

# **Remy International, Inc.**

## **Annual Report December 31, 2010**

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## Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Remy International, Inc. (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years ended December 31, 2010, 2009 and 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Remy International, Inc. at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for the years ended December 31, 2010, 2009 and 2008, in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

March 8, 2011

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

As of

**December 31,**

	<b>2010</b>	<b>2009</b>
	(In thousands of dollars)	
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 37,514	\$ 30,171
Trade accounts receivable (less allowances of \$2,364 and \$2,927)	190,001	164,588
Other receivables	16,258	16,845
Inventories	143,021	130,506
Deferred income taxes	3,966	3,163
Prepaid expenses and other current assets	16,304	7,334
Total current assets	407,064	352,607
Property, plant and equipment	190,841	172,715
Less accumulated depreciation and amortization	55,743	37,235
Property, plant and equipment, net	135,098	135,480
Deferred financing costs, net of amortization	7,386	2,523
Goodwill	270,314	273,786
Intangibles, net	119,119	134,312
Other noncurrent assets	30,175	28,547
Total assets	\$ 969,156	\$ 927,255
<b>Liabilities and Equity:</b>		
Current liabilities:		
Short-term debt	\$ 18,334	\$ 22,969
Current maturities of long-term debt	3,347	2,340
Accounts payable	157,095	128,100
Accrued interest	1,043	1,592
Accrued restructuring	612	2,190
Other current liabilities and accrued expenses	144,871	122,693
Total current liabilities	325,302	279,884
Long-term debt, net of current maturities	317,769	337,905
Postretirement benefits other than pensions	1,371	1,552
Accrued pension benefits	21,002	17,816
Deferred income taxes	29,905	30,269
Other noncurrent liabilities	30,218	41,296
Redeemable preferred stock:		
Class A shares, 27,000 shares issued and outstanding	51,581	42,093
Class B shares, 60,000 shares issued and outstanding	114,535	93,452
<b>Equity:</b>		
Remy International, Inc. shareholders' equity:		
Common stock, Par value of \$.0001; 130,000,000 shares authorized; 10,755,704 shares issued, and 176,057 treasury shares at December 31, 2010, and 10,755,704 shares issued and 158,990 treasury shares at December 31, 2009.	1	1
Additional paid-in capital	103,932	112,471
Accumulated deficit	(14,453)	(10,535)
Accumulated other comprehensive loss	(21,357)	(27,468)
Total Remy International, Inc. shareholders' equity	68,123	74,469
Noncontrolling interest	9,350	8,519
Total equity	77,473	82,988
Total liabilities and equity	\$ 969,156	\$ 927,255

*See accompanying notes to consolidated financial statements.*

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

	Years Ended December 31,		
	2010	2009	2008
	(In thousands of dollars, except per share amounts)		
<b>Net sales</b>	\$ 1,103,799	\$ 910,745	\$ 1,100,805
Cost of goods sold	866,761	720,723	916,375
Gross profit	237,038	190,022	184,430
Selling, general, and administrative expenses	127,405	101,827	109,683
Reorganization items	-	-	2,762
Intangible asset impairment charges	-	4,000	1,500
Restructuring and other charges	3,963	7,583	15,325
<b>Operating income</b>	105,670	76,612	55,160
Other income	-	-	2,223
Interest expense	46,739	49,534	54,938
Loss on extinguishment of debt	19,403	-	-
Income before income taxes	39,528	27,078	2,445
Income tax expense	18,337	13,018	6,818
<b>Net income (loss)</b>	21,191	14,060	(4,373)
Less net income attributable to noncontrolling interest	4,273	3,272	1,403
Net income (loss) attributable to Remy International, Inc.	16,918	10,788	(5,776)
Preferred stock dividends	(30,571)	(25,581)	(23,145)
Net loss attributable to common shareholders	\$ (13,653)	\$ (14,793)	\$ (28,921)
Basic and diluted earnings (loss) per share:			
Earnings (loss) per share	\$ (1.33)	\$ (1.46)	\$ (2.89)
Weighted average shares outstanding	10,278	10,130	10,004

*See accompanying notes to consolidated financial statements.*

**Remy International, Inc.**  
**Consolidated Statements of Changes in Shareholders' Equity**

(In thousands of dollars)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Remy International, Inc. Shareholders' Equity	Non-controlling interest
Balance s at December 31, 2007	\$ 1	\$ 146,562	\$ (4,537)	\$ 778	\$ 142,804	\$ 5,761
Net (loss) income			(4,373)		(4,373)	1,403
Less net income attributable to noncontrolling interest			(1,403)		(1,403)	
Less distribution to noncontrolling interest						(1,171)
Foreign currency translation				(24,058)	(24,058)	427
Unrealized losses on derivative instruments and interest rate swaps				(8,741)	(8,741)	
Defined benefit plans				(7,853)	(7,853)	
Total comprehensive loss					(46,428)	659
Amortization of restricted stock grants		1,800			1,800	
Preferred stock dividends		(23,145)			(23,145)	
Balance s at December 31, 2008	1	125,217	(10,313)	(39,874)	75,031	6,420
Net income			14,060		14,060	3,272
Less net income attributable to noncontrolling interest			(3,272)		(3,272)	
Less distribution to noncontrolling interest						(1,430)
Foreign currency translation				4,435	4,435	257
Unrealized gains on derivative instruments and interest rate swaps				5,520	5,520	
Defined benefit plans				2,451	2,451	
Total comprehensive income					23,194	2,099
Amortization of restricted stock grants		1,825			1,825	
Preferred stock dividends		(14,571)	(11,010)		(25,581)	
Balance s at December 31, 2009	1	112,471	(10,535)	(27,468)	74,469	8,519
Net income			21,191		21,191	4,273
Less net income attributable to noncontrolling interest			(4,273)		(4,273)	
Less distribution to noncontrolling interest						(3,420)
Foreign currency translation				1,813	1,813	(22)
Unrealized gains on derivative instruments and interest rate swaps, net of tax				8,339	8,339	
Defined benefit plans, net of tax				(4,041)	(4,041)	
Total comprehensive income					23,029	831
Amortization of restricted stock grants		1,196			1,196	
Preferred stock dividends		(9,735)	(20,836)		(30,571)	
Balance s at December 31, 2010	\$ 1	\$ 103,932	\$ (14,453)	\$ (21,357)	\$ 68,123	\$ 9,350

See accompanying notes to consolidated financial statements.

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

Years Ended December 31,

(In thousands of dollars)	2010	2009	2008
<b>Cash Flows from Operating Activities:</b>			
Net income (loss)	\$ 21,191	\$ 14,060	\$ (4,373)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization	29,269	30,798	24,758
Amortization of debt issuance costs	1,868	1,845	1,696
Noncash compensation expense	1,196	1,825	1,800
Loss on extinguishment of debt	19,403	-	-
Impairment charges	-	4,000	5,085
Settlement gain on postretirement benefits	-	(11,987)	-
Gain on sale of assets	-	-	(754)
Interest on PIK notes	-	16,715	16,535
Deferred income taxes	1,305	2,072	729
Accrued pension and postretirement benefits, net	(3,096)	7,465	(687)
Restructuring and other charges	3,963	7,583	11,740
Cash payments for restructuring charges	(3,253)	(11,504)	(6,458)
Other	(5,250)	(2,719)	(1,581)
Changes in operating assets and liabilities, net of restructuring charges:			
Accounts receivable	(24,241)	(34,414)	13,928
Inventories	(13,888)	35,938	3,193
Accounts payable	28,471	13,086	(25,791)
Other current assets and liabilities, net	20,768	8,440	(27,248)
Other noncurrent assets, liabilities, and other	(3,808)	(10,534)	(562)
Net cash provided by operating activities	<u>73,898</u>	<u>72,669</u>	<u>12,010</u>
<b>Cash Flows from Investing Activities:</b>			
Net proceeds on sale of assets	-	6,000	5,139
Purchases of property, plant and equipment	(19,086)	(11,826)	(19,000)
Government grant proceeds related to capital expenditures	4,073	-	-
Net cash used in investing activities	<u>(15,013)</u>	<u>(5,826)</u>	<u>(13,861)</u>
<b>Cash Flows from Financing Activities:</b>			
Change in short-term debt and revolver	13,235	(50,376)	24,085
Proceeds from issuance of long-term debt	297,000	-	-
Payments made on long-term debt, including capital leases	(338,337)	(2,778)	(10,593)
Payments related to premium and other debt extinguishment costs	(13,022)	-	-
Distributions to noncontrolling interest, net	(3,420)	(1,430)	(1,171)
Proceeds from settlement of derivatives	-	-	1,149
Debt issuance costs	(7,125)	-	-
Net cash (used in) provided by financing activities	<u>(51,669)</u>	<u>(54,584)</u>	<u>13,470</u>
Effect of exchange rate changes on cash and cash equivalents	<u>127</u>	<u>(832)</u>	<u>(17,601)</u>
Net increase (decrease) in cash and cash equivalents	7,343	11,427	(5,982)
Cash and cash equivalents at beginning of period	<u>30,171</u>	<u>18,744</u>	<u>24,726</u>
Cash and cash equivalents at end of period	<u>\$ 37,514</u>	<u>\$ 30,171</u>	<u>\$ 18,744</u>
Supplemental information:			
Noncash investing and financing activities			
Purchases of property, plant and equipment in accounts payable	\$ 1,315	\$ 1,140	

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### REMY INTERNATIONAL, INC.

