

# **Remy International, Inc.**

## **Quarterly Report (Unaudited)**

**For the Six Months Ended June 30, 2008**

The accompanying unaudited consolidated financial statements in this Quarterly Report should be read in conjunction with the consolidated financial statements and notes thereto included in the Remy International, Inc. Annual Report for the year ended December 31, 2007.

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*For the Six Months Ended June 30, 2008*

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

(In thousands of dollars, except share information)	June 30, 2008 (Unaudited)	December 31, 2007
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 20,635	\$ 24,726
Trade accounts receivable (less allowances of \$2,533 and \$2,131)	176,085	147,668
Other receivables	25,369	27,724
Inventories	199,434	189,764
Deferred income taxes	2,887	2,731
Other current assets	5,034	5,341
<b>Total current assets</b>	<b>429,444</b>	<b>397,954</b>
Property, plant and equipment	174,870	167,531
Less accumulated depreciation and amortization	(10,572)	(1,754)
<b>Property, plant and equipment, net</b>	<b>164,298</b>	<b>165,777</b>
Deferred financing costs, net of amortization	3,578	3,931
Intangible assets, net	128,080	132,464
Goodwill, net	274,305	270,742
<b>Other noncurrent assets</b>	<b>34,692</b>	<b>34,907</b>
<b>Total assets</b>	<b>\$ 1,034,397</b>	<b>\$ 1,005,775</b>
<b>Liabilities and Shareholders' Equity:</b>		
Current liabilities:		
Short-term debt	\$ 23,177	\$ 22,066
Accounts payable	156,767	144,577
Accrued interest	2,075	3,878
Accrued restructuring	821	1,641
Other current liabilities and accrued expenses	135,546	146,109
Current maturities of long-term debt	4,769	6,149
<b>Total current liabilities</b>	<b>323,155</b>	<b>324,420</b>
Long-term debt, less current maturities:		
Senior Secured Revolver Credit Agreement	63,898	31,957
Senior Secured First Lien Credit Agreement	148,645	150,226
Second Lien Credit Agreement	49,532	49,504
Third-Priority Floating Secured PIK Notes	109,563	100,000
Capital leases	2,838	1,377
Foreign and other debt	764	6,460
<b>Total long-term debt, net of current maturities</b>	<b>375,240</b>	<b>339,524</b>
Postretirement benefits other than pensions	15,676	14,508
Accrued pension benefits	5,747	5,668
Deferred income taxes	28,643	27,492
Other noncurrent liabilities	51,434	58,779
Minority interest	7,059	5,761
Preferred stock:		
Class A shares, 27,000 shares issued and outstanding	30,393	26,971
Class B shares, 60,000 shares issued and outstanding	67,451	59,848
<b>Shareholders' equity:</b>		
Common stock, Par value of \$.0001; 20,000,000 shares authorized; Issued: at June 30, 2008, 10,619,864 shares; at December 31, 2007, 10,489,474 shares	1	1
Additional paid-in capital	149,063	148,081
Accumulated deficit	(20,774)	(6,056)
Accumulated other comprehensive income	1,309	778
<b>Total shareholders' equity</b>	<b>129,599</b>	<b>142,804</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,034,397</b>	<b>\$ 1,005,775</b>

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

(Unaudited)

(In thousands of dollars)	<u>Successor</u> <u>Predecessor</u>		<u>Successor</u> <u>Predecessor</u>	
	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
<b>Net Sales</b>	\$ 297,673	\$ 289,984	\$ 598,756	\$ 574,647
Cost of goods sold	248,536	255,833	505,668	501,447
Gross profit	49,137	34,151	93,088	73,200
Selling, general and administrative expenses	27,604	27,501	58,549	58,194
Loss on sales of accounts receivable	1,990	2,719	3,624	5,525
Prepetition debt restructuring expenses	-	9,923	-	16,441
Reorganization items	1,548	-	2,681	-
Restructuring and other charges	646	778	948	1,335
<b>Operating Income (Loss)</b>	17,349	(6,770)	27,286	(8,295)
Other income	(2,223)	-	(2,223)	-
Interest expense	12,107	20,774	24,353	41,120
Income (loss) from continuing operations before income taxes, minority interest and income from unconsolidated subsidiaries	7,465	(27,544)	5,156	(49,415)
Income tax expense	4,062	1,902	7,945	4,188
Minority interest	482	273	904	511
Income from unconsolidated subsidiaries	-	(77)	-	(152)
Net income (loss) from continuing operations	2,921	(29,642)	(3,693)	(53,962)
Discontinued operations:				
Income from discontinued operations, net of tax	-	1,075	-	2,487
Gain (loss) on disposal of discontinued operations, net of tax	-	(621)	-	95,757
Net income from discontinued operations, net of tax	-	454	-	98,244
<b>Net Income (Loss)</b>	2,921	(29,188)	(3,693)	44,282
Preferred stock dividends	(5,398)	-	(11,025)	-
Net (loss) income attributable to common shareholders	\$ (2,477)	\$ (29,188)	\$ (14,718)	\$ 44,282

