Payments in 2005	(5,828)	(1,270)	(7,098)
Other (including acquisitions)	5,310	(2,700)	2,610
Accrual at December 31, 2005	10,858	1,514	12,372
Provision in 2006	3,469	1,274	4,743
Payments in 2006	(11,479)	(940)	(12,419)
Other (including acquisitions)	(395)	(236)	(631)
Accrual at December 31, 2006	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	(2,315)	(826)	(3,141)
Accrual at November 30, 2007	1,099	262	1,361
Provision in the month ended December 31, 2007	404	-	404
Payments in the month ended December 31, 2007	(112)	(12)	(124)
Accrual at December 31, 2007	\$ 1,391	\$ 250	\$ 1,641

We expect to pay approximately \$1,391,000 in 2008 related to the employee termination restructuring programs initiated in 2007 and prior.

The following table reconciles the restructuring accrual provisions appearing in the above table with the total charges (credits) appearing in the consolidated statements of operations:

(In thousands of dollars)	<b>Successor</b>	<b>Predecessor</b>		
	One month ended	Eleven months ended	Year ended December 31,	
	December 31, 2007	November 30, 2007	2006	2005
Provision charged to accrual	\$ 404	\$ 437	\$ 4,743	\$ 6,161
Impairment of fixed assets and capital leases	-	1,378	1,523	319
Gain on sale of fixed assets	-	-	-	(3,026)
Other	-	-	-	73
Total restructuring and other charges	\$ 404	\$ 1,815	\$ 6,266	\$ 3,527

### 13. DEBT

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

(In thousands of dollars)	Successor	Predecessor
	December 31, 2007	December 31, 2006
Senior Secured Revolving Credit Agreement - <i>Maturity date of December 6, 2012</i>	\$ 31,957	\$ -
First Lien Credit Agreement - <i>Maturity date of December 6, 2013</i>	151,826	-
Second Lien Credit Agreement - <i>Maturity date of June 6, 2014</i>	49,504	-
Third-Priority Floating Rate Secured PIK Notes - <i>Maturity date of December 1, 2014</i>	100,000	-
Senior Credit Facility	-	131,741
Senior Secured Floating Rate Notes	-	125,000
8 <sup>5/8</sup> % Senior Notes	-	145,000
11% Senior Subordinated Notes	-	164,403
9 <sup>3/8</sup> % Senior Subordinated Notes	-	150,000
<b>Total Senior Credit Facility and Notes</b>	<b>\$ 333,287</b>	<b>\$ 716,144</b>
Other debt	8,611	11,492
Capital leases	3,775	11,505
Less current maturities	(6,149)	(721,492)
<b>Long-term debt less current maturities</b>	<b>\$ 339,524</b>	<b>\$ 17,649</b>

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

(In thousands of dollars)	
2008	\$ 6,149
2009	4,932
2010	2,181
2011	2,118
2012	34,124
Thereafter	296,169

#### Successor Company Debt

In conjunction with our emergence from Chapter 11, we converted the then outstanding Debtor-in-Possession (DIP) Credit Facilities to Exit Facilities with availability of up to \$330,000,000. The Exit Facilities include a \$120,000,000 Senior Secured Revolving Credit Agreement, a \$160,000,000 Senior Secured First Lien Credit Agreement, and a \$50,000,000 Second Lien Credit Agreement.

The Revolving Credit Agreement is secured by substantially all of our assets, and provides working capital for general corporate purposes. It bears interest, varying with the level of borrowing availability, at a defined Index Rate plus .75% - 1.25% per annum or, at our election of the applicable LIBOR Rate plus 1.75% - 2.25% per annum. At December 31, 2007, the borrowing rate was 8.25%. Based upon the collateral supporting the revolving credit agreement, the amount borrowed, and the outstanding letters of credit of \$8,300,000, there was availability of \$41,871,000 as of December 31, 2007. This credit agreement matures on December 6, 2012.

The Term Loan DIP Agreement was converted to the Exit Facility First Lien Credit Agreement with total initial proceeds being increased to \$160,000,000, before original issue discounts of \$7,800,000. The agreement is secured by substantially all assets and certain common stock of our wholly-owned subsidiaries. The proceeds were used to refinance certain prepetition Senior Secured indebtedness, and for other purposes permitted in the agreement, including the payment of certain fees and expenses of professionals retained as we emerged from Bankruptcy. The loan bears interest at a defined Index Rate plus 4.5% per annum or, at our election of the applicable LIBOR Rate plus 5.5% per annum. Principal payments in the amount of \$400,000 are due at the end of each calendar quarter with termination and final payment of the agreement no later than December 6, 2013. At December 31, 2007, the average borrowing rate was 10.41%.

As part of the Exit Facility, we received proceeds of \$50,000,000, before original issue discounts of \$500,000, under the Second Lien Credit Agreement. The agreement is secured by substantially all assets and certain common stock of our wholly-owned subsidiaries. The proceeds were used to refinance certain Senior Secured indebtedness, for general corporate purposes, and for other purposes permitted in the agreement. The loan bears interest at a defined Index Rate plus 7.5% per annum or, at our election of the

applicable LIBOR Rate plus 8.5% per annum. The Agreement is payable in full on June 6, 2014. At December 31, 2007, the borrowing rate was 13.46%.

Subsequent to year end and in order to comply with the provisions of the First and Second Lien Credit Agreements, we entered into interest rate swap and collar contracts to protect us from variable interest rate fluctuation. The interest rate swap was in the notional amount of \$100,000,000 with two tranches of \$50,000,000 each, at a fixed interest rate of 3.38% expiring in June 2011. The collar contract for a notional amount of \$100,000,000 sets a cap at 3.34% and a floor at 2.91% for the variable interest rate portion and expires in February 2011.

On December 6, 2007, we received \$100,000,000 under the Third-Priority Floating Rate Secured PIK (payment-in-kind) Notes Due 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 semi-annually for cash interest at LIBOR plus 9.5%, or as additional PIK securities at LIBOR plus 12.0%. At December 31, 2007, the PIK borrowing rate was 16.9%. Based on our current intentions, we have accrued interest based on the PIK rate and in accordance with the agreement, will elect either a cash payment if available or PIK payment approximately fifteen days prior to the initial interest payment date. Accordingly, the accrued interest is included in current liabilities in the consolidated balance sheet.

