

# **Remy International, Inc.**

## **Quarterly Report (Unaudited)**

**For the Six Months Ended June 30, 2009**

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, 2008.

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*For the Six Months Ended June 30, 2009*

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

(In thousands of dollars, except share information)	June 30, 2009	December 31, 2008
	(Unaudited)	
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 25,191	\$ 18,744
Trade accounts receivable (less allowances of \$3,081 and \$4,642)	133,466	129,029
Other receivables	14,778	25,601
Inventories	137,217	173,246
Deferred income taxes	3,486	4,696
Assets held for sale	-	6,000
Other current assets	7,335	3,930
<b>Total current assets</b>	<b>321,473</b>	<b>361,246</b>
Property, plant and equipment	164,084	158,958
Less accumulated depreciation and amortization	28,858	18,947
<b>Property, plant and equipment, net</b>	<b>135,226</b>	<b>140,011</b>
Deferred financing costs, net of amortization	2,875	3,227
Goodwill	272,580	272,580
Intangibles, net	140,981	124,706
Other noncurrent assets	28,685	27,447
<b>Total assets</b>	<b>\$ 901,820</b>	<b>\$ 929,217</b>
<b>Liabilities and Equity:</b>		
Current liabilities:		
Short-term debt	\$ 24,605	\$ 23,335
Accounts payable	109,083	109,927
Accrued interest	1,323	1,626
Accrued restructuring	3,879	6,923
Other current liabilities and accrued expenses	104,677	121,089
Current maturities of long-term debt	2,887	28,456
<b>Total current liabilities</b>	<b>246,454</b>	<b>291,356</b>
Long-term debt, less current maturities:		
Senior Secured Revolver Credit Agreement	29,029	26,155
First Lien Credit Agreement	148,064	148,340
Second Lien Credit Agreement	49,592	49,561
Third-Priority Floating Secured PIK Notes	126,146	117,709
Capital leases	2,969	2,952
Other debt	238	416
<b>Total long-term debt, net of current maturities</b>	<b>356,038</b>	<b>345,133</b>
Postretirement benefits other than pensions	5,954	5,261
Accrued pension benefits	21,422	20,949
Deferred income taxes	28,515	27,476
Other noncurrent liabilities	45,610	47,627
Preferred stock:		
Class A shares, 27,000 shares issued and outstanding	37,969	34,154
Class B shares, 60,000 shares issued and outstanding	84,286	75,810
<b>Equity:</b>		
Remy International, Inc. shareholders' equity:		
Common stock, Par value of \$.0001; 20,000,000 shares authorized; 10,667,809 shares issued	1	1
Additional paid-in capital	113,867	125,217
Accumulated deficit	(8,385)	(10,313)
Accumulated other comprehensive loss	(36,402)	(39,874)
<b>Total Remy International, Inc. shareholders' equity</b>	<b>69,081</b>	<b>75,031</b>
Noncontrolling interest	6,491	6,420
<b>Total equity</b>	<b>75,572</b>	<b>81,451</b>
<b>Total liabilities and equity</b>	<b>\$ 901,820</b>	<b>\$ 929,217</b>

*See accompanying notes to consolidated financial statements.*

**Remy International, Inc.**  
**Consolidated Statements of Operations**  
(Unaudited)

(In thousands of dollars)	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
<b>Net Sales</b>	\$ 233,970	\$ 297,673	\$ 446,392	\$ 598,756
Cost of goods sold	181,049	248,536	360,811	505,668
Gross profit	52,921	49,137	85,581	93,088
Selling, general and administrative expenses	24,049	27,604	47,477	58,549
Loss on sales of accounts receivable	2,354	1,990	4,235	3,624
Reorganization items	-	1,548	-	2,681
Restructuring and other charges	3,692	646	5,025	948
<b>Operating income</b>	22,826	17,349	28,844	27,286
Other income	-	2,223	-	2,223
Interest expense	10,397	12,107	21,351	24,353
Income before income taxes	12,429	7,465	7,493	5,156
Income tax expense	2,271	4,062	4,062	7,945
Net income (loss)	10,158	3,403	3,431	(2,789)
Less net income attributable to noncontrolling interest	904	482	1,503	904
<b>Net income (loss) attributable to Remy International, Inc.</b>	9,254	2,921	1,928	(3,693)
Preferred stock dividends	(6,307)	(5,398)	(12,291)	(11,025)
Net income (loss) attributable to common shareholders	\$ 2,947	\$ (2,477)	\$ (10,363)	\$ (14,718)