See accompanying notes to consolidated financial statements.

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

(Unaudited)

(In thousands of dollars)	<u>Successor</u> <u>Predecessor</u>	
	Six months ended	
	June 30,	
	2008	2007
<b>Cash Flows from Operating Activities:</b>		
Net loss from continuing operations	\$ (3,693)	\$ (53,962)
Adjustments to reconcile net loss to cash used in operating activities from continuing operations:		
Depreciation and amortization	12,850	15,755
Amortization of debt issuance costs	352	2,586
Noncash compensation expense	591	-
Gain on extinguishment of unsecured debt	(1,468)	-
Gain on sale of assets	(754)	-
Interest on PIK notes	8,389	-
Minority interest and income from unconsolidated subsidiaries, net	904	359
Deferred income taxes	995	705
Accrued pension and post-retirement benefits, net	1,247	(3,573)
Restructuring and other charges	948	913
Cash payments for restructuring charges	(1,768)	(2,443)
Changes in operating assets and liabilities, net of acquisitions and restructuring charges:		
Accounts receivable	(26,062)	(6,139)
Inventories	(14,514)	(12,371)
Accounts payable	12,189	(20,754)
Other current assets and liabilities, net	(11,067)	7,316
Other noncurrent assets, liabilities, and other	(4,185)	(8,854)
Net cash used in operating activities of continuing operations	(25,046)	(80,462)
<b>Cash Flows from Investing Activities:</b>		
Net proceeds on sale of assets and businesses	5,139	153,985
Purchases of property, plant and equipment	(8,920)	(6,345)
Net cash (used in) provided by investing activities of continuing operations	(3,781)	147,640
<b>Cash Flows from Financing Activities:</b>		
Change in short-term debt and revolver	30,484	84,021
Payments made on long-term debt, including capital leases	(7,246)	(95,760)
Sale of common stock	391	-
Deferred financing costs	-	(1,805)
Funding in restricted escrow account	-	(53,213)
Net cash provided by (used in) financing activities of continuing operations	23,629	(66,757)
<b>Cash Flows from Discontinued Operations:</b>		
Operating activities	-	(5,483)
Investing activities	-	(832)
Financing activities	-	(2,503)
Net cash used in discontinued operations	-	(8,818)
Effect of exchange rate changes on cash and cash equivalents	1,107	464
Net decrease in cash and cash equivalents	(4,091)	(7,933)
Cash and cash equivalents at beginning of period	24,726	28,378
Cash and cash equivalents at end of period	\$ 20,635	\$ 20,445

See accompanying notes to consolidated financial statements.

## **Remy International, Inc.**

### **Notes to Consolidated Financial Statements** (Unaudited)

#### **1. Basis of Presentation**

*Interim Consolidated Financial Statements:* The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information. Accordingly, certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted. These statements include all adjustments (consisting of normal recurring adjustments) that management believes are necessary to present fairly our financial position, results of operations, and cash flows. We believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with the consolidated financial statements and the notes thereto included in the Remy International, Inc., Annual Report for the year ended December 31, 2007.

Operating results for the six month period ended June 30, 2008, are not necessarily indicative of the results that may be expected for the full year.

*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.

#### **2. Business, Industry, General Economic Conditions and Liquidity**

Remy International, Inc. and subsidiaries (collectively referred to as “Successor Company”, “Successor”, “we”, “our”, and “us”) 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 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, 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 the 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.