#### 1. DESCRIPTION OF THE BUSINESS

##### Business

Remy International, Inc. (together with its subsidiaries, “we”, “our”, “us”, “Remy” or the “Company”) 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 sell our products worldwide primarily under the “Delco Remy”, “Remy”, and “World Wide Automotive” brand names and our customers’ widely recognized private label brand names. Our products include light-duty and heavy-duty starters and alternators for both the original equipment and the remanufactured markets, and hybrid power technology. These products are principally sold or distributed to original equipment manufacturers (“OEMs”) for both original equipment manufacture and aftermarket operations, as well as to warehouse distributors and retail automotive parts chains. We sell our products principally in North America, Europe, Latin America and Asia-Pacific.

We are one of the largest producers 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.

As of December 31, 2010, a significant investor held a 46% ownership interest in Remy, comprised of 4,935,065 shares of our common stock and 42,359 shares of our Series A and Series B preferred stock. Additionally, board members held 1,000 shares of our Series B preferred as of December 31, 2010. On December 17, 2010, we extinguished our Third-Priority Floating Secured PIK Notes of which the significant investor held \$50,306,000. The significant investor participated in our Term B Loan syndication for \$30,000,000 as of December 31, 2010 (see Note 11).

Subsequent to December 31, 2010, the significant investor acquired an additional 9,870,130 shares of our common stock in our rights offering and their investment became a 47% ownership in Remy. In connection with the rights offering, the significant investor exchanged 42,359 shares of our Series A and Series B preferred shares and board members exchanged 564,534 shares of our Series B preferred shares for common stock (see Note 13). The remaining preferred shares owned by the board members were redeemed on January 31, 2011 (see Note 12).

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

Remy International, Inc. emerged from bankruptcy effective December 6, 2007. Accordingly, we applied the fresh-start accounting provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 852, *Reorganizations*, at that date.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The consolidated financial statements include the accounts of Remy International, Inc., all wholly-owned subsidiaries, and any partially-owned subsidiary that we have the ability to control. Control generally equates to ownership percentage, whereby investments that are more than 50% owned are consolidated. Investments in companies in which we hold an ownership interest of 20% to 50% over which we exercise significant influence are accounted for by the equity method. Currently, we account for all 20% to 50% owned entities under the equity method. Investments in companies in which we hold an ownership interest of less than 20% are accounted for on the cost basis. Such investments were not material at December 31, 2010, and 2009. All significant intercompany accounts and transactions have been eliminated.

### **Evaluation of Subsequent Events**

We have evaluated subsequent events through March 8, 2011, the date the December 31, 2010, consolidated financial statements are available for issuance. See Notes 12 and 13 for subsequent event disclosures related to our January 2011 rights offering and redemption of preferred shares. See Note 19 for disclosure of our January 4, 2011, restricted stock grant.

### **Use of Estimates**

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

### **Revenue Recognition**

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, ownership has transferred, the seller's price to the buyer is fixed and determinable, and collectability is reasonably assured. Prior to April 2009, we had arrangements with certain customers in which we recognized revenue on our products at the customers' point of sale. We recognize shipping and handling costs as costs of goods sold with the related amounts billed to customers as sales. Accruals for sales returns, price protection, 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, price protection, and other customer sales allowances in accordance with specific customer arrangements. Such rebates are recorded as a reduction of sales.

### **Accounting for Remanufacturing Operations**

#### *Core Deposits*

Remanufacturing is the process where failed or used components, commonly known as cores, are disassembled into subcomponents, cleaned, inspected, tested, combined with new subcomponents and reassembled into saleable, finished products. Billing includes the price for remanufacturing the product, which we refer to as "exchange value", and with many customers, a deposit charge for the core. Upon return of a core, we grant the customer a credit based on the core deposit value. Deposits charged by us totaled \$109,106,000, \$119,586,000, and \$185,401,000 for the years ended December 31, 2010, 2009, and 2008, respectively. Core deposits are excluded from revenue. 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 consider current costs and customer return trends.

### *Core Inventory*

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

### *Customer Contract Intangibles*

Upon entering into new or extending existing contracts, we may be required to purchase certain cores and inventory from our customers at retail prices, or be obligated to provide certain agreed support. The excess of the prices paid for the cores and inventory over fair value, and the value of any agreed support, are recorded as contract intangibles and amortized as a reduction to revenue on a method to reflect the pattern of economic benefit consumed. Customer contract intangibles that are determined in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, *Business Combination*, and which are not paid to the customers, are amortized and recorded in cost of goods sold. Contract intangibles are included in "Intangibles, net" in the noncurrent asset section of the accompanying consolidated balance sheets.

### *Customer Obligations*

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

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

### *Right of Core Return*

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

## **Research and Development**

We conduct research and development programs that are expected to contribute to future earnings. Such costs are included in selling, general and administrative expenses in the consolidated statements of operations. Company-funded research and development expenses were approximately \$17,522,000, \$11,694,000, and \$22,884,000, for the years ended December 31, 2010, 2009, and 2008, respectively.

Customer-funded research and development expenses reimbursed, recorded as an offset to research and development expense in selling, general and administrative expenses, were approximately \$232,000, \$1,728,000, and \$6,684,000, for the years ended December 31, 2010, 2009, and 2008, respectively.

## **Government Grants**

We record government grants when there is reasonable assurance that the grant will be received and we will comply with the conditions attached to the grants received. Grants related to income are recorded as an offset to the related expense in the accompanying statements of operations. Grants related to assets are recorded as deferred revenue and recognized on a straight-line basis over the useful life of the related asset. We continue to evaluate our compliance with the conditions attached to the related grants.

On August 5, 2009, the United States government announced its intention to enter into negotiations with us regarding the awarding of a grant to us of approximately \$60,200,000 for investments in equipment and manufacturing capability to manufacture electric drive motor technology for use in electric drive vehicles. We finalized the negotiation on this grant on April 8, 2010. The grant will reimburse certain capital expenditures, labor, subcontract, and other allowable costs at a rate of fifty percent (50%) of the amount expended during a three-year period. As of December 31, 2010, we have \$48,370,000 of the grant award remaining.

On August 16, 2010, the Mexican government granted us approximately \$727,000 for investments in manufacturing equipment. The grant reimbursed certain capital expenditures up to 100% of the awarded amount of spending through December 31, 2010.

As of December 31, 2010, we have deferred revenue of \$4,073,000 related to government grants. The associated property, plant, and equipment was not in-service as of December 31, 2010, as such no amortization was recorded during the year ended December 31, 2010. The amounts recognized in the accompanying consolidated statements of operations as government grants were as follows (in thousands of dollars):

	2010	2009	2008
Reduction of cost of goods sold	\$ 5,326	\$ 42	\$ -
Reduction of selling, general, and administrative	\$ 3,910	\$ 1,979	\$ 1,205

### **Cash and Cash Equivalents**

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

### **Trade Accounts Receivable and Allowance for Doubtful Accounts**

Trade accounts receivable is stated at net realizable value, which approximates fair value. Substantially all of our trade accounts receivable are due from customers in the original equipment and aftermarket automotive industries, both domestically and internationally. Trade accounts receivable include notes receivables of \$23,906,000 and \$19,460,000 as of December 31, 2010 and 2009, respectively, which are primarily due within the next six months. Trade accounts receivable is reduced by an allowance for amounts that are expected to become uncollectible in the future and for disputed items. We perform periodic credit evaluations of our customers' financial condition and generally do not require collateral. We maintain allowances for doubtful customer accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is developed based on several factors including customers' credit quality, historical write-off experience and any known specific issues or disputes which exist as of the balance sheet date. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

### **Inventories Other than Core Inventory**

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

### **Property, Plant and Equipment**

Property, plant and equipment are recorded at cost. Major expenditures that significantly extend the useful life or enhance the usability of the property, plant or equipment are capitalized. Depreciation is calculated primarily using the straight-line method over the estimated useful lives of the related assets (15 to 40 years for buildings, and 3 to 15 years for tooling, machinery and equipment). Capital leases and leasehold improvements are amortized over the shorter of the lease term or their estimated useful life.

### **Valuation of Long-Lived Assets**

When events or circumstances indicate a potential impairment to the carrying value, we evaluate the carrying value of long-lived assets, including certain intangible assets, for recoverability through an undiscounted cash flow analysis. When such events

or circumstances arise which indicate the long-lived asset is not recoverable, fair market value is determined by asset, or the appropriate grouping of assets, and is compared to the asset's carrying value to determine if impairment exists. Asset impairments are recorded as a charge to operations, based on the amount by which the carrying value exceeds the fair market value. Long-lived assets to be disposed of other than by sale are considered held and used until such time the asset is disposed.