*See accompanying notes to consolidated financial statements.*

**Remy International, Inc.**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

(In thousands of dollars)	Six months ended June 30,	
	2009	2008
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$ 3,431	\$ (2,789)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation and amortization	17,538	12,850
Amortization of debt issuance costs	352	352
Noncash compensation expense	941	591
Gain on cancellation of interest rate swaps	(225)	-
Gain on extinguishment of unsecured debt	(1,356)	(1,468)
Gain on sale of assets	-	(754)
Interest on PIK notes	8,437	8,389
Deferred income taxes	684	995
Accrued pension and postretirement benefits, net	1,001	1,247
Restructuring and other charges	5,025	948
Cash payments for restructuring charges	(7,277)	(1,768)
Changes in operating assets and liabilities, net of acquisitions and restructuring charges:		
Accounts receivable	(2,912)	(26,062)
Inventories	27,990	(14,514)
Accounts payable	(2,224)	12,189
Other current assets and liabilities, net	(11,201)	(11,067)
Other noncurrent assets, liabilities, and other	(8,878)	(4,185)
Net cash provided by (used in) operating activities	31,326	(25,046)
<b>Cash Flows from Investing Activities:</b>		
Net proceeds on sale of assets and businesses	6,000	5,139
Purchases of property, plant and equipment	(3,699)	(8,920)
Net cash provided by (used in) investing activities	2,301	(3,781)
<b>Cash Flows from Financing Activities:</b>		
Change in short-term debt and revolver	(20,975)	30,484
Payments made on long-term debt, including capital leases	(1,577)	(7,246)
Distributions to noncontrolling interest, net	(1,430)	-
Other	-	391
Net cash (used in) provided by financing activities	(23,982)	23,629
Effect of exchange rate changes on cash and cash equivalents	(3,198)	1,107
Net increase (decrease) in cash and cash equivalents	6,447	(4,091)
Cash and cash equivalents at beginning of period	18,744	24,726
Cash and cash equivalents at end of period	\$ 25,191	\$ 20,635
Supplemental information:		
Purchases of property, plant & equipment in accounts payable	\$ 1,339	\$ -

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, 2008.

Operating results for the six month period ended June 30, 2009, 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. Description of the Business and Economic Uncertainty**

Remy International, Inc. is a leading global vehicular parts designer, manufacturer, remanufacturer, marketer and distributor of aftermarket and original equipment electrical components for automobiles, light trucks, heavy-duty trucks and other vehicles. We also provide core exchange services for aftermarket products. We sell our products worldwide primarily under the “Delco Remy”, “Remy”, and “World Wide Automotive” brand names and our customers’ widely recognized private label brand names. Our products include light-duty and heavy-duty starters, and alternators for both the original equipment and the remanufactured markets, and hybrid 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. We have expanded our operations to become a low cost, global manufacturer and remanufacturer with a more balanced business mix between the aftermarket and the original equipment market, especially in the heavy duty OEM market, since we separated from General Motors Corporation (“GM”) in 1995, when we were essentially an original equipment supplier predominantly to GM.

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.

We emerged from Bankruptcy effective December 6, 2007. In connection with this process we developed a plan to continue as a going concern, which included obtaining post-emergence financing. This financing contains certain restrictive loan covenants which continue to be more restrictive over time as outlined in the indenture agreements. We have 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) together with remaining in compliance with other covenants specified in the indentures. We have successfully executed on several of these initiatives and have met the loan covenant requirements of our debt covenants.

The global economy and specifically the markets we conduct our businesses in are currently in a state of uncertainty to which we have reacted by taking further capacity and costs actions in late 2008 and continue to do so in 2009 to remain compliant with our loan covenants and generate sufficient liquidity to meet our obligations as they come due.

Actions we have taken:

- We have continued our efforts to realign capacity and reduce costs;
- Increased availability under our revolving line of credit by adding approximately \$10 to \$15 million of additional available borrowing base;
- In April 2009, we amended a contract with a significant customer in our Aftermarket business that allowed us to exit point of sales inventory providing for increased sales, related gross margin and cash flow in the second quarter;
- Announced in the second quarter a 10% salary reduction plan for certain hourly and salaried employees effective for the remainder of the year;
- Announced the closure of our Engineering Center in Poland on March 31, 2009.

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

While there can be no certainty as to the ability to achieve the forecasted results, we believe the actions that have occurred, or are expected to occur, are such that we will be able to meet our loan covenant requirements throughout 2009 and maintain a level of liquidity sufficient to meet our obligations as they become due through 2009. If we are unable to meet the covenant requirements through the execution of our plan, we may need to obtain waivers or amendments to our loan covenants. There is no assurance that such waivers or amendments can be obtained or obtained at a reasonable cost.