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, 2007. Our debt covenants include certain earnings requirements, capital expenditure limits and liquidity ratios. Dividends and additional borrowings are limited under the covenants.

### **Predecessor Company Debt**

In connection with the Chapter 11 filings, the Debtors entered into a Senior Secured, Super-Priority Debtor-in-Possession (DIP) and Exit Revolver Credit Agreement (Revolving DIP Agreement), dated as of October 10, 2007, by and among Remy International, Inc. and certain subsidiaries of Remy International, Inc., as Borrowers, with Syndicated Banks. On October 10, 2007, the Bankruptcy Court gave interim approval to borrow \$55,000,000 under this agreement. Final approval for the full DIP facility of \$225,000,000 was granted on November 7, 2007.

In connection with the Chapter 11 filings, the Debtors entered into a Senior Secured, Super-Priority Debtor-in-Possession and Exit First Lien Credit Agreement (Term Loan DIP Agreement), dated as of October 10, 2007, by and among Remy International, Inc. and certain subsidiaries, as Borrowers, Barclays Bank PLC, as Administrative Agent and Lender, and Barclays Capital, as Sole Lead Arranger and Sole Bookrunner.

The Revolving DIP Agreement provided for a revolving credit facility for up to \$120,000,000 secured by substantially all of the Predecessor's assets. Proceeds from the Revolving DIP Agreement provided financing for working capital and for general corporate purposes. The Term Loan DIP Agreement provided an aggregate amount not to exceed \$105,000,000 secured by substantially all assets and certain common stock of our wholly-owned subsidiaries. Borrowings under the Term Loan DIP Agreement were used to repay outstanding amounts on the Senior Credit Facility.

Advances under the Revolving DIP Agreement bore interest at an Index Rate plus 1.0% per annum or, at the election of Borrowers' Representative, the applicable LIBOR Rate plus 2.0% per annum. In addition, the Revolving DIP Agreement obligated the Debtors to pay certain fees to the Lenders, as described in the Agreement.

Proceeds from the Term Loan DIP Agreement bore interest at an Index Rate plus 3.5% per annum or, at the election of Borrowers' Representative, the applicable LIBOR Rate plus 4.5% per annum. In addition, the Term Loan DIP Agreement obligated the Debtors to pay certain fees to the Lenders, as described in the Agreement.

The DIP Credit Agreement provided an option for the DIP Credit Facilities to be converted to Exit Facilities no later than April 10, 2008, or at our option upon satisfaction of certain conditions precedent including, but not limited to, the Confirmation Order of our Plan of Reorganization, and achieving certain financial debt covenant targets. Our Plan of Reorganization was confirmed by the Bankruptcy Court on November 20, 2007. The DIP Credit Agreement was converted to Exit Facilities on December 6, 2007 as discussed above under Successor Company Debt.

### *Senior Credit Facility*

At December 31, 2006, borrowings under the then outstanding Senior Credit Facility were \$3,173,000 at Prime Rate of 8.50% and \$50,000,000 at LIBOR of 7.85% and utilization of letters of credit totaled \$8,534,000. At December 31, 2006, borrowings outstanding under the term loan of the Senior Credit Facility were \$80,000,000, reflected on the balance sheet net of the unamortized portion of the original issue discount of \$1,432,000. The interest rate on borrowings outstanding under the term loan of the Credit

Facility at December 31, 2006 was 11.37%. The Senior Credit Facility was collateralized by liens on substantially all assets of ours and our domestic and certain foreign subsidiaries and by the capital stock of such subsidiaries. This secured asset based facility was with a syndicate of banks.

In the first quarter of 2007, prior to the issuance of the consolidated financial statements for 2006, the Company entered into a Consent and Amendment No. 1 to the Third Amended and Restated Loan Agreement with its senior revolving and term loan lenders authorizing the Diesel Sale and related transactions as discussed in Note 10 above. Under the Amendment, the first \$50,000,000 of proceeds of the Diesel Sale were held in a restricted account, pledged as collateral to the Company's senior secured lenders, and made available for withdrawal by the Company only with consent of the lenders under the Company's Senior Credit Facility. The commitment for the revolving portion of the Senior Credit Facility was reduced by \$40,000,000 from \$160,000,000 to \$120,000,000. The Senior Credit Facility was included in current liabilities at December 31, 2006 in the accompanying consolidated financial statements.

#### *Floating Rate Notes and 9 3/8% Senior Subordinated Notes*

On April 23, 2004, we issued \$125,000,000 principal amount of Second Priority Senior Secured Floating Rate Notes that had a stated maturity date of 2009 (the "Floating Rate Notes"), bearing an interest rate of LIBOR plus 4.00%, and \$150,000,000 principal amount of 9 3/8% Senior Subordinated Notes that had a stated maturity date of 2012 (the "9 3/8% Senior Subordinated Notes").

The Floating Rate Notes' interest was due each January 15, April 15, July 15 and October 15 commencing July 15, 2004. The interest rate on the Floating Rate Notes at December 31, 2006, was 9.37%. The interest rate was reset quarterly based on the three (3) month LIBOR plus 4% and was calculated on actual days lapsed and a 360 day year. The Floating Rate Notes were guaranteed by substantially all of our domestic subsidiaries (the "Guarantors"). The Floating Rate Notes and the related guarantees were senior obligations secured by a second-priority lien, subject to certain exceptions and permitted liens, on all of the Company's and the Guarantors' existing and future property and assets that secure the Company's obligations under its existing credit facilities.

The 9 3/8% Senior Subordinated Notes' interest was due each April 15 and October 15, commencing October 15, 2004. The 9 3/8% Senior Subordinated Notes were guaranteed by the Guarantors on a senior subordinated basis and, with the related guarantees, were unsecured senior subordinated obligations, ranking junior to all our senior debt, including borrowings under our credit facilities, the Floating Rate Notes and our outstanding 8 5/8% Senior Notes.

On April 16, 2007, prior to the issuance of the consolidated financial statements for 2006, we announced that we had entered into forbearance agreements with holders of certain notes, including holders of the 9 3/8% Senior Subordinated Notes. Therefore, we did not make the April 15, 2007, interest payment on these notes. We were not in compliance with certain covenants on these notes and as a result, the notes were included in current liabilities at December 31, 2006, in the accompanying consolidated financial statements.