## **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 consolidated 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”). 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”). An Order and Final Decree was entered in the case by the Bankruptcy Court on June 26, 2008. As part of our Plan of Reorganization, Remy Worldwide Holdings, Inc. was liquidated into Remy International, Inc. with no material impact to the amounts reflected in the accompanying consolidated financial statements.

We emerged from bankruptcy effective December 6, 2007. Accordingly, we have stated our assets and liabilities upon emergence 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 consolidated financial statements are basically those of a different enterprise, and are not comparable to Predecessor’s prior consolidated financial statements.

The financial consolidated statements presented herein for the six month period ended June 30, 2008, are those of the Successor Company. All other financial statements dated prior to December 1, 2007, are those of the Predecessor Company.

## **Liquidity**

In connection with our emergence from bankruptcy on December 6, 2007, 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.

### **3. Summary of Significant Accounting Policies**

#### **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 consolidated 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. 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 customer's 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 recognize 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.

### **Cash and Cash Equivalents**

All unrestricted 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.

### **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 consolidated statements of operations as a loss on sales of accounts receivable. The amounts sold at June 30, 2008, and December 31, 2007, were \$143,835,000 and \$148,066,000, respectively. Any change in the availability of these factoring arrangements could have a material adverse effect on our financial condition.

## **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 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” (SFAS No. 144). 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 June 30, 2008, and 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 required by SOP 90-7. 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.

Definite-lived intangible assets primarily represent assets existing at the date of our emergence from bankruptcy and have been stated at estimated fair value in accordance with SOP 90-7. The values of other intangible assets, with determinable useful lives, are amortized on an accelerated basis to reflect the pattern of economic benefit consumed. Prior to the application of SOP 90-7, 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 annual exchange rate for revenue and expenses. Translation adjustments are recorded as a separate component of shareholders' equity and reflected in other comprehensive income (loss). 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, using quoted prices in active markets for identical instruments, 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, "Accounting for Derivative Instruments and Hedging Activities," as amended (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 was not material for all periods presented. Derivatives not designated as hedges are adjusted to fair value through the consolidated statements of operations.

At June 30, 2008, we had outstanding foreign exchange forward contracts with a notional amount of \$54,754,000 and a negative fair value of \$5,110,000, which is reflected in other current liabilities. At December 31, 2007, we had outstanding foreign exchange forward contracts with a notional amount of \$46,205,000 and a negative fair value of \$941,000, which is reflected in other current liabilities.

### **Interest Rate Hedging**

In February 2008, we entered into two interest rate swap agreements with individual notional amounts of \$50,000,000 each that will hedge the variability of interest payments associated with our variable rate loans under our Exit Facilities beginning June 13, 2008. These agreements expire on June 13, 2011. Through these two swap agreements, we have fixed our interest rate at 3.38% on \$100,000,000 outstanding under our First and Second Lien Term Loan borrowings. Additionally, we have entered into zero cost collar contracts that have a cap interest rate of 3.34% with a floor interest rate of 2.91% on \$100,000,000 of our First Lien Term Loan borrowings that expire on February 14, 2011. Since the interest rate swaps and the collar hedge the variability of interest on variable rate debt with the same terms, they qualify for cash flow hedge accounting treatment. At June 30, 2008, the interest rate swaps and interest collar agreements had an aggregate market value of \$2,556,000 which is reflected in other comprehensive income as a gain on cash flow hedges with the corresponding asset being recorded in other current assets.

### **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 such hedges were in place at June 30, 2008, or at December 31, 2007.

### **Commodity Purchases**

We purchase certain commodities during the normal course of business which result in physical delivery and are excluded from SFAS No. 133.

### **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, which are charged to cost of goods sold, 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 June 30, 2008, and December 31, 2007.

## **Income Taxes**

We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" (SFAS No. 109), 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 current and former 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 traded company, and accordingly we do not present earnings per share information.

#### **4. Recently Issued Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (SFAS No. 141(R)). 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” (SFAS No. 160), 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 statements of operations is presented, thus requiring consolidated net income or loss 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. SFAS No. 160 will impact our future accounting for minority interest.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (SFAS No. 161), which requires enhanced disclosures about an entity’s derivative and hedging activities and thereby improves the transparency of financial reporting. The Statement is effective prospectively for fiscal years beginning after November 15, 2008. The application of SFAS No. 161 will impact future disclosures about our derivative and hedging activities.