### **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 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 collectability is reasonably assured. We recognize shipping and handling costs as costs of goods sold with the related amounts billed to customers as sales. Accruals for sales returns and other allowances are provided at the time of shipment based upon past experience. Adjustments to such returns and allowances are made as new information becomes available. We accrue for rebates in accordance with specific customer arrangements, primarily related to sales to non automotive original equipment customers. Such rebates are recorded as a reduction of 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.

### *Excess of Purchase Price Paid over Fair Value of Cores and Inventory Purchased from Customers*

On occasion we will purchase certain cores and inventory from our customers at retail prices in association with either entering into a new contract or extending an existing one. The excess of the prices paid over fair value is recorded as contract intangibles and amortized as a reduction to revenue on an accelerated method to reflect the pattern of economic benefit consumed. Contract intangibles are included in "Intangibles, net" in the noncurrent asset section of the accompanying consolidated balance sheets.

## *Customer Obligations*

Customer obligations relate to liabilities when we enter into 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 rights to 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.

## **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 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, 2009, and December 31, 2008, were \$123,294,000 and \$139,923,000, respectively. Any change in the availability of these factoring arrangements could have a material adverse effect on our financial condition.

### **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.

### **Tooling**

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

### **Goodwill and Other Intangible Assets**

Goodwill represents the excess of the reorganization value assigned by the Bankruptcy Court upon our emergence from bankruptcy on December 6, 2007, over the net assets’ fair value as determined in accordance with SOP 90-7. Indefinite-lived intangible assets, consisting of trade names, were stated at estimated fair value as a result of fresh-start reporting.

In accordance with SFAS No. 142, *Accounting for 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, or more frequently if impairment indicators arise. We determine goodwill impairment charges by comparing the carrying value of each reporting unit to the fair value of the reporting unit. In determining fair value of reporting units, we utilized 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.

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

### **Foreign Currency Translation**

Our foreign subsidiaries' functional currency is based upon the currency that they conduct the majority of their operations in and is determined in accordance with SFAS No. 52. Financial statements of foreign subsidiaries for which the functional currency is other than the U.S. dollar are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and at the average exchange rate for each year for revenue and expenses. Translation adjustments are recorded as a separate component of shareholders' equity and reflected in other comprehensive income (loss) ("OCI"). For each of our foreign subsidiaries, gains and losses arising from transactions denominated in a currency other than the functional currency are included in the consolidated statements of operations. We evaluate each of our foreign subsidiaries functional currency on an ongoing basis.

### **Derivative Financial Instruments**

In the normal course of business, our operations are exposed to continuing fluctuations in foreign currency values, interest rates and commodity prices that can affect the cost of operating, investing and financing. Accordingly, we address a portion of these risks through a controlled program of risk management that includes the use of derivative financial instruments. We have historically used derivative financial instruments for the purpose of hedging currency and interest rate exposures, which exist as a part of ongoing business operations. In accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted, 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. Management routinely reviews the hedge ineffectiveness, and such amounts are recognized in earnings immediately. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. The Company's objectives for holding derivatives are to minimize risks using the most effective and cost-efficient methods available.

### **Currency Rate Hedging**

We primarily utilize forward exchange contracts with maturities generally within 12 months to hedge against currency rate fluctuations, some of which are designated as hedges under SFAS No. 133. Any derivative instrument designated initially, but no longer effective as a hedge or initially not effective as a hedge, is recorded at fair value and the related gains and losses are recognized in the consolidated statements of operations. 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.

### *South Korean Won*

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. For the Korean Won hedges, when title to the inventory transfers, the hedges are redesignated as fair value hedges and mark to market accounting is applied. Our outstanding South Korean Won foreign currency hedges had notional values of \$21,000,000 at June 30, 2009.

### *Hungarian Forint*

We also maintain hedges in our Hungarian operations for purchases and expenses made in currencies other than that in which our sales are conducted. 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, purchases, or operating expense, and accordingly, changes in fair value prior to the underlying transaction are charged to Other Comprehensive Income. For the Hungarian currency hedges, the hedges are redesignated as fair value hedges and mark to market accounting is applied in the month the individual underlying contracts expire. We have Hungarian Forint foreign currency hedges denominated in both U.S. dollars and Euros. Our Hungarian Forint foreign currency had outstanding notional values of \$1,750,000 and €3,550,000 at June 30, 2009.