#### *Senior Notes*

On December 22, 1997, we issued \$145,000,000 of 8 5/8% Senior Notes with a stated maturity date of December 15, 2007 (the "Senior Notes"). The proceeds from the Senior Notes were \$141,375,000, net of issuance costs.

The Senior Notes were general unsecured senior obligations and ranked pari passu in right of payment with all existing and future senior indebtedness and senior in right of payment to all existing and future subordinated obligations. In addition, our obligations under the Senior Notes were fully and unconditionally guaranteed on a joint and several basis by each of the Company's existing and future domestic restricted subsidiaries. The subsidiary guarantees ranked pari passu in right of payment with all existing and future senior indebtedness of the subsidiary guarantors and senior in right of payment to all existing and future subordinate obligations of the subsidiary guarantors. The Senior Notes and the subsidiary guarantees were effectively subordinated to all existing and future secured indebtedness and the subsidiary guarantors as well as to any liabilities of subsidiaries other than subsidiary guarantors.

The 8 5/8% Senior Notes are included in current liabilities at December 31, 2006, in the accompanying consolidated financial statements.

#### *11% Senior Subordinated Notes*

On April 26, 2001, we issued \$165,000,000 of 11% Senior Subordinated Notes with a stated maturity date of May 1, 2009 ("the 11% Senior Subordinated Notes"). Net proceeds (after discounts, commissions, and expenses) were approximately \$157,000,000.

The 11% Senior Subordinated Notes were unsecured senior subordinated obligations and were subordinated in right of payment to all existing and future senior indebtedness, pari passu with all present and future senior subordinated indebtedness and senior to all present and future subordinated indebtedness of ours or the relevant subsidiary guarantor, as defined in the indenture. The 11% Senior

Subordinated Notes were also effectively subordinated to any secured indebtedness to the extent of the value of the assets securing such indebtedness.

The 11% Senior Subordinated Notes were redeemable at our option, in whole or in part, at any time on or after May 1, 2005, at the redemption prices set forth in the note agreement plus accrued and unpaid interest, if any, to the redemption date. Interest was payable semi-annually in arrears on May 1 and November 1, and commenced on November 1, 2001.

Upon the occurrence of a change in control, as defined, each holder of the 11% Senior Subordinated Notes had the right to require the Company to purchase 11% Senior Subordinated Notes were included in current liabilities at December 31, 2006, in the accompanying consolidated financial statements.

### **Short-Term Debt**

We have revolving credit facilities with five Korean banks with a total facility amount of approximately \$20,500,000 at average interest rates of 6.24%. In Hungary, there are revolving credit facilities with two banks for \$12,822,000 at average interest rates of 3.69%. Also, in Belgium we have revolving loans with two banks for \$5,477,000 at average interest rates of 4.34%. In Brazil, we have a credit line for \$2,035,000 at approximately 14.0%. At December 31, 2007 there is \$22,066,000 borrowed against these revolving credit facilities.

### **Sale-Leaseback Financing Transactions**

In 2003, certain of our Mexican subsidiaries entered into a series of machinery and equipment sale-leaseback financing transactions with GE Mexico. Under the terms of this agreement, 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 SFAS No. 66 and SFAS No. 98. Accordingly, an obligation of \$15,722,000 was recorded relative to these transactions. The obligation at December 31, 2007, and 2006, was \$4,299,000 and \$6,645,000, respectively.

In November, 2005, we entered into a purchase, sale and partial leaseback real estate transaction. The Company 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 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 10.6% to 15.1%. We had assets under capital leases of approximately \$2,843,000 at December 31, 2007 (Successor fair value) and \$4,700,000 at December 31, 2006 (Predecessor), net of accumulated amortization.

## **14. 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 \$471,000 at December 31, 2007.

*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 \$1,048,000 at December 31, 2007.

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 has been set aside.

## **15. STOCK-BASED COMPENSATION**

As part of our Plan of Reorganization for our emergence from Bankruptcy, our then executive officers received restricted stock awards aggregating 489,474 of common shares in the Successor Company at no cost to them. The award 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 the executive remaining an employee. Additionally, there is a change of control provision in the award. As a nonpublic company, there is not an active viable market for our common stock; accordingly, we used a calculated value of \$11.55 on a per share basis to determine the value of this award. Our calculation assumed a risk-free interest rate of 3.0%; volatility of 39.1%; and that no dividends would be paid. Compensation expense related to this award for the one month ended December 31, 2007, was \$94,000.

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.

## **16. 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 responsibility for employee pension benefits and 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 us and GM. Effective August 1, 1994, we established hourly and salaried pension and postretirement health care and life insurance plans which are similar to the respective GM 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. This freeze resulted in a curtailment gain of \$5,997,000 in 2006. The plan covering hourly employees has no active employees and no current service costs.

In accordance with SOP 90-7 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 executive officers of the 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, 2007, 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 maintain certain U.S. hourly and salaried benefit plans that provide postretirement health care and life insurance to retirees and eligible dependents. The benefits are payable for life, although we retain the right to modify or terminate the plans. The salaried postretirement plan has 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 SFAS No. 158. SFAS No. 158 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, 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 sheet 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 SFAS No. 158. 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. 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 SFAS No. 158. Upon emergence from Bankruptcy the amount remaining in accumulated other comprehensive income was recognized as a reorganization expense.

The incremental effects of adopting the provisions of SFAS No. 158 on our consolidated balance sheet at December 31, 2006, included the following amounts: an increase of \$977,000 to the accumulated other comprehensive income, a reduction of \$887,000 to other intangible assets and an increase of \$1,187,000 and a reduction of \$3,050,000 to current and noncurrent liabilities, respectively. The adoption of SFAS No. 158 had no effect on our consolidated statement of operations for the year ended December 31, 2006, or for any prior period presented.