On April 25, 2008, the FASB issued FASB Staff Position (FSP) No. FAS 142-3, “Determination of the Useful Life of Intangible Assets” (FSP 142-3). FSP 142-3 aims to improve consistency between the useful life of a recognized intangible asset under SFAS No. 142, “Goodwill and Other Intangible Assets” and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (R), especially where the underlying arrangement includes renewal or extension terms. FSP 142-3 is effective prospectively for fiscal years beginning after December 15, 2008. We are currently evaluating the impact this statement will have on our consolidated financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles,” (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. The current GAAP hierarchy described in the American Institute of Certified Public Accountants Statement on Auditing Standards No. 69, “The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles,” (“SAS No. 69”) has been criticized as it is directed to the auditor instead of the entity and is complex. The FASB issued SFAS No. 162 to address the issues surrounding SAS No. 69 and to maintain the GAAP hierarchy in accounting literature established by the FASB. SFAS No. 162 is effective 60 days following the Securities and Exchange Commission’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.” We do not expect the adoption of SFAS No. 162 to have a material impact on our consolidated financial position or results of operations.

## 5. Inventories

Inventories consist of the following:

(In thousands of dollars)	June 30, 2008	December 31, 2007
Raw materials	\$ 87,482	\$ 99,930
Work-in-process	8,859	4,934
Finished goods	103,093	84,900
	<u>\$ 199,434</u>	<u>\$ 189,764</u>

## 6. Intangible Assets

Intangible assets consist of the following:

(In thousands of dollars)	June 30, 2008			December 31, 2007		
	Carrying Value	Accumulated Amortization	Net	Carrying Value	Accumulated Amortization	Net
<b>Definite-life intangible assets:</b>						
Intellectual property	\$ 9,000	\$ 1,083	\$ 7,917	\$ 9,000	\$ 121	\$ 8,879
Customer relationships	35,500	2,030	33,470	35,500	263	35,237
Customer contracts	30,459	3,466	26,993	29,100	452	28,648
Total	<u>\$ 74,959</u>	<u>\$ 6,579</u>	<u>\$ 68,380</u>	<u>\$ 73,600</u>	<u>\$ 836</u>	<u>\$ 72,764</u>
<b>Indefinite-life intangible assets:</b>						
Trade names	59,700	-	59,700	59,700	-	59,700
Intangible assets, net	<u>\$ 134,659</u>	<u>\$ 6,579</u>	<u>\$ 128,080</u>	<u>\$ 133,300</u>	<u>\$ 836</u>	<u>\$ 132,464</u>

The definite-life intangible assets are being amortized under accelerated methods to reflect the pattern of economic benefit consumed.

We perform impairment testing annually or more frequently when events or circumstances indicate that the carrying amount of the above intangibles may be impaired.

## 7. Other Noncurrent Assets

Other noncurrent assets consist of the following:

(In thousands of dollars)	June 30, 2008	December 31, 2007
Core return rights	\$ 24,795	\$ 24,794
Investment in unconsolidated subsidiary	151	151
Security deposits on Mexican leases	3,367	5,121
Interest rate swaps and collar	2,556	-
Deposits and other	3,823	4,841
	<u>\$ 34,692</u>	<u>\$ 34,907</u>

## 8. Other Current Liabilities and Accrued Expenses

Other current liabilities and accrued expenses consist of the following:

(In thousands of dollars)	June 30, 2008	December 31, 2007
Accrued warranty	\$ 31,950	\$ 35,654
Accrued wages and benefits	25,147	26,860
Current portion of customer obligations	14,844	17,654
Rebates, stocklifts, discounts and returns	11,256	10,173
Taxes other than income	8,466	8,972
Current portion of fair value of contract obligations	8,000	8,000
Accrued core liability	7,155	9,159
Unrealized exchange loss	5,110	941
Accrued freight	4,525	5,960
Accrued legal and audit fees	4,215	7,138
Accrued lease termination costs	1,860	1,428
Accrued tooling and other suppliers costs	1,500	1,843
Accrued current environmental costs	1,450	1,500
Accrued customs and duties	987	1,019
Other	9,081	9,808
	\$ 135,546	\$ 146,109