### *Mexican Peso*

We also maintain collar arrangements as a hedge for our local Peso expenses for our Mexican Operations whose functional currency is the U.S. dollar. These collar arrangements are accounted for as fair value hedges. The collar arrangements had a notional value of approximately \$26,118,000 at June 30, 2009.

### **Interest Rate Hedging**

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

During 2008 we terminated certain interest swap agreements resulting in a gain that is amortized as an offset to interest expense over the original term of the agreements. At June 30, 2009, the deferred gain, net of income taxes, recorded in Other Comprehensive Income was \$812,000.

### **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, 2009, or at December 31, 2008.

## **Commodity Purchases**

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

## **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, 2009.

## **Income Taxes**

Under Accounting Principles Board Opinion No. 28, *Interim Financial Reporting*, we compute on a quarterly basis an estimated annual effective tax rate considering ordinary income and related income tax expense. Ordinary income refers to income (loss) before income tax expense excluding significant, unusual, or infrequently occurring items. The tax effect of an unusual or infrequently occurring item is recorded in the interim period in which it occurs. To the extent the Company cannot reliably estimate annual projected taxes for a taxing jurisdiction, taxes on ordinary income for such a jurisdiction are reported in the period in which they are incurred, which is the case for our domestic tax jurisdictions. Other items included in income tax expense in the periods in which they occur include the cumulative effect of changes in tax laws or rates, foreign exchange gains and losses, adjustments to uncertain tax positions, and adjustments to our valuation allowance due to changes in judgment in the realizability of deferred tax assets in future years.

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

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

## **Pension and Postretirement Plans**

We maintain limited defined benefit pension plans and other postretirement benefit plans, as well as a supplemental employee retirement plan covering certain executives. Costs associated with these plans are

based on actuarial computations. Inherent in these valuations are key assumptions regarding discount rates, expected return on plan assets, rates of compensation increases, and the rates of health care benefit increases. If future trends in these assumptions prove to differ from management's assumptions, revisions to the plan assets and benefit obligations may be required.

## **Earnings Per Share**

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

## **Fair Value of Financial Instruments**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value and enhances disclosure about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. On February 2, 2008, the FASB issued FASB Staff Position No. FAS 157-2 (FSP 157-2) which delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Where the measurement objective specifically requires the use of "fair value", we have adopted the provisions of SFAS No. 157 related to financial assets and financial liabilities as of December 1, 2007 in connection with our fresh start reporting.

SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques noted in SFAS No. 157:

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

The following table classifies the financial assets and financial liabilities measured at fair value on a recurring and nonrecurring basis as of June 30, 2009, and December 31, 2008:

(In thousands of dollars)	June 30, 2009		December 31, 2008	
	Liability	Fair Value	Liability	Fair Value
First Lien Credit Agreement	\$ 148,064	\$ 124,663	\$ 148,340	\$ 109,772
Second Lien Credit Agreement	49,592	32,500	49,561	21,063
Third-Priority Floating Rate Secured PIK Notes	126,146	44,151	117,709	25,307
Interest rate swap contracts	4,740	4,740	5,213	5,213
Foreign exchange contracts	1,742	1,742	6,472	6,472

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 and the revolving credit agreement closely approximates their fair value. The fair value of our long-term debt, other than our revolver, and our foreign exchange contracts were determined under Level 3, whereas the fair values of our interest rate swap contracts were determined under Level 2.

### Recent Accounting Adoptions

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141(R), *Business Combinations*, which replaces SFAS No. 141, *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) requires the acquirer of a business to recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at fair value. SFAS No. 141(R) also requires transaction costs related to the business combination to be expensed as incurred. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted SFAS No. 141(R) on January 1, 2009 and it had no effect on our consolidated financial statements as it will only impact our accounting for future business combinations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS No. 160). 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. SFAS No. 160 applies to fiscal years and interim periods beginning on or after December 15, 2008. We adopted SFAS No. 160 on January 1, 2009, and have retrospectively revised the financial statement presentation for our noncontrolling interests accordingly.

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. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We adopted SFAS No. 161 on January 1, 2009. Other than the required disclosures, the adoption of SFAS No. 161 had no impact on our financial statements.

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 adopted FSP 142-3 on January 1, 2009. The adoption of FSP 142-3 had no effect on our financial statements.

In April 2009, the FASB issued three new FSPs, all of which impact the accounting and disclosure related to certain financial instruments. FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased. It also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 115-2 and FAS 124-2, *Recognition of Other-Than-Temporary Impairment*, amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 107-1 and APB No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, amends FASB Statement No. 107 to require disclosures about the fair value of financial instruments on an interim basis in addition to the annual disclosure requirements. All three FSPs are required to be adopted for interim periods ending after June 15, 2009. We adopted these staff positions on April 1, 2009. The adoption of these staff positions did not have a material impact on our consolidated financial statements.