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

(In thousands of dollars)	Pension Benefits					
	Successor		Predecessor			
	One month ended December 31, 2007		Eleven months ended November 30, 2007		Year ended December 31,	
	(Funded)	(Unfunded)	(Funded)	(Unfunded)	2006	2005
<b>Change in benefit obligations</b>						
Benefit obligation at beginning of period	\$ 17,996	\$ 37,028	\$ 16,987	\$ 37,494	\$ 56,995	\$ 53,272
Service cost	-	17	-	256	1,506	2,043
Interest cost	91	125	987	2,025	3,108	2,939
Amendments	-	-	-	(1,633)	-	-
Actuarial loss (gain)	(642)	(814)	601	696	927	509
Benefits Paid	(55)	(202)	(579)	(1,810)	(2,058)	(1,768)
Medicare Prescription Drug Act of 2003 (gain)	-	-	-	-	-	-
Curtailement gains	-	-	-	-	(5,997)	-
Benefit obligation at end of period	\$ 17,390	\$ 36,154	\$ 17,996	\$ 37,028	\$ 54,481	\$ 56,995
<b>Change in plan assets</b>						
Fair value of plan assets at beginning of period	\$ 18,912	\$ 30,279	\$ 15,283	\$ 27,440	\$ 37,964	\$ 33,049
Actual return on plan assets	(4)	70	1,676	2,404	5,584	2,888
Employer contributions	-	(1)	2,532	2,245	1,233	3,795
Benefits paid	(55)	(202)	(579)	(1,810)	(2,058)	(1,768)
Fair value of plan assets at end of period	\$ 18,853	\$ 30,146	\$ 18,912	\$ 30,279	\$ 42,723	\$ 37,964
Funded status	\$ 1,463	\$ (6,008)	\$ 916	\$ (6,749)	\$ (11,758)	\$ (19,031)
<b>Amounts recognized in statement of financial position consist of:</b>						
Current assets	\$ -	\$ -			\$ -	\$ -
Noncurrent assets	1,463	-			-	732
Current liabilities	-	(340)			(317)	-
Noncurrent liabilities	-	(5,668)			(11,441)	(13,140)
Net amount recognized	\$ 1,463	\$ (6,008)			\$ (11,758)	\$ (12,408)
<b>Amounts recognized in accumulated other comprehensive income consist of:</b>						
Net actuarial loss (gain)	\$ (529)	\$ (258)			\$ 5,779	\$ 7,531
Prior service cost	-	-			917	1,116
Accumulated other comprehensive loss (income)	\$ (529)	\$ (258)			\$ 6,696	\$ 8,647
<b>Information for pension plans with an accumulated benefit obligation in excess of plan assets</b>						
Projected benefit obligation	\$ 17,390	\$ 36,154			\$ 54,481	\$ 56,995
Accumulated benefit obligation	17,390	36,058			54,100	51,103
Fair value of plan assets	18,853	30,146			42,723	37,964
<b>Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income</b>						
<b>Net Periodic Benefit Cost</b>						
Service cost	\$ -	\$ 17	\$ -	\$ 256	\$ 1,506	\$ 2,043
Interest cost	91	125	987	2,025	3,108	2,939
Expected return on plan assets	(108)	(112)	(1,085)	(1,768)	(2,624)	(2,332)
Amortization of prior service cost	-	-	-	174	226	224
Recognized net actuarial loss (gain)	-	-	-	181	348	439
SERP Plan Reversal	-	-	-	(888)	-	-
Fresh Start Accounting adjustments	-	-	(1,264)	6,820	-	-
Curtailements	-	-	-	-	(28)	-
Net periodic pension cost (benefit)	\$ (17)	\$ 30	\$ (1,362)	\$ 6,800	\$ 2,536	\$ 3,313
<b>Other changes in plan assets and benefit obligations recognized in other comprehensive income</b>						
Net actuarial loss (gain)	\$ (529)	\$ (258)	\$ 10	\$ (1,173)	\$ (8,028)	\$ 695
Prior service cost	-	-	-	-	28	-
Amortization of prior service cost	-	-	-	(917)	(226)	(224)
Recognized net actuarial (loss) gain	-	-	1,264	(5,369)	(348)	(439)
Total recognized in other comprehensive loss (income)	(529)	(258)	1,274	(7,459)	(8,574)	32
Total recognized in net (benefit) cost and OCI	\$ (546)	\$ (228)	\$ (88)	\$ (659)	\$ (6,038)	\$ 3,345
<b>Weighted-average assumptions</b>						
<b>U.S. assumptions:</b>						
Discount rate for benefit obligation	6.50%	6.50%	6.25%	6.25%	6.00%	5.75%
Discount rate for net periodic benefit cost	6.00%	6.25%	6.00%	6.00%	5.75%	5.75%
Rate of compensation increase	Not applicable	5.00%	5.00%	5.00%	5.00%	5.00%
Expected return on plan assets	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
<b>U.K. assumptions:</b>						
Discount rate for benefit obligation		5.50%		5.50%	5.10%	4.75%
Discount rate for net periodic cost		4.10%		4.10%	4.75%	5.30%
Rate of compensation increase		3.00%		3.00%	2.30%	2.00%
Expected return on plan assets		6.80%		6.80%	6.10%	5.70%

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:

	<b>Postretirement Healthcare and Life Insurance Plans</b>			
	<b>Successor</b>	<b>Predecessor</b>		
	One month ended December 31, 2007	Eleven months ended November 30, 2007	Year ended December 31, 2006      2005	
<i>(In thousands of dollars)</i>				
<b>Change in benefit obligations</b>				
Benefit obligation at beginning of period	\$ 16,102	\$ 15,182	\$ 19,525	\$ 19,016
Service cost	-	-	371	351
Interest cost	82	932	1,126	1,135
Amendments	-	-	(4,447)	-
Actuarial loss (gain)	(498)	1,703	(74)	1,083
Benefits Paid	(193)	(1,715)	(1,319)	(2,060)
<b>Benefit obligation at end of period</b>	<b>\$ 15,493</b>	<b>\$ 16,102</b>	<b>\$ 15,182</b>	<b>\$ 19,525</b>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of period	\$ -	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-	-
Employer contributions	193	1,715	1,319	2,060
Benefits paid	(193)	(1,715)	(1,319)	(2,060)
<b>Fair value of plan assets at end of period</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Funded status</b>	<b>\$ (15,493)</b>	<b>\$ (16,102)</b>	<b>\$ (15,182)</b>	<b>\$ (19,525)</b>
Amounts recognized in statement of financial position consist of:				
Current assets	\$ -		\$ -	\$ -
Noncurrent assets	-		-	-
Current liabilities	(985)		(870)	-
Noncurrent liabilities	(14,508)		(14,312)	(15,850)
<b>Net amount recognized</b>	<b>\$ (15,493)</b>		<b>\$ (15,182)</b>	<b>\$ (15,850)</b>
Amounts recognized in accumulated other comprehensive income consist of:				
Net actuarial loss (gain)	\$ (497)		\$ 3,482	\$ 3,685
Prior service cost (credit)	-		(4,447)	-
Amounts not recognized, net	\$ -		\$ -	\$ (3,685)
<b>Accumulated other comprehensive loss (income)</b>	<b>\$ (497)</b>		<b>\$ (965)</b>	<b>\$ -</b>
Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income				
<b>Net Periodic Benefit Cost</b>				
Service cost	\$ -	\$ -	\$ 371	\$ 351
Interest cost	81	932	1,126	1,135
Expected return on plan assets	-	-	-	-
Amortization of prior service cost	-	(815)	-	-
Recognized net actuarial loss (gain)	-	281	128	113
SERP Plan Reversal	-	-	-	-
Fresh Start Accounting adjustments	-	1,272	-	-
Curtailments	-	-	-	-
<b>Net periodic pension cost (benefit)</b>	<b>\$ 81</b>	<b>\$ 1,670</b>	<b>\$ 1,625</b>	<b>\$ 1,599</b>
Other changes in plan assets and benefit obligations recognized in other comprehensive income				
Net actuarial loss (gain)	\$ (497)	\$ 1,703	\$ -	\$ -
Prior service cost (credit)	-	-	-	-
Amortization of prior service cost	-	4,446	-	-
Recognized net actuarial (loss) gain	-	(5,184)	-	-
Adoption of SFAS No. 158	-	-	(965)	-
<b>Total recognized in other comprehensive loss (income)</b>	<b>(497)</b>	<b>965</b>	<b>(965)</b>	<b>-</b>
<b>Total recognized in net (benefit) cost and OCI</b>	<b>\$ (416)</b>	<b>\$ 2,635</b>	<b>\$ 660</b>	<b>\$ 1,599</b>
Weighted-average assumptions				
U.S. assumptions:				
Discount rate for benefit obligation	6.50%	6.25%	6.00%	5.75%
Discount rate for net periodic benefit cost	6.00%	6.00%	5.75%	5.75%
Rate of compensation increase	5.00%	5.00%	5.00%	5.00%
Expected return on plan assets	0.00%	0.00%	0.00%	0.00%

The projected benefit obligations for U.K. pension plans included above are \$12,246,000, \$11,491,000 and \$9,260,000 as of December 31, 2007, 2006, and 2005, respectively. The fair value of the plan assets for U.K. pension plans included above are \$10,389,000, \$9,751,000 and \$7,693,000 as of December 31, 2007, 2006, and 2005, 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 7.0% for long-term rate of return on asset assumption for U.S. plans and 6.8% 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 2008 target plan asset allocation is:

Equity Investments	40%-50%
Fixed Income Investments	40%-50%
Cash and Short Term Investments	0%-10%

The asset allocations at year end were:

(In thousands of dollars)	Successor		Predecessor	
	2007		2006	
<b>Asset Allocation for Plan Assets</b>				
Interest-bearing cash	\$ 731	1.5%	\$ 1,038	2.4%
Bond Mutual Funds	11,777	24.0%	9,844	23.1%
Equity Mutual Funds	32,932	67.2%	31,834	74.5%
Common Stock	3,555	7.3%	-	0.0%
Receivables	4	0.0%	7	0.0%
<b>Total plan assets</b>	<b>\$ 48,999</b>	<b>100.0%</b>	<b>\$ 42,723</b>	<b>100.0%</b>

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

	Successor		Predecessor	
	2007		2006	
<b>Assumed Health Care Cost Trend Rates</b>				
Health care cost trend rate assumed for next year	10%		10%	
Rate to which the cost trend is expected to decline	5%		5%	
Year that the rate reaches the ultimate trend rate	2012		2011	

#### Sensitivity Analysis

An increase or decrease of one percentage point in the assumed health care cost trends would have the following approximate effects for the periods ended.

	Successor	Predecessor
	December 31, 2007	November 30, 2007
Effect on total of service and interest cost components of net periodic post-retirement health care benefit cost	\$ (114,000)	\$ 137,000
Effect on the health care component of the accumulated post-retirement benefit obligation	\$ (1,821,000)	\$ 2,188,000

#### Payments to Pension and Postretirement Plans

We contributed \$4,777,000 in 2007 to our pension plans. 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.

The postretirement health care and life insurance plans are funded as benefits are paid.

In 2008, we plan to contribute approximately \$600,000 to our U.S. pension plans and make no contribution to our U.K. pension plans.

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

(In thousands of dollars)	Pension	Post-retirement healthcare
2008	\$ 2,473	\$ 982
2009	2,383	1,038
2010	2,353	1,068
2011	2,387	1,099
2012	2,434	1,074
Years 2013-2017	12,757	5,521

### 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 \$92,000 for the one month ended December 31, 2007, \$1,300,000 for the eleven months ended November 30, 2007, \$1,595,000 and \$1,670,000 for the years ended December 31, 2006 and 2005, respectively. Charges relating to discontinued operations were \$163,000 for the eleven months ended November 30, 2007, \$442,000 and \$416,000 for the years ended December 31, 2006 and 2005, respectively.

## 17. INCOME TAXES

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

(In thousands of dollars)	Successor	Predecessor		
	One month ended December 31,	Eleven months ended November 30,	Year ended December 31,	
	2007	2007	2006	2005
Current:				
Federal	\$ -	\$ -	\$ -	\$ -
State and local	-	464	280	863
Foreign	(133)	7,449	5,081	6,257
Deferred:				
Federal	123	1,351	(4,934)	7,421
State and local	17	194	(386)	609
Foreign	(601)	(165)	85	(1,996)
Income tax expense	\$ (594)	\$ 9,293	\$ 126	\$ 13,154

At December 31, 2007, and November 30, 2007, the U.S. federal and state deferred tax expense relates to goodwill amortization for tax purposes which creates tax loss carryforwards that are assigned a full valuation allowance. The 2006 U.S. federal and state deferred tax benefit relates to the goodwill impairment recorded for book purposes that eliminates a deferred tax liability previously established for tax amortization related to this goodwill.