## 9. Warranty

We provide an allowance for the estimated future cost of product warranties and other defective product returns 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, which are charged to cost of goods sold, may be required. The specific terms and conditions of the warranties vary depending upon the customer and the product sold. Our warranty liability is reflected in other current liabilities and accrued expenses in the accompanying consolidated balance sheets. Changes to the warranty liability, excluding discontinued operations, are summarized as follows:

(In thousands of dollars)	<u>Successor</u> <u>Predecessor</u>		<u>Successor</u> <u>Predecessor</u>	
	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Balance at beginning of period	\$ 34,318	\$ 40,061	\$ 35,654	\$ 41,156
Provision for warranty	8,575	12,646	22,792	27,072
Payments and charges against the accrual	(10,943)	(14,646)	(26,496)	(30,167)
Balance at end of period	\$ 31,950	\$ 38,061	\$ 31,950	\$ 38,061

## 10. Other Noncurrent Liabilities

Other noncurrent liabilities, net of current portion, consist of the following:

(In thousands of dollars)	June 30, 2008	December 31, 2007
Customer obligations	\$ 24,731	\$ 27,317
Fair value of contract obligations, net of amortization	19,570	23,403
U.S. Customs obligation	4,839	5,809
Other	2,294	2,250
	\$ 51,434	\$ 58,779

## 11. Discontinued Operations

Selected financial information for discontinued operations is as follows:

(In thousands of dollars)	<u>Successor</u> <u>Predecessor</u>		<u>Successor</u> <u>Predecessor</u>	
	Three months ended		Six months ended	
	June 30,		June 30,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net sales	\$ -	\$ 16,107	\$ -	\$ 45,237
Interest expense	-	-	-	882
Net income (loss)	-	1,075	-	2,487

We have disposed of various noncore businesses to focus our resources on core operations. In February 2007, we completed the sale of substantially all assets and certain liabilities of our Diesel Business to Caterpillar, Inc. and Caterpillar Reman Acquisition LLC (“CAT”). We recorded initial net cash proceeds of \$153,200,000, a receivable of \$4,481,000, and a gain of \$96,332,000, net of income taxes and deal-related costs, that were subject to post-closing adjustments. An additional gain of \$48,000 related to other discontinued operations was recorded in the six months ended June 30, 2007.

In the fourth quarter of 2007, we sold substantially all of the assets of M. & M. Knopf Auto Parts, L.L.C. (“Knopf”), a wholly-owned subsidiary.

The operating results, balance sheets and cash flows of the Diesel Business and M. & M. Knopf Auto Parts have been classified as discontinued operations in the accompanying consolidated financial statements.

## 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. 146), “Employers’ Accounting for Postemployment Benefits” (SFAS No. 112) and the Emerging Issues Task Force (“EITF”) “Issue 95-03, Recognition of Liabilities in Connection with a Purchase Business Combination” (EITF 95-03). Other charges primarily represent equipment impairment charges under SFAS No. 144.

Total restructuring and other charges of \$948,000 were recorded during the first six months of 2008. These charges consisted of employee termination benefits of \$371,000 and lease termination costs and other exit costs of \$577,000. The charges mainly related to the consolidation of original equipment facilities in Mexico and electrical aftermarket facilities in the U.S., along with further consolidation of excess office and storage facilities. The remaining restructuring accrual as of June 30, 2008, is \$821,000, and is expected to be paid within one year.

Total restructuring and other charges of \$1,335,000 were recorded during the first six months of 2007. These charges consisted of employee termination benefits of \$781,000, and lease termination costs of \$554,000. These charges mainly related to the closure of two facilities in our remanufacturing operations and an electrical aftermarket facility.

The following table summarizes the activity in our accrual for restructuring for the six months ended June 30:

<b>Successor 2008</b> (in thousands of dollars)	Termination Benefits	Exit Costs	Total
Accrual at December 31, 2007	\$ 1,391	\$ 250	\$ 1,641
Provision	371	577	948
Payments	(1,141)	(627)	(1,768)
Accrual at June 30, 2008	\$ 621	\$ 200	\$ 821

<b>Predecessor 2007</b> (in thousands of dollars)	Termination Benefits	Exit Costs	Total
Accrual at December 31, 2006	\$ 2,453	\$ 1,612	\$ 4,065
Provision	781	554	1,335
Payments	(2,028)	(415)	(2,443)
Accrual at June 30, 2007	\$ 1,206	\$ 1,751	\$ 2,957