On May 28, 2009, the FASB issued SFAS No. 165, *Subsequent Events*, which provides guidance on management's assessment of subsequent events. Historically, management relied on U.S. auditing literature (AICPA AU Section 560, *Subsequent Events*.) for guidance on assessing and disclosing subsequent events. SFAS No. 165 is not expected to change practice because its guidance is similar to AU Section 560. SFAS 165 clarifies that management must perform an evaluation on interim and annual reporting periods and requires entities to disclose the date through which an entity has evaluated subsequent events. SFAS No. 165 is effective for interim or annual periods after June 15, 2009 and is applied prospectively. We adopted SFAS No. 165 on April 1, 2009. We performed our evaluation of subsequent events on August 11, 2009, the date the consolidated financial statements are available for issuance.

## **New Accounting Pronouncements**

In December 2008, the FASB issued FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, to provide guidance on an employer's disclosure about plan assets of defined benefit pension or other postretirement plan. This FSP provides objectives for the disclosure about employer's (1) investment policies and strategies, (2) categories of plan assets, (3) fair value measurements, and (4) significant concentrations of risk. This FSP is effective for us on December 31, 2009. Upon initial application, the provisions of this FSP are not required for earlier periods that are presented for comparative purposes. Earlier adoption is permitted. The adoption of FSP 132(R)-1 is expected to increase our disclosures, but it is not expected to have an impact on our consolidated financial statements.

On June 12, 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets- an amendment of FASB Statement No. 140* (SFAS No. 166), which amends the derecognition guidance in SFAS No. 140. In addition, SFAS No. 166 addresses concerns expressed by the SEC, members of Congress, and financial statement users about the accounting and disclosures required by SFAS No. 140 in the wake of the subprime mortgage crisis and the deterioration in the global credit markets. The Board believes these amendments will improve the accounting for transfers of financial assets. SFAS No. 166 is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009. Early adoption is prohibited. We are currently in the process of determining the impact, if any, of SFAS No. 166 on our consolidated financial statements.

On June 12, 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167), which amends the consolidation guidance that applies to variable interest entities ("VIE").

The amendments will significantly affect the overall consolidation analysis under Interpretation 46(R). Accordingly, an enterprise will need to carefully reconsider its previous Interpretation No. 46(R) conclusions, including (1) whether an entity is a VIE, (2) whether the enterprise is the VIE's primary beneficiary, and (3) what type of financial statement disclosures are required. SFAS No. 167 is effective as of the beginning of the first fiscal year that begins after November 15, 2009. We do not expect adoption of SFAS No. 167 to have a material impact on our consolidated financial statements.

On June 29, 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162* (SFAS No. 168). The FASB notes that “the FASB Accounting Standards Codification™ (Codification) will become the source of authoritative U.S. Generally Accepted Accounting Principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Once the Codification is in effect, all of its content will carry the same level of authority, effectively superseding SFAS No. 162. In other words, the GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and nonauthoritative. Statement No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We do not expect the adoption of SFAS No. 168 to have a material impact on our consolidated financial statements.

#### 4. Inventories

Inventories consist of the following:

(In thousands of dollars)	June 30, 2009	December 31, 2008
Raw materials	\$ 68,468	\$ 77,562
Work-in-process	7,202	8,621
Finished goods	61,547	87,063
	<u>\$ 137,217</u>	<u>\$ 173,246</u>

#### 5. Intangible Assets

Intangible assets consist of the following:

(In thousands of dollars)	June 30, 2009			December 31, 2008		
	Carrying Value	Accumulated Amortization	Net	Carrying Value	Accumulated Amortization	Net
<b>Definite-life intangible assets:</b>						
Intellectual property	\$ 9,457	\$ 2,228	\$ 7,229	\$ 9,457	\$ 1,789	\$ 7,668
Customer relationships	35,500	4,679	30,821	35,500	3,505	31,995
Customer contracts	61,311	16,580	44,731	35,183	8,340	26,843
Total	<u>\$ 106,268</u>	<u>\$ 23,487</u>	<u>\$ 82,781</u>	<u>\$ 80,140</u>	<u>\$ 13,634</u>	<u>\$ 66,506</u>
<b>Indefinite-life intangible assets:</b>						
Trade names	58,200	-	58,200	58,200	-	58,200
Intangible assets, net	<u>\$ 164,468</u>	<u>\$ 23,487</u>	<u>\$ 140,981</u>	<u>\$ 138,340</u>	<u>\$ 13,634</u>	<u>\$ 124,706</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.