Income (loss) from continuing operations before income taxes, minority interest and income (loss) from unconsolidated subsidiaries, was taxed in the following geographic areas:

(In thousands of dollars)	Successor	Predecessor		
	One month ended December 31,	Eleven months ended November 30,	Year ended December 31,	
	2007	2007	2006	2005
Domestic	\$ (3,916)	\$ 331,364	\$ (113,292)	\$ (70,785)
Foreign	(1,109)	3,124	(13,123)	2,133
	\$ (5,025)	\$ 334,488	\$ (126,415)	\$ (68,652)

A reconciliation of income taxes at the U.S. federal income tax statutory rate to the U.S. effective income tax rate follows:

(In thousands of dollars)	Successor		Predecessor			
	One month ended December 31,		Eleven months ended November 30,		Year ended December 31,	
	2007		2007		2006 2005	
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	0.0		0.1		0.1	(2.1)
Foreign operations	6.9		1.9		(7.7)	(5.1)
Goodwill	(2.8)		0.5		3.9	(10.8)
Losses not benefited	(27.3)		(34.7)		(31.4)	(36.1)
	11.8	%	2.8	%	(0.1)	% (19.1) %

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

(In thousands of dollars)	Successor		Predecessor	
	One month ended December 31,		Year ended December 31,	
	2007		2006	
Deferred income tax assets:				
Restructuring charges	\$	17,342	\$	2,705
Employee benefits		12,621		12,721
Inventories		2,668		3,924
Warranty		13,049		15,400
Alternative minimum tax credits		3,926		3,259
Foreign deferred assets		30,348		38,600
Net operating loss carryforwards		52,667		148,344
Other		47,333		22,871
Total deferred income tax assets		179,954		247,824
Valuation allowance		(124,052)		(237,188)
Deferred income tax assets net of valuation allowance		55,902		10,636
Deferred income tax liabilities:				
Depreciation		(17,879)		(3,466)
Foreign deferred income tax liabilities		(9,506)		(4,124)
Trade names		(23,340)		-
Other		(29,938)		(7,505)
Total deferred income tax liabilities		(80,663)		(15,095)
Net deferred income tax liability	\$	(24,761)	\$	(4,459)

As a result of our emergence from Bankruptcy, we have 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, we recorded a valuation allowance of \$125,426,000 against our net operating loss carryforwards' deferred income tax asset. Any realization of income tax benefits associated with these net operating loss carryforwards prior to January 1, 2009, resulting in a reduction to the established valuation allowance will be adjusted through the goodwill recorded in fresh-start. 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 SFAS No. 141(R).

The consummation of the Bankruptcy plan resulted in the forgiveness of approximately \$346,000,000 of our pre-petition debt and interest subject to compromise. We expect to utilize a substantial portion of our net operating loss carryforwards to offset taxable income generated from such debt forgiveness. As a result of the consummation of the Plan, we anticipate that 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, 2007, we had unused U.S. federal net operating loss carry forwards of approximately \$134,699,000 that expire during 2021 through 2026. We also had unused U.S. alternative minimum tax credit carry forwards of \$3,926,000 that may be carried forward indefinitely. Income tax payments, net of refunds including state taxes, for the one month ended December 31, 2007 were \$912,000, for the eleven months ended November 30, 2007 were \$5,338,000 and for the years ended December 31, 2006, and 2005, were \$4,927,000 and \$2,514,000, respectively.

At December 31, 2007, we had unused foreign net operating loss carryforwards totaling \$98,410,000. Net operating loss carryforwards totaling \$30,994,000 will expire during 2008 through 2012, \$32,334,000 will expire during 2008 through 2027, and carryforwards totaling \$35,082,000 have no expiration.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" (FIN 48), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We adopted FIN 48 as of January 1, 2007, as required. Interest and penalties related to income taxes are recognized as income tax expense for financial reporting purposes. No uncertain tax positions were identified that required a deferred tax liability or a reduction of a deferred tax asset. Hence, no unrecognized tax benefits have been recorded from the cumulative effect of adopting FIN 48 and no adjustment has been made to retained earnings on January 1, 2007. The major income tax jurisdictions we operate in and the last year the relevant tax authorities examined the applicable tax filings are: the U.S., 2004; South Korea, 2003; and Mexico, 2002.

U.S. Federal and state deferred income taxes have not been recorded on undistributed earnings of foreign subsidiaries, other than Korea for which we have provided an insignificant amount, because such earnings are intended to be indefinitely reinvested in these foreign operations. Determination of the deferred tax liability should we remit a portion of these earnings is not feasible because such liability is dependent on the circumstances if a future remittance were to occur.

## **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. As of December 31, 2007, there are 10,489,474 shares issued and outstanding which include the unvested restricted stock discussed below.

### **Restricted Stock**

Effective December 6, 2007, we awarded restricted stock to certain executives. These shares have equal voting power to the common stock shares discussed above, and vest at various rates and are fully vested after five consecutive years from grant date and satisfaction of the terms of the Award Agreement. As shares become vested, the restrictions lift and rights become identical to those of the common shareholders. As of December 31, 2007, there are 489,474 shares of restricted stock issued and outstanding which are unvested.

### **Predecessor Common Stock**

The Predecessor Company's Second Amended and Restated Certificate of Incorporation provided for the issuance of 12,001,000 shares of common stock, divided into three classes consisting of 1,000 shares of Class A Common Stock, 6,000,000 shares of Class B Common Stock and 6,000,000 shares of Class C Common Stock. Under the Second Amended and Restated Certificate of Incorporation, shares of Class A Common Stock were convertible into an equal number of shares of Class B Common Stock. Shares of Class B Common Stock were convertible into an equal number of shares of Class C Common Stock. Shares of Class C Common Stock were convertible into an equal number of shares of Class B Common Stock. In the case of a conversion from Class C Common Stock, which is nonvoting, into Class B Common Stock, which is voting, the holder of shares to be converted would be permitted under applicable law to hold the total number of shares of Class B Common Stock which would be held upon conversion.