### 13. Debt

Borrowings under long-term debt arrangements, net of original issue discounts, consist of the following:

(In thousands of dollars)	Successor	
	June 30, 2008	December 31, 2007
Senior Secured Revolving Credit Agreement - <i>Maturity date of December 6, 2012</i>	\$ 63,898	\$ 31,957
Senior Secured First Lien Credit Agreement - <i>Maturity date of December 6, 2013</i>	150,245	151,826
Second Lien Credit Agreement - <i>Maturity date of June 6, 2014</i>	49,532	49,504
Third-Priority Floating Rate Secured PIK Notes - <i>Maturity date of December 1, 2014</i>	109,563	100,000
Total Senior Credit Facility and Notes	\$ 373,238	\$ 333,287
Other debt	1,702	8,611
Capital leases	5,069	3,775
Less current maturities	(4,769)	(6,149)
Long-term debt less current maturities	\$ 375,240	\$ 339,524

Under our current Credit Facilities we have available credit of up to \$327,429,000, comprised of a \$120,000,000 Senior Secured Revolving Credit Agreement, a \$157,429,000 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 available borrowing, 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 June 30, 2008, the borrowing rate was 5.40%. Based upon the collateral supporting the revolving credit agreement, the amount borrowed, and the outstanding letters of credit of \$7,800,000, there was additional available borrowing of \$22,805,000 as of June 30, 2008. This credit agreement matures on December 6, 2012.

The First Lien Credit Agreement is secured by substantially all assets and certain common stock of our wholly-owned subsidiaries. The loan bears interest at a defined Index Rate plus 4.5% per annum or, at our election, 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 June 30, 2008, the average borrowing rate was 8.23%.

The Second Lien Credit Agreement is secured by substantially all assets and certain common stock of our wholly-owned subsidiaries. The loan bears interest at a defined Index Rate plus 7.5% per annum or, at

our election, of the applicable LIBOR Rate plus 8.5% per annum. The Agreement is payable in full on June 6, 2014. At June 30, 2008, the borrowing rate was 11.29%.

In February 2008, 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 total notional amount of the interest rate swaps was \$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 contracts 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 semiannually for cash interest at LIBOR plus 9.5%, or as additional PIK securities at LIBOR plus 12.0%. At June 30, 2008, the PIK borrowing rate was 14.90%. We intend to pay the current accrued interest by issuing PIK Notes, and have accordingly reflected it in the amount of PIK Notes outstanding at June 30, 2008.

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 June 30, 2008. Our debt covenants include certain earnings requirements, capital expenditure limits and liquidity ratios. Dividends and additional borrowings are limited under the covenants.

### **Short-Term Debt**

We have revolving credit facilities with six Korean banks with a total facility amount of approximately \$21,564,000 at average annual interest rates of 6.29%. In Hungary, there are revolving credit facilities with two banks for \$7,662,000 at average interest rates of 5.75%. Also, in Belgium we have revolving loans with two banks for \$5,991,000 at average annual interest rates of 6.50%. In Brazil, we have a credit line for \$5,400,000 at annual rate of interest of approximately 15.00%. At June 30, 2008, and December 31, 2007, we have borrowed \$23,177,000 and \$22,066,000, respectively, 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, "Accounting for Sales of Real Estate," and SFAS No. 98, "Accounting for Leases: Sales-Leaseback Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases—an amendment of FASB Statements No. 13, 66, and 91 and a rescission of FASB Statement No. 26 and Technical Bulletin No. 79-11." Accordingly, an obligation of \$15,722,000 was recorded relative to these transactions. The obligation at June 30, 2008, and December 31, 2007, was \$2,088,000 and \$4,299,000, respectively.

## **Capital Leases**

Capital leases have been capitalized using nominal interest rates ranging from 7.00% to 15.1%. We had assets under capital leases of approximately \$4,643,000 at June 30, 2008, and \$2,843,000 at December 31, 2007, net of accumulated amortization.