## 6. Other Noncurrent Assets

Other noncurrent assets primarily consist of core return rights of \$26,656,000 and \$25,225,000 as of June 30, 2009, and December 31, 2008, respectively.

## 7. Other Current Liabilities and Accrued Expenses

Other current liabilities and accrued expenses consist of the following:

(In thousands of dollars)	June 30, 2009	December 31, 2008
Accrued warranty	\$ 23,314	\$ 24,932
Accrued wages and benefits	18,992	24,626
Current portion of customer obligations	10,444	13,625
Rebates, stocklifts, discounts and returns	15,313	14,339
Other	36,614	43,567
	<u>\$ 104,677</u>	<u>\$ 121,089</u>

## 8. 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 are summarized as follows:

(In thousands of dollars)	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Balance at beginning of period	\$ 23,588	\$ 34,318	\$ 24,932	\$ 35,654
Provision for warranty	11,524	8,575	21,945	22,792
Payments and charges against the accrual	(11,798)	(10,943)	(23,563)	(26,496)
Balance at end of period	<u>\$ 23,314</u>	<u>\$ 31,950</u>	<u>\$ 23,314</u>	<u>\$ 31,950</u>

## 9. Other Noncurrent Liabilities

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

(In thousands of dollars)	June 30, 2009	December 31, 2008
Customer obligations	\$ 22,732	\$ 20,630
Fair value of contract obligations, net of amortization	12,990	15,904
Other	9,888	11,093
	<u>\$ 45,610</u>	<u>\$ 47,627</u>

## 10. 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 property, plant and equipment impairment charges under SFAS No. 144.

Total restructuring and other charges of \$5,025,000 were recorded during the first six months of 2009. These charges consisted of employee termination benefits of \$3,368,000, lease termination costs and other exit costs of \$1,044,000, and asset impairment charges of \$613,000. The charges mainly related to the closure of an engineering center in Poland and further reduction in force in North America resulting from the current economic conditions. The restructuring accrual as of June 30, 2009, is \$3,879,000.

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

<b>2009</b> (in thousands of dollars)	Termination Benefits	Exit Costs	Total
Accrual at December 31, 2008	\$ 4,972	\$ 1,951	\$ 6,923
Provision	3,368	1,044	4,412
Payments	(5,954)	(1,502)	(7,456)
Accrual at June 30, 2009	\$ 2,386	\$ 1,493	\$ 3,879

<b>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

The following table reconciles the restructuring accrual provisions appearing in the above table with the total charges appearing in the consolidated statement of operations:

(In thousands of dollars)	<b>Three months ended, June 30,</b>		<b>Six months ended, June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Provision charged to accrual	\$ 3,079	\$ 646	\$ 4,412	\$ 948
Impairment of fixed assets and capital leases	613	-	613	-
Total restructuring and other charges	\$ 3,692	\$ 646	\$ 5,025	\$ 948

## 11. Debt

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

(In thousands of dollars)	June 30, 2009	December 31, 2008
Senior Secured Revolving Credit Agreement - <i>Maturity date of December 6, 2012</i>	\$ 31,916	\$ 51,155
Senior Secured First Lien Credit Agreement - <i>Maturity date of December 6, 2013</i>	148,064	149,940
Second Lien Credit Agreement - <i>Maturity date of June 6, 2014</i>	49,592	49,561
Third-Priority Floating Rate Secured PIK Notes - <i>Maturity date of December 1, 2014</i>	126,146	117,709
Total Senior Credit Facility and Notes	\$ 355,718	\$ 368,365
Other debt	238	1,690
Capital leases	2,969	3,534
Less current maturities	(2,887)	(28,456)
Long-term debt less current maturities	\$ 356,038	\$ 345,133

Under our current Credit Facilities, the initial available credit was \$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. We have borrowed the full available credit under the First and Second Lien Agreements.

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, at an applicable LIBOR Rate plus 1.75% - 2.25% per annum. At June 30, 2009, the borrowing rate was 3.50%. Based upon the collateral supporting the revolving credit agreement, the amount borrowed, and the outstanding letters of credit of \$6,300,000, there was additional available borrowing of \$32,555,000 as of June 30, 2009. 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 subsidiaries. The loan bears interest at a defined Index Rate plus 4.5% per annum or, at our election, at an applicable LIBOR Rate plus 5.5% per annum. Principal payments in the amount of \$400,000 are due at the end of each calendar quarter with termination and final payment no later than December 6, 2013. At June 30, the average borrowing rate was 6.47%.