## **Tooling**

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

## **Goodwill and Other Intangible Assets**

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

Goodwill and indefinite-lived intangible assets are not amortized, but are tested for impairment at least annually. We perform our annual impairment test 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 utilize discounted cash flow analyses and guideline company market multiples. Where the carrying value exceeds the fair value for a particular reporting unit, goodwill impairment charges may be recognized.

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

## **Foreign Currency Translation**

Each of our foreign subsidiaries' functional currency as of December 31, 2010, is its local currency, with the exception of our subsidiaries in Mexico for which the U.S. dollar is the functional currency since substantially all of the purchases and sales are denominated in U.S. dollars. On January 1, 2010, we changed the functional currency in Hungary to the Euro since substantially all of their purchases and sales are denominated in Euro. Financial statements of foreign subsidiaries for which the functional currency is their local currency are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and at the average exchange rate for each year for revenue and expenses. Translation adjustments are recorded as a separate component of shareholders' equity and reflected in other comprehensive income (loss) ("OCI"). For each of our foreign subsidiaries, gains and losses arising from transactions denominated in a currency other than the functional currency are included in the accompanying consolidated statements of operations. We evaluate our foreign subsidiaries' functional currency on an ongoing basis.

## **Derivative Financial Instruments**

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

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

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

## **Warranty**

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

## **Income Taxes**

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

We assess 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 operations following our emergence from bankruptcy 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**

Basic earnings (loss) per share are calculated by dividing net earnings (loss) by the weighted average shares outstanding during the period. Diluted earnings per share are based on the weighted average number of shares outstanding plus the assumed issuance of common shares and related adjustment to net income (loss) attributable to common shareholders related to all potentially dilutive securities. For the years ended December 31, 2010, 2009, and 2008, in applying the treasury stock method equivalent shares of unvested restricted stock and restricted stock units of 72,245, none, and 245,533, respectively, were antidilutive and excluded from the basic and dilutive calculation.

## **Recent Accounting Adoptions**

On June 12, 2009, the FASB issued guidance now codified within FASB ASC Topic 860, *Transfers and Servicing*, which amends the derecognition guidance in FASB ASC Topic 860. In addition, FASB ASC Topic 860 addresses concerns expressed by the SEC, members of Congress, and financial statement users about the accounting and disclosures required by FASB ASC Topic 860 in the wake of the subprime mortgage crisis and the deterioration in the global credit markets. The FASB believes these amendments will improve the accounting for transfers of financial assets. FASB ASC Topic 860 is effective for financial

asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009. Early adoption is prohibited. The adoption of FASB ASC Topic 860 did not have a material impact on our consolidated financial position, results of operations or cash flows.

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

### **New Accounting Pronouncements**

In October 2009, the FASB issued Accounting Standard Update ("ASU") No. 2009-13, Revenue Recognition (Topic 605): *Multiple-Deliverable Revenue Arrangements — a Consensus of the FASB Emerging Issues Task Force*, which amends ASC 605. ASU No. 2009-13 establishes a selling price hierarchy of vendor-specific objective evidence ("VSOE"), followed by third party evidence, followed by estimated selling price for the good or service, in that order. ASU No. 2009-13 is effective, on a prospective basis, for revenue arrangements entered into for fiscal years beginning on or after June 15, 2010, with early adoption permitted. The adoption of ASU No. 2009-13 is not expected to have a material impact on the Company's consolidated financial statements.

In July 2010, the FASB issued ASU No. 2010-20, Receivables (Topic 310), *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. ASU No. 2010-20 is effective for us on interim and annual periods ending on or after December 15, 2011. In January 2011, the FASB issued ASU No. 2011-01, Receivables (Topic 310), *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update 2010-20*, which deferred the effective date for certain disclosures. The adoption of ASU No. 2010-20 is expected to increase our disclosures, but is not expected to have an impact on our consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, *Intangibles — Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts by requiring an entity to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. This update will be effective for fiscal years beginning after December 15, 2010. The adoption of this guidance is not expected to have an impact on our consolidated financial statements.

### **3. FAIR VALUE MEASUREMENTS**

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, FASB ASC Topic 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

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

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

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

Assets and liabilities remeasured and disclosed at fair value on a recurring basis as of December 31, 2010, and 2009, are set forth in the table below:

(In thousands of dollars)	As of December 31, 2010			As of December 31, 2009		
	Asset/ (Liability)	Level 2	Valuation Technique	Asset/ (Liability)	Level 2	Valuation Technique
Interest rate swap contracts	\$ (5,001)	\$ (5,001)	C	\$ (4,613)	\$ (4,613)	C
Foreign exchange contracts	1,016	1,016	C	534	534	C
Commodity contracts	9,471	9,471	C	93	93	C

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

The following table presents our defined benefit plan assets measured at fair value on a recurring basis as of December 31, 2010:

(In thousands of dollars)	Total	Level 1	Valuation Technique
<b>U.S. Plans:</b>			
Interest-bearing cash and equivalents	\$ 1,972	\$ 1,972	A
Investments with Registered Investment Companies:			
Fixed income securities	11,333	11,333	A
Equity securities	20,189	20,189	A
	<u>33,494</u>	<u>33,494</u>	
<b>Non-U.S. Plans:</b>			
Investments with Registered Investment Companies:			
Fixed income securities	2,445	2,445	A
Equity securities	5,985	5,985	A
	<u>8,430</u>	<u>8,430</u>	
Total	<u>\$ 41,924</u>	<u>\$ 41,924</u>	

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

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

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

In addition to items that are measured at fair value on a recurring basis, we also have assets and liabilities that are measured at fair value on a nonrecurring basis. As these assets and liabilities are not measured at fair value on a recurring basis, they are not included in the tables above. Assets and liabilities that are measured at fair value on a nonrecurring basis include long-lived assets (see Notes 6, 7 and 15). We have determined that the fair value measurements included in each of these assets and liabilities rely primarily on our assumptions as observable inputs are not available. As such, we have determined that each of these fair value measurements reside within Level 3 of the fair value hierarchy.

#### 4. FINANCIAL INSTRUMENTS

##### *Foreign Currency Risk*

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

As of December 31, 2010, and 2009, we had the following outstanding foreign currency contracts that were entered into to hedge forecasted purchases and revenues, respectively:

(In thousands)	<u>Currency Denomination As of December 31,</u>	
<u>Foreign Currency Contract</u>	<u>2010</u>	<u>2009</u>
South Korean Won Forward	\$38,144	\$25,514
Brazilian Real Forward	-	\$10,800
Mexican Peso Collar	\$23,316	\$35,289
Hungarian Forint Forward	€14,400	€7,200

Accumulated unrealized net gains of \$712,000 and \$338,000 were recorded in “Accumulated other comprehensive income (loss)” as of December 31, 2010, and 2009, respectively. As of December 31, 2010, gains of \$712,000 are expected to be reclassified to the consolidated statement of operations within the next twelve months. As a result of a decline in activity during 2009, we became over-hedged resulting in \$150,000 of loss on hedge ineffectiveness. Any ineffectiveness during the years ended December 31, 2010, and December 31, 2008, respectively was immaterial. The Mexican Peso collar is an undesignated hedge and changes in the fair value are recorded as cost of goods sold in the statement of operations.

### *Interest Rate Risk*

During 2010, we entered into an interest rate swap agreement in respect of 50% of the outstanding principal balance of our Term B Loan under which we swap a variable LIBOR rate with a floor of 1.750% to a fixed rate of 3.345%. The Term B Loan \$150,000,000 notional value interest rate swap expires December 31, 2013. Due to the significant value of the terminated swaps which were rolled into this swap, this interest rate swap is an undesignated hedge and changes in the fair value are recorded as interest expense in the accompanying consolidated statements of operations.

During 2009, we entered into two interest rate swap agreements that effectively converted \$50,000,000 of our First Lien Term Loans from a variable interest rate to a fixed rate of 2.500%, and \$50,000,000 of our Second Lien Term Loan from a variable interest rate to a fixed rate of 2.600%.

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 expired on December 13, 2010.

Since the First and Second Lien Term Loan interest rate swaps hedged the variability of interest payments on variable rate debt with the same terms, they qualified for cash flow hedge accounting treatment. As of December 31, 2009, accumulated unrealized net losses of \$4,613,000 were recorded in "Accumulated other comprehensive income (loss)" as a result of these hedges. There was no hedge ineffectiveness during the years ended December 31, 2009, and 2008. As the interest related to the First and Second Lien Term Loans was no longer probable of occurring as a result of the debt refinancing in December 2010 (Note 11), we recognized the remaining amounts of the interest rate swaps in "Accumulated other comprehensive income (loss)" of \$4,213,000 as interest expense in 2010.

During 2008, we terminated certain interest rate swap agreements resulting in a gain that is amortized as an offset to interest expense over the original term of the agreements. At December 31, 2009, the deferred gain, net of income taxes, recorded in "Accumulated other comprehensive income (loss)" was \$587,000. We recognized the remaining amounts of the gain in "Accumulated other comprehensive income (loss)" of \$175,000 as a reduction of interest expense on December 17, 2010, in connection with the debt refinancing (see Note 11).