## **14. Other Income**

On June 2, 2008, Remy Automotive Europe (“Remy Europe”), a wholly-owned subsidiary of the Successor Company, and Cardone Industries, Inc. (“Cardone”), entered into an agreement whereby Remy Europe sold three plants in the United Kingdom which manufactured and remanufactured the Multiline product group. As a result of the sale, Cardone acquired the employees, production equipment, and inventory related to the three plants. Cardone will supply Remy Europe with its demands for Multiline products to allow Remy Europe to continue to sell the products to its existing customer base. This transaction does not qualify for discontinued operations treatment as defined in SFAS No. 144. The total net carrying value of the assets sold was \$4,941,000 and consisted of \$4,017,000 of inventory and \$924,000 of fixed assets. Liabilities with a carrying value of \$556,000 were also assumed by Cardone in conjunction with the sale. Proceeds of the sale totaled \$5,139,000 and resulted in a gain of \$754,000, which is recorded in other income from continuing operations in the consolidated statement of operations for the six months ended June 30, 2008.

On November 18, 2005, we issued promissory notes totaling \$4,500,000 due October 31, 2015, to the owners of an Anderson, Indiana, building that we were obligated to under a capital lease that we terminated. On August 31, 2007, these notes were amended to allow us to prepay the outstanding principal at a 40% discount if paid on or before June 30, 2008. We paid the remaining balance on notes prior to June 30, 2008, resulting in a gain of \$1,469,000, which is recorded in other income from continuing operations in the consolidated statement of operations for the six months ended June 30, 2008.

## **15. Income Taxes**

Income tax expense of \$7,945,000 relating to continuing operations for the first six months ending June 30, 2008, consisted of deferred U.S. federal tax of \$837,000 relating to goodwill amortization, domestic state and local income taxes of \$309,000, and taxes in various foreign jurisdictions of \$6,799,000. Income tax expense of \$4,188,000 relating to continuing operations for the six months ended June 30, 2007 consisted of deferred U.S. federal tax of \$840,000 relating to goodwill amortization, domestic state and local taxes of \$349,000 and taxes in various foreign jurisdictions of \$2,999,000. Income tax expense relating to discontinued operations for the six months ended June 30, 2007, was Federal Alternative Minimum Tax of \$1,196,000 and domestic state and local income taxes of \$204,000 relating to the gain on the Diesel Business sale. In accordance with SFAS No. 109, we established a valuation allowance for our domestic U.S. income tax assets amounting to \$106,524,000 at June 30, 2008, of which \$2,435,000 pertains to the first six months of 2008. The provision for income taxes for the first six months of 2008 differs from the U.S. Federal Statutory Income Tax rate primarily due to this valuation adjustment and \$2,870,000 of permanent nondeductible expenses.

Domestic and international income (loss) from continuing operations before income taxes, minority interest, and income (loss) from unconsolidated subsidiaries was:

(In thousands of dollars)	<u>Successor</u> <u>Predecessor</u>	
	Six months ended	
	June 30,	
	2008	2007
Domestic	\$ (15,159)	\$ (53,995)
International	20,315	4,580
Total	\$ 5,156	\$ (49,415)

Given the liquidity environment we operate in, there could be certain matters that arise outside our control, which could limit the availability of net operating loss carryforwards to offset taxable income. For the six months ended June 30, 2007, the gain on the sale of the Diesel business assumes that currently existing net operating loss carryforwards will remain available to offset the 2007 taxable gain resulting from this sale.

We or our subsidiaries file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, we are no longer subject to non-U.S. income tax examinations by tax authorities for years before 2003. We have tax attributes carried forward in the U.S. and various states that were generated beginning in 2001. These tax years remain subject to examination until the tax attributes are utilized; however, we are not subject to examination for years before 2002.

## 16. Employee Benefit Plans

The components of expense for the plans are as follows:

### Pension Benefits:

Components of Expense (in thousands of dollars)	<u>Successor</u> <u>Predecessor</u>		<u>Successor</u> <u>Predecessor</u>	
	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Service costs	\$ 64	\$ 75	\$ 129	\$ 149
Interest costs	678	664	1,355	1,328
Expected return on plan assets	(664)	(614)	(1,329)	(1,228)
Amortization of prior service cost	-	57	-	114
Recognized net actuarial loss	-	37	-	75
Net periodic pension cost	\$ 78	\$ 219	\$ 155	\$ 438

### Postretirement Health Care and Life Insurance Plans:

Components of Expense (in thousands of dollars)	<u>Successor</u> <u>Predecessor</u>		<u>Successor</u> <u>Predecessor</u>	
	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Interest costs	\$ 299	\$ 254	\$ 598	\$ 508
Amortization of prior service cost	-	(222)	-	(445)
Recognized net actuarial loss	7	77	14	153
Net periodic pension cost	\$ 306	\$ 109	\$ 612	\$ 216

## Cash Flows – Employee Benefit Plans

We contributed \$341,000 and \$3,925,000 to our pension plans in the first six months of 2008, and 2007, respectively. The postretirement health care plan is funded as benefits are paid. We expect to contribute a total of \$737,000 to our U.S. pension plans in 2008.