The Second Lien Credit Agreement is secured by substantially all assets and certain common stock of our subsidiaries. The loan bears interest at a defined Index Rate plus 7.5% per annum or, at our election, at an applicable LIBOR Rate plus 8.5% per annum. The Agreement is payable in full on June 6, 2014. At June 30, 2009, the borrowing rate was 9.48%.

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

On December 6, 2007, we received \$100,000,000 under the Third-Priority Floating Rate Secured PIK (payment-in-kind) Notes due December 1, 2014. Interest is payable in PIK securities or cash based upon our free cash flow coverage ratio and at our option if the free cash flow coverage ratio is favorable. Interest is payable semiannually for cash interest at LIBOR plus 9.5%, or as additional PIK securities at LIBOR plus 12.0%. At June 30, 2009, the PIK borrowing rate was 13.26%. 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, 2009.

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, 2009. 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 \$17,684,000 of which \$14,933,000 is borrowed at average interest rates of 5.09% at June 30, 2009. In Hungary, we have revolving credit facilities with three banks for \$5,931,000 of which \$5,570,000 is borrowed at average interest rates of 4.51% at June 30, 2009. In Belgium we have revolving credit facilities with two banks for \$4,142,000 of which \$4,101,000 is borrowed at average interest rates of 3.01%. In Brazil, we have a credit line for \$4,382,000 with nothing borrowed at June 30, 2009.

### **Capital Leases**

Capital leases have been capitalized using nominal interest rates ranging between 5.8% to 15.1%. We had assets under capital leases of approximately \$4,240,000 at June 30, 2009, and \$4,188,000 at December 31, 2008, net of accumulated amortization.

## **12. Income Taxes**

Income tax expense of \$4,062,000 relating to continuing operations for the first six months ended June 30, 2009 consisted of deferred U.S. federal tax of \$837,000 relating to goodwill amortization, domestic state and local income taxes of \$264,000, and taxes in various foreign jurisdictions of \$2,961,000. Income tax expense of \$7,945,000 relating to continuing operations in the first six months of 2008 consisted of a \$837,000 provision for U.S. federal and state deferred income taxes, domestic state and local taxes of \$309,000 and taxes in various foreign jurisdictions of \$6,799,000. In accordance with SFAS No. 109, Accounting for Income Taxes, the Company established a valuation allowance for its domestic U.S. income tax assets amounting to \$101,255,000 at June 30, 2009, of which \$733,000 relates to 2009 operating results.

Given the liquidity environment the Company operates in, there could be certain matters that arise outside the Company's control, which could limit the availability of net operating loss carryforwards to offset taxable income.

The Company or its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to non-U.S. income tax examinations by tax authorities for years before 2004. The Company has tax attributes carried forward in the U.S. and various states that were generated beginning in 2003. These tax years remain subject to examination until the tax attributes are utilized; however, the Company is not subject to examination for years before 2005.

On January 1, 2007, the Company adopted FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109. FIN 48 prescribes a recognition threshold that a tax position is required to meet before recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition rules. 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.

The effective income tax rate for the first six months of 2009 differs from the U.S. federal income tax rate primarily due to the effect of foreign taxable income and the valuation allowance against the U.S. taxable loss reported in the financial statements.

### 13. Other Comprehensive Income (Loss)

Our comprehensive income (loss) was as follows:

(In thousands of dollars)	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net income (loss)	\$ 10,158	\$ 3,403	\$ 3,431	\$ (2,789)
Other comprehensive income (loss):				
Foreign currency translation adjustments	6,589	40	(503)	573
Currency forward contracts, net of tax	3,879	(1,207)	3,736	(2,584)
Interest rate swaps and collar contract, net of tax	183	5,329	249	2,556
Employee benefit plans, net of tax	(27)	(21)	(10)	(14)
Total other comprehensive income, net of tax	10,624	4,141	3,472	531
Comprehensive income (loss)	20,782	7,544	6,903	(2,258)
Less: Comprehensive income attributable to noncontrolling interest	904	482	1,503	904
Comprehensive income (loss) attributable to Remy International, Inc.	\$ 19,878	\$ 7,062	\$ 5,400	\$ (3,162)

### 14. Employee Benefit Plans

The components of expense for the plans are as follows:

#### Pension Benefits:

Components of Expense (in thousands of dollars)	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Service costs	\$ 66	\$ 64	\$ 131	\$ 129
Interest costs	679	678	1,357	1,355
Expected return on plan assets	(417)	(664)	(834)	(1,329)
Recognized net actuarial loss	158	-	316	-
Net periodic pension cost	\$ 486	\$ 78	\$ 970	\$ 155