The interest rate swaps reduce our overall interest rate risk. However, due to the remaining outstanding borrowings on the Term B Loan and other borrowing facilities that continue to have variable interest rates, management believes that interest rate risk to us could be material if there are significant adverse changes in interest rates.

### *Commodity Price Risk*

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

We had thirty-one commodity price hedge contracts outstanding at December 31, 2010, and six commodity price hedge contracts outstanding at December 31, 2009, with combined notional quantities of 5,034.62 and 623.69 metric tons of copper, respectively, and 19.95 and no metric tons of aluminum, respectively. These contracts mature within the next twelve months. These contracts were designated as cash flow hedging instruments. Accumulated unrealized net gains of \$9,138,000 and \$93,000 were recorded in "Accumulated other comprehensive income (loss)" as of December 31, 2010, and 2009, respectively. As of December 31, 2010, gains of \$9,138,000 are expected to be reclassified to the accompanying consolidated statement of operations within the next 12 months. We recorded hedge ineffectiveness of \$333,000 during the year ended December 31, 2010. Any hedge ineffectiveness during the years ended December 31, 2009, and 2008, respectively, was immaterial.

### *Other*

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

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

Any derivative instrument designated initially, but no longer effective as a hedge, or initially not effective as a hedge, is recorded at fair value and the related gains and losses are recognized in the accompanying consolidated statements of operations. Our undesignated hedges are primarily foreign currency hedges as the entity with the derivative transaction does not bear the foreign currency risk, and our interest rate swaps whose fair value at inception of the instrument due to the roll over of existing interest rate swaps resulted in ineffectiveness.

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

(In thousands of dollars)	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	As of December 31,		Balance Sheet Location	As of December 31,	
		2010	2009		2010	2009
<b>Derivatives designated as hedging instruments:</b>						
Interest rate swap contracts	Other noncurrent assets	\$ -	\$ 230	Other noncurrent liabilities	\$ -	\$ 4,843
Commodity contracts	Prepaid expenses and other current assets	9,471	93	Other current liabilities and accrued expenses	-	-
Foreign currency contracts	Prepaid expenses and other current assets	1,154	384	Other current liabilities and accrued expenses	-	-
<b>Total derivatives designated as hedging instruments</b>		<u>\$ 10,625</u>	<u>\$ 707</u>		<u>\$ -</u>	<u>\$ 4,843</u>
<b>Derivatives not designated as hedging instruments:</b>						
Foreign currency contracts	Prepaid expenses and other current assets	\$ -	\$ 150	Other current liabilities and accrued expenses	\$ 138	\$ -
Interest rate swap contracts	Prepaid expenses and other current assets	-	-	Other current liabilities and accrued expenses	2,303	-
Interest rate swap contracts	Other noncurrent assets	-	-	Other noncurrent liabilities	2,698	-
<b>Total derivatives not designated as hedging instruments</b>		<u>\$ -</u>	<u>\$ 150</u>		<u>\$ 5,139</u>	<u>\$ -</u>

The following tables disclose the effect of our derivative instruments on the accompanying consolidated statement of operations for the year ended December 31, 2010 (in thousands of dollars):

Derivatives Designated as Cash Flow Hedging Instruments	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
	Interest rate swap contracts	\$ (4,431)	Interest expense, net	\$ (4,831)	Interest expense, net
Commodity contracts	10,681	Cost of goods sold	1,636	Cost of goods sold	333
Foreign currency contracts	<u>1,333</u>	Cost of goods sold	<u>959</u>	Cost of goods sold	<u>-</u>
	<u>\$ 7,583</u>		<u>\$ (2,236)</u>		<u>\$ (3,880)</u>

  

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives
Foreign currency contracts	Cost of goods sold	\$ 887
Interest rate swap	Interest expense	(787)

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

Derivatives Designated as Cash Flow Hedging Instruments	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
	Interest rate swap contracts	\$ (3,519)	Interest expense, net	\$ (4,119)	Interest expense, net
Commodity contracts	93	Cost of goods sold	-	Cost of goods sold	-
Foreign currency contracts	<u>489</u>	Cost of goods sold	<u>(6,730)</u>	Cost of goods sold	<u>(150)</u>
	<u>\$ (2,937)</u>		<u>\$ (10,849)</u>		<u>\$ (150)</u>

  

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives
Foreign currency contracts	Cost of goods sold	\$ 157

### Concentrations of Credit Risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist primarily of accounts receivable and cash investments. We require placement of cash in financial institutions evaluated as highly creditworthy. Our customer base includes global light and commercial vehicle manufacturers and a large number of retailers, distributors and installers of automotive aftermarket parts. Our credit evaluation process and the geographical dispersion of sales transactions help to mitigate credit risk concentration. We conduct a significant amount of business with GM and three large automotive parts retailers. Net sales to these customers in the aggregate represented 43.6%, 48.0%, and 45.3% of consolidated net sales for the years ended December 31, 2010, 2009, and 2008, respectively.

GM represents our largest customer and accounted for approximately 23%, 19%, and 25% of the sales for the years ended December 31, 2010, 2009, and 2008, respectively.

### Accounts Receivable Factoring Arrangements

We have entered into factoring agreements with various domestic and European financial institutions to sell our accounts receivable under nonrecourse agreements. These are treated as a sale. The transactions are accounted for as a reduction in accounts receivable as the agreements transfer effective control over and risk related to the receivables to the buyers. We do not service any domestic accounts after the factoring has occurred. We do not have any servicing assets or liabilities. We utilize factoring arrangements as an integral part of financing for us. The cost of factoring such accounts receivable is reflected in the accompanying consolidated statements of operations as interest expense with other financing costs. The cost of factoring such accounts receivable for the years ended December 31, 2010, 2009, and 2008, was \$6,758,000, \$7,653,000, and \$7,233,000, respectively. Gross amounts factored under these facilities as of December 31, 2010, and 2009, were \$178,398,000 and \$154,660,000, respectively. Any change in the availability of these factoring arrangements could have a material adverse effect on our financial condition.

## 5. INVENTORIES

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

(In thousands of dollars)	As of December 31,	
	2010	2009
Raw materials	\$ 73,763	\$ 70,990
Work-in-process	9,568	7,832
Finished goods	59,690	51,684
	<u>\$ 143,021</u>	<u>\$ 130,506</u>

## 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

(In thousands of dollars)	As of December 31,	
	2010	2009
Land and buildings	\$ 35,740	\$ 37,113
Machinery and equipment	155,101	135,602
	<u>\$ 190,841</u>	<u>\$ 172,715</u>

Depreciation and amortization expense of property, plant, and equipment for the years ended December 31, 2010, 2009, and 2008, was \$18,643,000, \$19,917,000, and \$18,948,000, respectively.

## 7. GOODWILL AND OTHER INTANGIBLE ASSETS

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

(In thousands of dollars)	As of December 31, 2010			As of December 31, 2009		
	Carrying Value	Accumulated Amortization	Net	Carrying Value	Accumulated Amortization	Net
<b>Definite-life intangibles:</b>						
Intellectual property	\$ 11,230	\$ 3,087	\$ 8,143	\$ 9,796	\$ 2,550	\$ 7,246
Customer relationships	35,500	9,608	25,892	35,500	6,279	29,221
Customer contract	71,373	40,489	30,884	67,108	23,463	43,645
Trade names	6,000	-	6,000	-	-	-
Total	<u>124,103</u>	<u>53,184</u>	<u>70,919</u>	<u>112,404</u>	<u>32,292</u>	<u>80,112</u>
<b>Indefinite-life intangibles:</b>						
Trade names	48,200	-	48,200	54,200	-	54,200
Intangible assets, net	<u>\$ 172,303</u>	<u>\$ 53,184</u>	<u>\$ 119,119</u>	<u>\$ 166,604</u>	<u>\$ 32,292</u>	<u>\$ 134,312</u>

Intellectual property primarily consists of \$9,000,000 assigned as a result of applying fresh-start accounting in 2007 for the value of trade secrets, patents, and regulatory approvals. The value assigned is based on the relief from royalty method utilizing the forecasted revenue and applying a royalty rate based on similar arm's length licensing transactions. The weighted average useful life of intellectual property intangibles is 10.8 years. In 2010 and 2009, we added \$1,434,000 and \$339,000 of intellectual property, respectively, at cost with a weighted average life of approximately 11.6 years and 15 years, respectively.

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

Customer contract intangibles primarily consist of \$29,800,000 assigned as a result of applying fresh-start accounting in 2007 based on our contracts with certain customers and the associated revenue streams. The weighted average useful life of the customer contract intangibles is 4.3 years. During 2010, and 2009, we had additions of approximately \$4,265,000 and \$31,925,000, respectively, with a weighted average useful life of 3.3 years and 4.0 years, respectively, based on the estimated useful lives of the contracts. We do not typically assume a renewal or extension of the terms in determining the amortization period.