As a result of the 2004 reorganization our Class A and Class C Common Stock were converted into the same number of shares of Class B Common Stock. Accordingly, as of December 31, 2006, the Company had an aggregate of 2,503,024.48 shares of Class B Common Stock outstanding, consisting of 1,000.00 shares of converted Class A Common Stock, 16,687.00 shares of converted Class C Common Stock, and 2,485,337.48 shares of Class B Common Stock previously outstanding. All of the outstanding shares were owned by Remy Worldwide Holdings, Inc.

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. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Our other comprehensive income (loss) consists of unrealized net gains and losses on the translation of the assets and liabilities of our foreign operations, currency instruments and interest rate swaps and minimum pension liability adjustments. The before tax income (loss), related income tax effect and accumulated balance are as follows:

(In thousands of dollars)	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Currency Hedges	Employee Benefit Plan Adjustment	Accumulated Other Comprehensive Income (Loss)
Predecessor balances at December 31, 2004	\$ 1,964	\$ 439	\$ (8,206)	\$ (5,803)
Current year amount	(4,684)	497	(441)	(4,628)
Applicable income taxes	-	(99)	-	(99)
Other comprehensive income (loss)	(4,684)	398	(441)	(4,727)
Predecessor balances at December 31, 2005	(2,720)	837	(8,647)	(10,530)
Current year amount	9,323	(510)	1,939	10,752
Applicable income taxes	-	153	-	153
Other comprehensive income (loss)	9,323	(357)	1,939	10,905
Adoption of SFAS No. 158	-	-	977	977
Predecessor balances at December 31, 2006	6,603	480	(5,731)	1,352
Current period amount	5,030	(984)	(1,097)	2,949
Applicable income taxes	-	295	-	295
Other comprehensive income (loss)	5,030	(689)	(1,097)	3,244
Predecessor balances at November 30, 2007	11,633	(209)	(6,828)	4,596
Application of fresh-start reporting	(11,633)	209	6,828	(4,596)
Successor balances at November 30, 2007	-	-	-	-
Amount for the month ended December 31, 2007	(132)	(534)	1,284	618
Applicable income taxes	-	160	-	160
Other comprehensive income (loss)	(132)	(374)	1,284	778
Successor balances at December 31, 2007	\$ (132)	\$ (374)	\$ 1,284	\$ 778

Our total comprehensive income (loss) is as follows:

(In thousands of dollars)	<u>Successor</u>	<u>Predecessor</u>	
	One month ended December 31, 2007	Eleven months ended November 30, 2007	Year ended December 31, 2006      2005
Net income (loss)	\$ (4,537)	\$ 411,629	\$ (122,517)      \$ (96,984)
Other comprehensive income (loss)	778	3,244	10,905      (4,727)
Comprehensive income (loss)	\$ (3,759)	\$ 414,873	\$ (111,612)      \$ (101,711)

## 20. TRANSACTIONS WITH GM

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 the Company 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, extendable indefinitely upon payment of a fixed \$100,000 annual licensing fee to GM. We have also been granted a

perpetual, royalty-free license to use the “Remy” trademark. The “Delco Remy” and “Remy” trademarks are registered in the U.S., Canada and Mexico and in most major markets worldwide. GM has agreed that, upon our request, GM will register the trademarks in any jurisdiction where they are not currently registered.

GM represents our largest customer and accounted for 27% of sales for the eleven months ended November 30, 2007, 26% of sales in 2006, and 26% in 2005. In addition to the transactions disclosed elsewhere in the accompanying consolidated financial statements and related notes, we had accounts receivable from GM of \$36,260,000 and \$35,860,000 at December 31, 2007, and 2006, respectively.

## 21. LEASE COMMITMENTS

We occupy space and use certain equipment under lease arrangements. Rent expense relating to continuing operations totaled \$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, and \$10,555,000 and \$9,749,000 for the years ended December 31, 2006, and 2005, respectively. Rental commitments at December 31, 2007, for long-term noncancellable operating leases consummated as of December 31, 2007 (not reflected as a restructuring reserve) are as follows:

(In thousands of dollars)	
2008	\$ 8,321
2009	7,161
1010	5,394
2011	4,356
2012	2,101
Thereafter	3,694
<u>Total payments</u>	<u>\$ 31,027</u>

## 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.

### *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.

### *HCS Factoring Litigation*

We began litigation in 2006 to recover alleged misappropriations of funds due us under a factoring agreement we had with the defendants. On November 26, 2007, we received a judgment in our favor. The defendants in March 2008 appealed the judgment after posting a surety bond of \$6,000,000. We have recorded a receivable of approximately \$2,500,000, which we believe at this time to be our best estimate of the amount realizable.

### *UAW Litigation*

In 2003, the International Union, United Automobile, Aerospace and Agriculture Implement Workers of America ("UAW") and its Local Union 662 filed suit against us, seeking enforcement of an expired Supplemental Unemployment Benefits plan ("SUB plan"). The plaintiffs alleged that the SUB plan provided supplemental unemployment benefits for 52 weeks and separation pay in an amount exceeding \$20,000,000 for employees who were terminated as a result of the closure in March 2003 of our Anderson, Indiana, production facilities. The plaintiffs also sought to enforce terminated provisions of a health care program. In January 2006, a final settlement agreement and release was entered into by the parties which fully resolved all of the allegations of the complaint. Under the terms of the settlement agreement, we contributed approximately \$5,250,000 to the SUB plan in return for a release of all claims alleged in the lawsuit, including any further obligations to fund the SUB plan. The accompanying consolidated financial statements reflect a restructuring charge recorded in the fourth quarter of 2005 of approximately \$1,525,000 related to this issue. We paid \$5,724,000 in 2006 related to this matter.

### *Import/Export Matters*

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 was paid 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.