## 17. Other Comprehensive (Loss) Income

Our comprehensive (loss) income was as follows:

	<u>Successor</u>	<u>Predecessor</u>
	Three months ended	
	June 30,	
(In thousands of dollars)	2008	2007
Net income (loss)	\$ 2,921	\$ (29,188)
Foreign currency translation adjustments	40	2,050
Currency forward contracts, net of tax	(1,207)	359
Interest rate swaps and collar contract	5,329	-
Employee benefit plans	(21)	-
Comprehensive income (loss)	\$ 7,062	\$ (26,779)

	<u>Successor</u>	<u>Predecessor</u>
	Six months ended	
	June 30,	
(In thousands of dollars)	2008	2007
Net (loss) income	\$ (3,693)	\$ 44,282
Foreign currency translation adjustments	573	1,961
Currency forward contracts, net of tax	(2,584)	(565)
Interest rate swaps and collar contract	2,556	-
Employee benefit plans	(14)	-
Comprehensive (loss) income	\$ (3,162)	\$ 45,678

## 18. Stock-Based Compensation

In connection with our emergence from bankruptcy on December 6, 2007, our executive officers received restricted stock awards of common shares in the Successor Company at no cost to them. An additional award was made on April 30, 2008 to certain other key employees. Both of the awards will vest at 12% on each of the first three years' anniversaries of the grant date, and 32% each on the fourth and fifth anniversaries, based upon the executive remaining an employee. Additionally, there is a change of control provision in the awards. As a nonpublic company, there is not an active viable market for our common stock; accordingly, we used a calculated value of \$11.55 and \$8.00 on a per share basis to determine the value of the awards related to the December 6, 2007, grant and April 30, 2008, grant, respectively. 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 the awards for the six months ended June 30, 2008, was \$591,000.

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.

## 19. 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 components 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, "Disclosures about Segments of an Enterprise and Related Information," 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 multinational 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 consolidated 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.

Net sales to external customers were as follows:

	<u>Successor</u>	<u>Predecessor</u>
	Six months ended	
	June 30,	
(In thousands of dollars)	<u>2008</u>	<u>2007</u>
United States	\$ 402,016	\$ 410,786
International	196,740	163,861
Total net sales	\$ 598,756	\$ 574,647

## 20. 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 consolidated 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 consolidated financial position.

### *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.

### *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 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. We made the initial payments of \$500,000 and \$970,000 in October 2007 and June 2008, respectively.

### *Lease Rejections Under Bankruptcy Proceeding*

In connection with our bankruptcy proceeding, we rejected the lease on our former headquarters office facility we rented in Anderson, Indiana. At December 31, 2007, we accrued for what we believed the landlord was entitled to under the U.S. Bankruptcy Code for such lease rejections (approximately \$1,428,000). In June 2008, a final settlement was reached whereby we would pay a total of \$2,000,000 in three quarterly installments commencing July 15, 2008, with the final payment due January 15, 2009. The \$572,000 increase in the accrual was recorded in reorganization items in the consolidated statement of operations for the six months ended June 30, 2008.

### *Grissom Air Force Base Environmental Issue*

We have been notified by the United States Department of Justice (DOJ) that they are seeking reimbursement from us on behalf of the United States Air Force of a maximum of fifty-percent (50%) of the costs incurred to date and future costs to cleanup 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 recorded an environmental liability accrual of \$1,500,000 in November 2007 for this contingency, which we believe is the best estimate of the total cost associated with this issue.

## **21. 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 us and GM, GM granted us an exclusive license to use the "Delco Remy" trademark on and in connection with automotive starters and heavy-duty starters and alternators initially until July 31, 2004, 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 is estimated to account for approximately 25% of our 2008 revenue.