As a result of fresh-start accounting, we recorded \$59,700,000 of trade names based on the earnings potential and relief of costs associated with licensing the trade names. Our trade names were assigned an indefinite life. In 2009 and 2008, we impaired trade names by \$4,000,000 and \$1,500,000, respectively. Our Level 3 estimated fair value analysis was based on a relief from royalty methodology utilizing the projected future revenues, and applying a royalty rate based on similar arm's length licensing transactions for the related margins. These impairments were the result of anticipated lower revenue being generated by the products sold under our trade names, and were recorded in the accompanying consolidated statements of operations in "Intangible asset impairment charges." As a result of the change in economic conditions, we reassessed the useful life of a certain indefinite life trade name. On December 31, 2010, we assigned a 10-year useful life to the trade name which had a value of \$6,000,000.

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

A summary of goodwill is as follows:

(In thousands of dollars)	
Balance as of December 31, 2008	\$ 272,580
Adjustments	<u>1,206</u>
Balance as of December 31, 2009	\$ 273,786
Adjustments	<u>(3,472)</u>
Balance as of December 31, 2010	<u><u>\$ 270,314</u></u>

In 2010 and 2009, we recorded a correction of an error pursuant to FASB ASC Topic 250, Accounting Changes and Error Corrections. The errors related to unsupported noncurrent deferred tax liabilities which related to periods prior to November 30, 2007 and a loss related primarily to the years 2001 through 2007. As a result of application of the provisions of FASB ASC Topic 852, Reorganizations, in November 2007, the errors should be reflected in our fresh-start adjustments. As of December 31, 2010 and 2009, we have accordingly adjusted our goodwill to reflect the impact of these errors. We have not restated the prior year balance sheets due to immateriality. In 2010, goodwill and noncurrent deferred income tax liabilities were decreased by \$3,472,000 and \$3,543,000, respectively, and other current liabilities and accrued expenses increased \$71,000. In 2009, goodwill and deferred income tax assets were increased by \$1,206,000 and \$340,000, respectively, with an increase to accounts payable of \$1,546,000.

Definite-lived intangible assets are being amortized to reflect the pattern of economic benefit consumed. We do not assume any residual value in our intangible assets. Amortization expense of definite-lived intangibles for the years ended December 31, 2010, 2009, and 2008 was \$20,892,000, \$18,214,000, and \$13,226,000, respectively. Estimated future amortization, in thousands of dollars, for intangibles with definite lives at December 31, 2010, is:

2011	\$ 17,544
2012	12,613
2013	13,154
2014	5,873
2015	6,404

## 8. OTHER NONCURRENT ASSETS

Other noncurrent assets primarily consisted of core return rights of \$25,440,000 and \$24,491,000 as of December 31, 2010, and 2009, respectively.

## 9. OTHER CURRENT LIABILITIES AND ACCRUED EXPENSES

Other current liabilities and accrued expenses consist of the following:

(In thousands of dollars)	As of December 31,	
	<u>2010</u>	<u>2009</u>
Accrued warranty	\$ 28,433	\$ 23,179
Accrued wages and benefits	43,790	29,887
Current portion of customer obligations	8,866	13,190
Rebates, stocklifts, discounts and returns	14,530	11,922
Current deferred revenue	3,963	3,233
Other	<u>45,289</u>	<u>41,282</u>
	<u><u>\$ 144,871</u></u>	<u><u>\$ 122,693</u></u>

Changes to our current and noncurrent accrued warranty were as follows:

(In thousands of dollars)	Years Ended December 31,		
	2010	2009	2008
Balance at beginning of period	\$ 23,179	\$ 24,932	\$ 35,654
Provision for warranty	58,205	46,576	40,985
Payments and charges against the accrual	(48,874)	(48,329)	(51,707)
Balance at end of period	<u>\$ 32,510</u>	<u>\$ 23,179</u>	<u>\$ 24,932</u>

During the second quarter of 2010, we performed a retrospective review of our warranty calculation and revised the assumptions used to calculate certain future warranty claim obligations related to sales prior to June 30, 2010. Based on this analysis, we adjusted our estimated obligations, which resulted in a \$3,500,000 increase in warranty expense, or \$0.34 per share, in the year ended December 31, 2010. The Company believes that this change in estimate better reflects the Company's obligations for all warranty claims.

## 10. OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities consist of the following:

(In thousands of dollars)	As of December 31,	
	2010	2009
Customer obligations and contracts, net of current portion	\$ 6,418	\$ 14,586
Fair value of customer contract liability, net of amortization	-	8,570
Noncurrent deferred revenue	7,144	6,357
Other	16,656	11,783
	<u>\$ 30,218</u>	<u>\$ 41,296</u>

We operate globally to take advantage of global economic conditions and related cost structures. We are subject to various duties and import/export taxes. We actively review our import/export processes in North and South 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 negotiations 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 the DOC; \$970,000 thereafter annually, commencing June 30, 2008, with a final annual payment of \$959,000 due on June 30, 2014. Interest began to accrue upon our emergence from bankruptcy. Early payment is permitted without penalty. The noncurrent balance included in other in the "Other noncurrent liabilities" table as of December 31, 2010, and 2009, was \$2,899,000 and \$3,869,000, respectively. The current balance included in "Other current liabilities and accrued expenses" as of December 31, 2010, and 2009, was \$970,000 for both periods.

## 11. DEBT

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

(In thousands of dollars)	As of December 31,	
	2010	2009
Asset-Based Revolving Credit Facility - <i>Maturity date of December 17, 2015</i>	\$ 21,273	\$ -
Term B Loan - <i>Maturity date of December 17, 2016</i>	297,000	-
Senior Secured Revolving Credit Facility	-	3,237
First Lien Credit Facility	-	149,417
Second Lien Credit Facility	-	49,625
Third-Priority Floating Rate Secured PIK Notes	-	134,424
Total Senior Credit Facility and Notes	<u>318,273</u>	<u>336,703</u>
Other debt	-	430
Capital leases	2,843	3,112
Less current maturities	<u>(3,347)</u>	<u>(2,340)</u>
Long-term debt less current maturities	<u>\$ 317,769</u>	<u>\$ 337,905</u>

Future maturities of long-term debt outstanding at December 31, 2010, including capital lease obligations, in thousands of dollars, consist of the following:

2011	\$ 3,347
2012	3,341
2013	3,259
2014	3,288
2015	24,572
Thereafter	283,309

In December 2010, we entered into a \$95,000,000, five year, Asset-Based Revolving Credit Facility (“ABL”), replacing our previous Senior Secured Revolving Credit Agreement. The ABL is secured by substantially all domestic accounts receivable and inventory. It bears interest, varying with the level of available borrowing, at a defined Base Rate plus 1.00% - 1.50% per annum or, at our election, at an applicable LIBOR Rate plus 2.00% - 2.50% per annum and is paid monthly. At December 31, 2010, \$21,273,000 was outstanding with an average borrowing rate of 3.17%. Based upon the collateral supporting the revolving credit agreement, the amount borrowed, and the outstanding letters of credit of \$4,800,000, there was additional availability for borrowing of \$31,139,000 on December 31, 2010. The ABL agreement matures on December 17, 2015.

Prior to the refinancing, the Revolving Credit Facility allowed for borrowing up to \$120,000,000, and bore interest, varying with the level of available borrowing, at a defined Index Rate plus .75% - 1.25% per annum or, at our election, at an applicable LIBOR Rate plus 1.75% - 2.25% per annum and was paid monthly. There were no borrowings against the Revolving Credit Agreement when the existing debt was refinanced on December 17, 2010.

In December 2010, we entered into a \$300,000,000 Term Loan B (“Term B”) facility with original issue discount of \$3,000,000. The Term B is secured by a first priority lien on the stock of our subsidiaries and substantially all domestic assets other than accounts receivable and inventory pledged to the ABL. The Term B bears an interest rate consisting of LIBOR (subject to a floor of 1.75%) plus 4.5% per annum. The Term B matures on December 17, 2016. Principal payments in the amount of \$750,000 are due at the end of each calendar quarter with termination and final payment no later than December 17, 2016. At December 31, 2010, the average borrowing rate, including the impact of the interest rate swaps, was 7.05%.

Proceeds from the Term B, ABL revolver, and cash on hand were used to pay off our then-existing First and Second Lien Credit Facilities, Third-Priority Floating rate Secured PIK Notes, and all associated fees and expenses.

The First Lien Credit Facilities in the original amount of \$160,000,000 less original issue discount of \$7,800,000 bore interest at a defined Index Rate plus 4.5% per annum or, at our election, at an applicable LIBOR Rate plus 5.5% per annum and was paid quarterly. Principal payments in the amount of \$400,000 were due at the end of each calendar quarter with termination and final payment no later than December 6, 2013. The First Lien Credit Agreement was paid in full on December 17, 2010. At December 31, 2009, the average borrowing rate, including the impact of the interest rate swaps, was 7.85%.

The Second Lien Credit Facility in the original amount of \$50,000,000 less original issue discount of \$500,000 bore interest at a defined Index Rate plus 7.5% per annum or, at our election, at an applicable LIBOR Rate plus 8.5% per annum and was paid quarterly. The Second Lien Agreement was paid in full on December 17, 2010, in conjunction with our refinancing. At December 31, 2009, the average borrowing rate, including the impact of the interest rate swap, was 12.08%.