### *Franklin Power Products Facility*

In September 2000, one of our former Indiana production facilities received a Finding of Violation and Order for Compliance (the "Order") from the EPA requiring the facility to correct violations of its wastewater discharge permits. We have installed wastewater treatment equipment and are in compliance with the terms of the Order. In July 2004, we entered into an agreement with the U.S. Department of Justice on behalf of the EPA, which tolled the statute of limitations on the EPA's potential claim for penalties. Since that time, we have been cooperating with the EPA by providing additional information and have entered into settlement negotiations with the EPA and the Department of Justice. On April 12, 2006, we reached a settlement with the EPA for \$851,000 which was paid in July 2006. We do not believe we will incur any further significant remediation costs associated with this site.

### *Lease Rejections Under Bankruptcy Proceeding*

In connection with our Bankruptcy proceeding, we rejected the lease on the office facility we rented in Anderson, Indiana. We have accrued for what we believe the landlord is entitled to under the U.S. Bankruptcy Code for such lease rejections (approximately \$1,428,000), and do not believe we will be required to incur any additional material charges.

### *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 trichloroethene (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 have accrued \$1,500,000 in the first eleven months of 2007, which we believe is the best estimate of the total cost associated with this issue.

## **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 following the provisions of SFAS No. 131 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, Poland, Germany, 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. 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:

(In thousands of dollars)	Successor	Predecessor		
	One month ended December 31, 2007	Eleven months ended November 30, 2007	Year ended December 31, 2006      2005	
Net sales to external customers:				
United States	\$ 51,257	\$ 742,491	\$ 886,238	\$ 818,091
International	26,833	308,450	306,846	241,172
<b>Total net sales</b>	<b>\$ 78,090</b>	<b>\$ 1,050,941</b>	<b>\$ 1,193,084</b>	<b>\$ 1,059,263</b>

(In thousands of dollars)	Successor	Predecessor
	December 31, 2007	December 31, 2006
Long-lived assets:		
United States	\$ 473,994	\$ 181,175
International	133,827	142,489
<b>Total long-lived assets</b>	<b>\$ 607,821</b>	<b>\$ 323,664</b>

## 24. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is as follows:

(In thousands of dollars)	Successor	Predecessor		
	One month ended December 31, 2007	Eleven months ended November 30, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Cash paid for interest	\$ 354	\$ 77,495	\$ 77,148	\$ 65,211
Cash paid for income taxes, net of refunds received	912	5,338	4,927	2,514
Detail of acquisitions:				
Fair value of assets acquired	\$ -	\$ -	\$ 2,101	\$ 92,911
Liabilities assumed	-	-	-	(99,837)
Goodwill recorded	-	-	-	64,567
<b>Net cash paid for acquisitions</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,101</b>	<b>\$ 57,641</b>

## 25. RELATED PARTY TRANSACTIONS

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

**Bankruptcy Considerations.** The following discussion provides general background information regarding our Chapter 11 cases.

On October 8, 2007, 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 Court and in accordance with the

applicable provisions of the Bankruptcy Code and orders of the Court. The Debtors' 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"). The Debtors emerged from Bankruptcy protection on December 6, 2007, the Effective Date of the Plan of Reorganization. As such, we were required to adopt 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 as they represented approximately 1.7% of net sales; 1.2% of gross profit, and 1.5% of income before taxes. As such, we 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. Accordingly, 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., the successor parent company, to the Debtors' creditors in full satisfaction of allowed unsecured claims. The Plan of Reorganization contemplated Remy International, Inc. 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 Remy International, Inc.:

- 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 consolidated financial statements in accordance with the American Institute of Certified Public Accountants' Statement of Position 90-7 (SOP 90-7) and on a going-concern basis, which assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business.

SOP 90-7 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:

	Successor	Predecessor
(In thousands of dollars)	One month ended December 31, 2007	Eleven months ended November 30, 2007
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>
	\$ (1,097)	\$ 422,229

- (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.

**DIP Financing.** At November 30, 2007, prior to emergence, the balance outstanding on the First Lien Term Credit Agreement approved under our DIP financing was \$99,956,000. Upon emergence from Chapter 11, the First Lien Credit Agreement was increased to \$151,756,000, net of original issue discounts of \$7,722,000.

**Fresh-Start Reporting.** Upon emergence from Chapter 11 proceedings on December 6, 2007, we adopted fresh-start reporting in accordance with SOP 90-7. 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 SOP 90-7.

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 Statement of Financial Accounting Standards

No. 141, "Business Combinations". 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 Statement of Financial Accounting Standards No. 109, "Accounting for 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 SFAS No. 141, the preliminary allocation of the reorganization value is subject to 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 ends November 30, 2008.

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 SOP 90-7, 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—Implementation of New Financial Accounting Pronouncements".

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
<b>Assets:</b>				
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
Other current assets	6,163	350	-	6,513
<b>Total current assets</b>	<b>421,820</b>	<b>541</b>	<b>2,879</b>	<b>425,240</b>
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
<b>Total Assets</b>	<b>\$ 729,203</b>	<b>\$ (8,475)</b>	<b>\$ 311,558</b>	<b>\$ 1,032,286</b>
<b>Liabilities and Shareholders' Equity:</b>				
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
<b>Total current liabilities</b>	<b>362,398</b>	<b>(20,656)</b>	<b>5,829</b>	<b>347,571</b>
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
<b>Total long-term debt, net of current portion</b>	<b>233,368</b>	<b>101,800</b>	<b>-</b>	<b>335,168</b>
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)	-	-
Minority interest	5,576	-	-	5,576
Preferred stock:				
Class A shares	-	26,500	-	26,500
Class B shares	-	58,800	-	58,800
<b>Shareholders' equity:</b>				
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)	-
<b>Total shareholders' equity</b>	<b>(434,878)</b>	<b>320,904</b>	<b>262,056</b>	<b>148,082</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 729,203</b>	<b>\$ (8,475)</b>	<b>\$ 311,558</b>	<b>\$ 1,032,286</b>

**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. 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. ACQUISITIONS

On March 18, 2005, we acquired substantially all of the assets and assumed certain liabilities of Unit Parts Company (“UPC”). UPC is a major supplier to the automotive aftermarket for new and remanufactured starters and alternators, offering custom branding, packaging and logistics solutions as well as complete engineering and support services. The purchase price consisted of \$55,277,000 in cash, \$1,627,000 in costs and the assumption of approximately \$66,702,000 in liabilities, including approximately \$5,250,000 in exit costs and \$61,452,000 in customer obligations.