#### Postretirement Health Care and Life Insurance Plans:

Components of Expense (in thousands of dollars)	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Interest costs	\$ 82	\$ 299	\$ 166	\$ 598
Amortization of prior service cost	(8)	-	(15)	-
Recognized net actuarial loss	(156)	7	(311)	14
Net periodic pension cost	\$ (82)	\$ 306	\$ (160)	\$ 612

## **Cash Flows – Employee Benefit Plans**

We contributed \$272,000 and \$341,000 to our pension plans in the first six months of 2009, and 2008, respectively. The postretirement health care plan is funded as benefits are paid. We expect to contribute a total of \$643,000 to our U.S. pension plans in 2009.

## **15. Stock-Based Compensation**

In connection with our emergence from bankruptcy on December 6, 2007, our executive officers received restricted stock awards of 489,474 common shares in the Successor Company at no cost to them. An additional award of 83,335 common shares was made on April 30, 2008, to certain other key employees. Both of the awards will vest at 12% on each of the first three years' anniversaries of the grant date, and 32% each on the fourth and fifth anniversaries, based upon continuation of employment. In February and November 2008, our Board of Directors received restricted stock grants of 160,000 that vest 50% upon the first and second anniversaries. Additionally, there is a change of control provision in the aforementioned awards. As a nonpublic company, there is not an active viable market for our common stock; accordingly, we used a calculated value of \$11.55, \$8.00, and \$3.00 on a per share basis to determine the value of the awards related to the December 2007 and February 2008 grants, the April 2008 grant, and the November 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, 2009, was \$941,000.

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. 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, 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.

Net sales to external customers were as follows:

(In thousands of dollars)	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
United States	\$ 168,023	\$ 196,346	\$ 318,639	\$ 402,016
International	65,947	101,327	127,753	196,740
Total net sales	\$ 233,970	\$ 297,673	\$ 446,392	\$ 598,756

## 17. Customer Agreements

During the six month period ended June 30, 2009, we amended agreements with certain Aftermarket customers. The amendments included the elimination of a point of sale inventory provision we had with one customer that resulted in a one time sales recognition in the second quarter of \$35,485,000 on a net sales basis.

The amendments called for the extinguishment of certain customer obligations of approximately \$23,038,000 resulting in a gain of approximately \$8,152,000. The gain will be deferred and recognized on an accelerated basis to reflect the pattern of economic benefit consumed. The amount recognized during the three and six month period ended June 30, 2009 was \$1,356,000 as a reduction of cost of goods sold. The amendments create new customer obligations of \$18,558,000. These obligations will be paid in monthly and quarterly payments over the life of the agreements.

As a result of the amendments, we recorded customer contract intangibles of \$22,962,000 during the six month period ended June 30, 2009. These defined lived customer contract intangibles have a weighted average life of 4 years.

## 18. 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.

## 19. Transactions with GM

Products sold to vehicles produced under the General Motors (GM) various brand names represented approximately 25% of our 2008 sales; however, they are not a major EBITDAR contributor to us. We currently supply alternators, starter motors, and Hybrid products to GM for platforms that we believe form the basis of their future vehicles offerings.

GM and certain of its direct and indirect subsidiaries on June 1, 2009, filed for protection under chapter 11 of the United States Bankruptcy Code (old GM). On July 10, 2009, a substantial portion of the former GM began operations under a new corporate legal structure (new GM) that had purchased substantially all of the assets of the former GM. We are continuing to conduct business with the new GM as we negotiate settlement on amounts owed us and the agreements governing our relationship at the time old GM filed for bankruptcy protection. We anticipate collecting all significant amounts owed us and expect the new GM to accept our existing supply agreement.

When Remy was formed as an independent company from old GM, we contracted for certain indemnification under an Asset Purchase Agreement (Agreement) entered into in July 1994. We have received notification of GM's intent to reject the cost-sharing arrangement under the postretirement health costs provision of the Agreement and expect them to reject the remaining indemnification provisions under the Agreement in connection with their bankruptcy.

In connection with GM's rejection of the cost-sharing arrangement of the postretirement benefit provision, new GM has agreed to pay Remy \$7,600,000 by September 15, 2009. We are in the process of evaluating the impact of this change in our related actuarial assumptions and expect a significant increase in our postretirement health benefit liability that will be amortized as a charge to income over the estimated future life of the participants.

We are also evaluating the potential liabilities, if any, that may arise when we receive the official rejection of the remaining indemnification provisions of the Agreement.