The \$100,000,000 Third-Priority Floating Rate Secured PIK (payment-in-kind) Notes bore interest that was 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 was payable semiannually (June 1 and December 1) for cash interest at LIBOR plus 9.5%, or as additional PIK securities at LIBOR plus 12.0%. At December 31, 2009, the PIK borrowing rate was 12.48%. We paid the accrued interest through November 30, 2009, by issuing additional PIK Notes, and paid interest from December 1, 2009, through December 17, 2010, the closing date of our refinancing, in cash. The PIK Notes were paid in full.

We recorded a \$19,403,000 loss on early extinguishment of debt during the year ended December 31, 2010, as a result of the repayment of \$153,829,000 in aggregate principal amount of our outstanding First Lien Credit Facility, \$50,000,000 outstanding principal of our Second Lien Credit Facility, and \$133,040,000 in aggregate principal amount of our outstanding Third-Priority Floating Rate Secured PIK Notes. The loss includes the call premium on the Third-Priority Floating Rate Secured PIK Notes, the write-off of associated deferred financing fees, and the original issue discount on the First and Second Lien Credit Facilities. The loss on extinguishment is separately stated on our accompanying consolidated statements of operations.

As of December 31, 2010, the estimated fair value of our Term B Loan was \$299,970,000. The estimated fair value was \$2,970,000 greater than the carrying value. As of December 31, 2009, the estimated fair values of our First Lien Credit Facility, Second Lien Credit Facility, and Third-Priority Floating Rate Secured PIK Notes totaled \$274,752,000. The estimated fair values were \$58,714,000 lower than carrying values. Fair market values are developed by the use of estimates obtained from brokers and other appropriate valuation techniques based on information available as of December 31, 2010, and 2009. The fair value estimates do not necessarily reflect the values we could realize in the current markets. Because of their short-term nature or variable interest rate, we believe the carrying value for short-term debt and the revolving credit agreement closely approximates their fair value.

All credit agreements contain various covenants and representations that are customary for transactions of this nature. We are in compliance with all covenants as of December 31, 2010. 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 \$19,756,000 of which \$13,171,000 is borrowed at average interest rates of 4.98% at December 31, 2010. In Hungary, there is a revolving credit facility and a note payable with two separate banks for a credit facility of \$5,694,000 of which \$4,963,000 is borrowed at average interest rates of 5.59% at December 31, 2010. Also, in Belgium we have revolving loans with two banks for a credit facility of \$3,881,000 of which \$200,000 is borrowed at average interest rates of 2.75%. In Brazil, we have a credit line for \$6,000,000 with nothing borrowed at December 31, 2010.

### **Capital Leases**

Capital leases have been capitalized using nominal interest rates ranging from 5.8% to 15.1% as determined by the dates we entered into the leases. We had assets under capital leases of approximately \$3,724,000 at December 31, 2010, and approximately \$4,054,000 at December 31, 2009, net of accumulated amortization.

## **12. REDEEMABLE PREFERRED STOCK**

*Series A Preferred Stock*—27,000 shares of Series A preferred stock, with a par value of \$0.0001 per share, were issued and outstanding in the amount of \$27,000,000, the liquidation preference amount. Preferred shareholders received a “Backstop Fee” of \$500,000, which has been netted against the issuance proceeds. Series A preferred shareholders have no voting rights, except as defined in Exhibit A of the Amended and Restated Certificate of Incorporation. Dividends are cumulative whether or not declared by the Board of Directors and have been accrued in the amount of \$9,488,000, \$7,939,000, and \$7,183,000 for the years ended December 31, 2010, 2009, and 2008, respectively. Cumulative dividends in arrears at December 31, 2010, are \$25,081,000.

*Series B Preferred Stock*—60,000 shares of Series B preferred stock, with par value of \$0.0001 per share, were issued and outstanding in the amount of \$60,000,000, the liquidation preference amount. Preferred shareholders received a “Backstop Fee” of \$1,200,000, which has been netted against the issuance proceeds. Series B preferred shareholders have no voting rights, except

as defined in Exhibit B of the Amended and Restated Certificate of Incorporation. Dividends are cumulative whether or not declared by the Board of Directors and have been accrued in the amount of \$21,083,000, \$17,642,000, and \$15,962,000 for the years ended December 31, 2010, 2009, and 2008, respectively. Cumulative dividends in arrears at December 31, 2010, are \$55,735,000.

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

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

### **January 2011 Series A and Series B Preferred Stock Redemption**

On January 14, 2011, we received the requisite two-thirds common shareholder vote approving the amendment to our certificate of incorporation to allow us to redeem our Series A preferred stock and Series B preferred stock at our option. The amendment to the Amended and Restated Series A and Series B Preferred Stock allows for us to redeem the preferred stock at a redemption price equal to 115% of the liquidation preference plus accrued and unpaid dividends to the date of payment of the redemption proceeds.

On January 19, 2011, the Board of Directors declared a dividend of \$37,246,000 on the shares of Series A and Series B preferred stock to stockholders of record on January 20, 2011, and issued a notice of redemption of the remaining Series A and Series B preferred stock. On January 31, 2011, we redeemed our outstanding shares of Series A and Series B preferred stock for \$45,022,000, which included \$5,872,000 premium of liquidation preference at redemption and accrued dividends of \$153,000. In January 2011, we had a loss on extinguishment of our preferred shares of \$7,572,000 related to the premium on liquidation preference at redemption and \$1,700,000 related to the "Backstop Fees."

## **13. SHAREHOLDERS' EQUITY**

### **Common Stock**

On November 20, 2007, we amended and restated our certificate of incorporation. The Amended and Restated Certificate of Incorporation authorized the Company to issue 20,087,000 shares, consisting of 20,000,000 shares of common stock, par value \$0.0001 and 87,000 shares of preferred stock, par value \$0.0001 per share.

On June 1, 2010, we amended our Amended and Restated Certificate of Incorporation. The amendment authorizes the Company to issue 130,087,000 shares, consisting of 130,000,000 shares of common stock, par value \$0.0001 per share, and 87,000 shares of preferred stock, par value \$0.0001 per share.

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

### **January 2011 Common Stock Rights Offering**

On January 14, 2011, we received the requisite two-thirds common shareholder vote approving the rights offering with certain related parties and the proposed amendment to our certificate of incorporation to allow us to redeem our Series A preferred stock and Series B preferred stock at our option.

Pursuant to the terms of the January 2011 rights offering, we offered shares of common stock at a price of \$11 per share to existing holders of common stock as of November 12, 2010, who certified to the Company that they are accredited investors or institutional accredited investors.

Eligible shareholders exercised rights for 19,723,786 shares of common stock for \$216,961,000, consisting of cash proceeds of approximately \$123,426,000, and the cancellation of 48,003,534 shares of preferred stock having an aggregate liquidation preference and accrued dividends of approximately \$93,535,000. Subsequent to the January 2011 rights offering, we have

31,474,034 shares of common stock issued. We utilized the proceeds from the January 2011 rights offering to redeem our remaining outstanding Series A and Series B preferred shares as discussed in Note 12.

#### 14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

(In thousands of dollars)	<b>Foreign Currency Translation Adjustment</b>	<b>Unrealized Gains (Losses) on Currency Hedges</b>	<b>Unrealized Gains (Losses) on Commodity Hedges</b>	<b>Interest Rate Swaps</b>	<b>Employee Benefit Plan Adjustment</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>
Balances at January 1, 2008	\$ (132)	\$ (374)	\$ -	\$ -	\$ 1,284	\$ 778
Current year amount	(24,058)	(6,498)	-	(4,177)	(7,853)	(42,586)
Applicable income taxes	-	1,934	-	-	-	1,934
Other comprehensive loss	<u>(24,058)</u>	<u>(4,564)</u>	<u>-</u>	<u>(4,177)</u>	<u>(7,853)</u>	<u>(40,652)</u>
Balances at December 31, 2008	(24,190)	(4,938)	-	(4,177)	(6,569)	(39,874)
Current year amount	4,435	7,369	93	151	2,451	14,499
Applicable income taxes	-	(2,093)	-	-	-	(2,093)
Other comprehensive income	<u>4,435</u>	<u>5,276</u>	<u>93</u>	<u>151</u>	<u>2,451</u>	<u>12,406</u>
Balances at December 31, 2009	(19,755)	338	93	(4,026)	(4,118)	(27,468)
Current year amount	1,813	544	9,045	4,026	(6,037)	9,391
Applicable income taxes	-	(170)	(3,532)	(1,574)	1,996	(3,280)
Other comprehensive income	<u>1,813</u>	<u>374</u>	<u>5,513</u>	<u>2,452</u>	<u>(4,041)</u>	<u>6,111</u>
Balances at December 31, 2010	<u>\$ (17,942)</u>	<u>\$ 712</u>	<u>\$ 5,606</u>	<u>\$ (1,574)</u>	<u>\$ (8,159)</u>	<u>\$ (21,357)</u>

#### 15. RESTRUCTURING AND OTHER CHARGES

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

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

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

Significant components of restructuring expenses for the approved activities are:

(In thousands of dollars)	Total Expected Costs	Expense Incurred in			Estimated Future Expense
		2010	2009	2008	
<b>2010 Activities</b>					
Severance	\$ 1,829	\$ 1,667	\$ -	\$ -	\$ 162
Exit costs	210	210	-	-	-
	<u>\$ 2,039</u>	<u>\$ 1,877</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 162</u>
<b>2009 Activities</b>					
Severance	\$ 2,446	\$ 30	\$ 2,416	\$ -	\$ -
Exit costs	950	75	875	-	-
	<u>\$ 3,396</u>	<u>\$ 105</u>	<u>\$ 3,291</u>	<u>\$ -</u>	<u>\$ -</u>
<b>2008 Activities</b>					
Severance	\$ 8,255	\$ (37)	\$ 2,087	\$ 6,205	\$ -
Exit costs	8,966	2,018	1,438	5,510	-
	<u>\$ 17,221</u>	<u>\$ 1,981</u>	<u>\$ 3,525</u>	<u>\$ 11,715</u>	<u>\$ -</u>

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

Restructuring charges and asset impairments are as follows:

(In thousands of dollars)	Years Ended December 31,		
	2010	2009	2008
Severance and termination benefits	\$ 1,660	\$ 4,458	\$ 6,272
Exit costs	15	2,313	5,468
Asset impairments	2,288	812	3,585
Total restructuring and other charges	<u>\$ 3,963</u>	<u>\$ 7,583</u>	<u>\$ 15,325</u>

In 2010, severance costs were incurred primarily related to postemployment benefit expense in accordance with ASC Topic 712, *Compensation*, at one of our European facilities and severance and other fees associated with the closure of our Virginia manufacturing operations and further consolidation of our North American facilities. During 2010, we settled a lease agreement for an amount less than we had accrued in previous periods resulting in a reversal of restructuring charges of \$454,000. During the third quarter 2010, we liquidated the Remy Automotive Poland legal entity which resulted in the recognition of impairment of our investment of \$2,288,000 due to the loss related to the accumulated other comprehensive income related to currency translation adjustment.

During 2009, severance costs were related to further consolidation of distribution centers in North America including the closure of the distribution center in Mississippi, restructuring of the production facility and engineering center in Poland, relocation of production to other facilities in Europe, Mexico and Korea, and reduction in force in North America and Europe. In 2009, exit costs are associated with the reduction of warehouse space in the United Kingdom. We recorded fixed asset impairments during 2009 related to the restructuring of our Poland facility and consolidation of our North American facilities.

During 2008, severance costs were related to the realignment and streamlining of capacity at manufacturing, administration, technical, and distribution locations in North America and consolidation of the original equipment division's Mexican manufacturing facilities from four to three and the combination of two Chinese manufacturing facilities into one. Additionally, we consolidated our Belgium warehouses from three to one facility, and severance related costs associated with the sales decline in late 2008. We announced the restructuring of our Poland manufacturing facility in October 2008, and recorded an asset impairment charge related to the facility.

## Accrued Restructuring

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

(In thousands of dollars)	Termination	Exit	Total
	Benefits	Costs	
Accrual at January 1, 2009	\$ 4,972	\$ 1,951	\$ 6,923
Provision in 2009	4,458	2,313	6,771
Payments in 2009	(8,848)	(2,656)	(11,504)
Accrual at December 31, 2009	582	1,608	2,190
Provision in 2010	1,660	15	1,675
Payments in 2010	(1,755)	(1,498)	(3,253)
Accrual at December 31, 2010	\$ 487	\$ 125	\$ 612

During 2011, we expect to pay substantially all of the termination benefits and the majority of the exit costs accrued as of December 31, 2010.

## 16. OTHER INCOME

On June 2, 2008, Remy Automotive Europe (“Remy Europe”), our wholly-owned subsidiary, and Cardone Industries, Inc. (“Cardone”), entered into an agreement whereby Remy Europe sold three plants in the United Kingdom which manufactured and remanufactured the Multiline product group. As a result of the sale, Cardone acquired the employees, production equipment, and inventory related to the three plants. Cardone will supply Remy Europe with its demands for Multiline products to allow Remy Europe to continue to sell the products to its existing customer base. 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” in the accompanying consolidated statement of operations for the year ended December 31, 2008.

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

## 17. INCOME TAXES

Income before income taxes was taxed in the following jurisdictions:

(In thousands of dollars)	Years Ended December 31,		
	2010	2009	2008
Domestic	\$ (24,957)	\$ 5,788	\$ (4,479)
Foreign	64,485	21,290	6,924
	\$ 39,528	\$ 27,078	\$ 2,445

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

(In thousands of dollars)	Years Ended December 31,		
	2010	2009	2008
Current:			
Federal	\$ (125)	\$ (537)	\$ -
State and local	515	761	610
Foreign	19,690	12,103	5,908
Deferred:			
Federal	(1,311)	48	948
State and local	(155)	6	141
Foreign	(277)	637	(789)
Income tax expense	<u>\$ 18,337</u>	<u>\$ 13,018</u>	<u>\$ 6,818</u>

For the years ended December 31, 2010, and 2009, the U.S. federal and state deferred tax expense relates to goodwill amortization for tax purposes creating tax loss carryforwards to which a full valuation allowance has been recorded.

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

	Years Ended December 31,		
	2010	2009	2008
Federal statutory income tax rate	35.0 %	35.0 %	35.0 %
State and local income taxes, net of Federal tax benefit, if applicable	0.9	1.8	24.9
Permanent items and other	8.6	6.4	79.3
Foreign operations	(12.7)	19.6	110.1
Goodwill	4.2	0.2	44.5
Intraperiod tax allocation from other comprehensive income	(7.9)	-	-
Valuation allowance changes affecting the provision	18.3	(14.9)	(15.3)
Effective income tax rate	<u>46.4 %</u>	<u>48.1 %</u>	<u>278.5 %</u>

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

(In thousands of dollars)	Years Ended December 31,		
	2010	2009	2008
Income tax expense	\$ 18,337	\$ 13,018	\$ 6,818
Adjustment to goodwill	-	-	(766)
Allocated to other comprehensive income:			
Financial instruments	5,276	(2,093)	1,934
Pensions	(1,996)	-	-

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

(In thousands of dollars)	As of December 31,	
	2010	2009
Deferred tax assets:		
Restructuring charges	\$ 3,049	\$ 4,072
Employee benefits	13,954	14,213
Inventories	4,363	2,761
Warranty	10,312	8,154
Interest	-	9,249
Alternative minimum tax and other credits	8,994	4,376
Net operating loss carryforwards	97,232	87,730
Customer contracts & other intangibles	5,371	11,541
Rebates, stock, discounts and returns	3,031	2,312
Unrealized gain/loss on financial instruments	1,963	-
Other	13,109	14,540
Total deferred tax assets	161,378	158,948
Valuation allowance	(133,825)	(126,522)
Deferred tax assets net of valuation allowance	27,553	32,426
Deferred tax liabilities:		
Depreciation	(8,411)	(7,311)
Goodwill and other intangibles	(20,169)	(23,296)
Trade names	(21,192)	(21,194)
Other	(2,562)	(7,484)
Total deferred tax liabilities	(52,334)	(59,285)
Net deferred tax liability	\$ (24,781)	\$ (26,859)

At December 31, 2010, we had unused U.S. federal net operating loss carryforwards of approximately \$204,383,000 that expire during 2023 through 2030. Pursuant to Internal Revenue Code Section 382, we are limited to approximately \$10,555,000 use in any one year of the pre-bankruptcy net operating loss carryforward and credit equivalents in our federal income tax return. We also had unused U.S. alternative minimum tax credit carryforwards of \$2,585,000 that may be carried forward indefinitely. In addition, we had research and development credit carry forwards for federal and state purpose of \$6,409,000 that will expire during 2017 through 2030.

Income tax payments, net of refunds including state taxes, were \$16,072,000, \$8,733,000, and \$6,351,000 for the years ended December 31, 2010, 2009, and 2008, respectively.

At December 31, 2010, and 2009, we had unused foreign loss carryforwards totaling \$63,538,000 and \$92,006,000, respectively. Net operating loss carryforwards totaling \$26,230,000 will expire during 2011 through 2015, and carryforwards totaling \$37,308,000 have no expiration.

FASB ASC Topic 740 clarifies the accounting for uncertainty in income taxes recognized in companies' financial statements. As a result, we apply a more-likely-than-not recognition threshold for all tax uncertainties. It only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities.

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

	2010	2009
Balance at January 1,	\$ 1,425	\$ -
Additions based on tax positions related to the current year	934	471
Additions for tax positions of prior years	447	954
Reductions for tax positions of prior years	-	-
Settlements	-	-
Balance at December 31,	\$ 2,806	\$ 1,425

At December 31, 2010, and 2009, we have total unrecognized tax benefits of \$3,515,000 and \$1,600,000, respectively, that have been recorded as liabilities, and we are uncertain as to if or when such amounts may be settled. We recognized interest and penalties accrued related to unrecognized tax benefits in income tax expense. As of December 31, 2010, and 2009, we accrued approximately \$709,000 and \$175,000, respectively, for the payment of interest and penalties. During the years ended December 31, 2010, and 2009, we expensed \$534,000 and \$175,000, respectively, for penalties and interest. There were no provisions for uncertain tax benefits recorded in the year ended December 31, 2008. During the next twelve months, \$447,000 of unrecognized tax benefits will reverse due to expiration of the statute of limitations.

United States income taxes have not been provided on accumulated but undistributed earnings of our non-U.S. subsidiaries as these earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal or state income taxes or foreign withholding taxes has been made. Upon distribution of those earnings, the Company would be subject to U.S. income taxes (subject to a reduction for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the unrecognized deferred tax liability related to these undistributed earnings is not practicable because of the complexities of its hypothetical calculation.

We operate in multiple jurisdictions throughout the world. We are no longer subject to U.S. federal tax examinations for years before 2007 or state and local for years before 2005, with limited exceptions. For federal purposes, the tax attributes carried forward could be adjusted through the examination process and are subject to examination 3 years from the date of utilization. Furthermore, we are no longer subject to income tax examinations in major foreign tax jurisdictions for years prior to 2004, with limited exceptions.

## **18. EMPLOYEE BENEFIT PLANS**

### **Agreements with GM**

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

### **Pension and Postretirement Health Care and Life Insurance Plans**

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

We offer a supplemental executive retirement pension plan to selected former and current executive officers of our company. The plan offers retirement benefits ranging from 30% to 50% of the participant’s average salary for five consecutive years prior to receiving benefits. As of December 31, 2010, there were five participants in the plan of which only one is an active employee.

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

We maintained certain U.S. salaried and hourly benefit plans that provided postretirement health care and life insurance to retirees and eligible dependents. The benefits were payable for life, although we retain the right to modify or terminate the plans. The salaried postretirement plan had cost sharing features such as deductibles and co-payments. Salaried employees who were not GM employees prior to 1992 are not eligible for the above described postretirement benefits. It is our policy to fund these benefits as claims are incurred.

### *Termination of postretirement healthcare cost sharing agreements with GM*

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

In July 2009, and in connection with GM bankruptcy proceedings, we entered into an agreement with new GM to terminate GM's reimbursement to us for GM's proportionate share of retiree health claims for our eligible hourly retirees who receive or who would receive retiree healthcare under the Remy retiree healthcare plans. As a result of this agreement and in combination with GM's notification on November 20, 2008, (as described above), we recorded a noncash gain of \$11,987,000 in cost of goods sold in 2009.

### *Remy postretirement benefit plans*

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

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

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

(In thousands of dollars)	Postretirement Healthcare and Life Insurance Plans		
	Years Ended December 31,		
	2010	2009	2008
Change in benefit obligations			
Benefit obligation at beginning of period	\$ 2,577	\$ 6,413	
Service cost	-	-	
Interest cost	121	293	
Amendments	-	(25,697)	
Gain due to GM-UAW VEBA adoption	-	-	
Actuarial loss (gain)	3	(479)	
Benefits paid	(415)	(271)	
Settlements	-	22,318	
<b>Benefit obligation at end of period</b>	<b>\$ 2,286</b>	<b>\$ 2,577</b>	
Change in plan assets			
Fair value of plan assets at beginning of period	\$ -	\$ -	
Employer contributions	415	271	
Benefits paid	(415)	(271)	
<b>Fair value of plan assets at end of period</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Funded status</b>	<b>\$ (2,286)</b>	<b>\$ (2,577)</b>	
Amounts recognized in the balance sheets consist of:			
Current liabilities	\$ (915)	\$ (1,025)	
Noncurrent liabilities	(1,371)	(1,552)	
<b>Net amount recognized</b>	<b>\$ (2,286)</b>	<b>\$ (2,577)</b>	
Amounts recognized in accumulated other comprehensive income consist of:			
Net actuarial loss (gain)	\$ 10,194	\$ 15,286	
Prior service credit	(15,857)	(23,784)	
<b>Accumulated other comprehensive loss (income)</b>	<b>\$ (5,663)</b>	<b>\$ (8,498)</b>	
Components of net periodic benefit cost and other amounts recognized in other comprehensive income			
Net Periodic Benefit Cost			
Service cost	\$ -	\$ -	\$ -
Interest cost	121	293	1,196
Amortization of prior service cost	(7,928)	(2,005)	-
Recognized net actuarial loss	5,096	856	27
Settlement gain	-	(11,987)	-
<b>Net periodic pension cost (benefit)</b>	<b>\$ (2,711)</b>	<b>\$ (12,843)</b>	<b>\$ 1,223</b>
Other changes in plan assets and benefit obligations recognized in other comprehensive income			
Net actuarial loss (gain)	\$ 3	\$ 14,239	\$ (9,560)
Prior service credit	-	(25,697)	(92)
Amortization of prior service cost	7,928	2,005	-
Recognized net actuarial (loss) gain	(5,096)	11,131	(27)
<b>Total recognized in other comprehensive loss (income)</b>	<b>2,835</b>	<b>1,678</b>	<b>(9,679)</b>
<b>Total recognized in net (benefit) cost and OCI</b>	<b>\$ 124</b>	<b>\$ (11,165)</b>	<b>\$ (8,456)</b>
Weighted-average assumptions			
U.S. assumptions:			
Discount rate for benefit obligation	5.41%	5.87%	6.00%
Discount rate for net periodic benefit cost	5.87%	6.00%	6.50%
Rate of compensation increase	0.00%	5.00%	5.00%

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

(In thousands of dollars)	<b>Pension Benefits</b>		
	Years Ended December 31,		
	2010	2009	2008
<b>Change in benefit obligations</b>			
Benefit obligation at beginning of period	\$ 57,642	\$ 53,958	
Service cost	247	263	
Interest cost	3,305	3,221	
Amendments	-	-	
Actuarial loss (gain)	4,881	2,720	
Benefits Paid	(2,798)	(2,520)	
<b>Benefit obligation at end of period</b>	<b>\$ 63,277</b>	<b>\$ 57,642</b>	
<b>Change in plan assets</b>			
Fair value of plan assets at beginning of period	\$ 39,477	\$ 32,656	
Actual return on plan assets	3,733	8,359	
Employer contributions	1,512	982	
Benefits paid	(2,798)	(2,520)	
<b>Fair value of plan assets at end of period</b>	<b>\$ 41,924</b>	<b>\$ 39,477</b>	
<b>Funded status</b>	<b>\$ (21,353)</b>	<b>\$ (18,165)</b>	
<b>Amounts recognized in statement of financial position consist of:</b>			
Noncurrent assets	\$ -	\$ -	
Current liabilities	(351)	(349)	
Noncurrent liabilities	(21,002)	(17,816)	
<b>Net amount recognized</b>	<b>\$ (21,353)</b>	<b>\$ (18,165)</b>	
<b>Amounts recognized in accumulated other comprehensive income consist of:</b>			
Net actuarial loss (gain)	\$ 15,818	\$ 12,616	
Prior service cost	-	-	
<b>Accumulated other comprehensive loss (income)</b>	<b>\$ 15,818</b>	<b>\$ 12,616</b>	
<b>Information for pension plans with an accumulated benefit obligation in excess of plan assets</b>			
Projected benefit obligation	\$ 63,277	\$ 57,642	
Accumulated benefit obligation	62,964	57,395	
Fair value of plan assets	41,924	39,477	
<b>Components of net periodic benefit cost and other amounts recognized in other comprehensive income</b>			
<b>Net Periodic Benefit Cost</b>			
Service cost	\$ 247	\$ 263	\$ 257
Interest cost	3,305	3,221	3,205
Expected return on plan assets	(2,501)	(2,142)	(3,161)
Amortization of prior service cost	-	-	-
Recognized net actuarial loss (gain)	447	632	-
<b>Net periodic pension cost (benefit)</b>	<b>\$ 1,498</b>	<b>\$ 1,974</b>	<b>\$ 301</b>
<b>Other changes in plan assets and benefit obligations recognized in other comprehensive income</b>			
Net actuarial loss (gain)	\$ 3,649	\$ (3,497)	\$ 17,532
Prior service cost	-	-	-
Amortization of prior service cost	-	-	-
Recognized net actuarial (loss) gain	(447)	(632)	-
<b>Total recognized in other comprehensive loss (income)</b>	<b>3,202</b>	<b>(4,129)</b>	<b>17,532</b>
<b>Total recognized in net (benefit) cost and OCI</b>	<b>\$ 4,700</b>	<b>\$ (2,155)</b>	<b>\$ 17,833</b>
<b>Weighted-average assumptions</b>			
<b>U.S. assumptions:</b>			
Discount rate for benefit obligation	5.41%	5.87%	6.00%
Discount rate for net periodic benefit cost	5.87%	6.00%	6.50%
Rate of compensation increase	5.00%	5.00%	5.00%
Expected return on plan assets	6.50%	6.50%	6.50%
<b>U.K. assumptions:</b>			
Discount rate for benefit obligation	5.40%	5.70%	6.20%
Discount rate for net periodic cost	5.70%	6.20%	5.50%
Rate of compensation increase	3.45%	3.25%	3.00%
Expected return on plan assets	6.20%	6.50%	6.85%

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

(In thousands of dollars)	<u>Pension</u>	<u>Postretirement healthcare</u>
Amortization of actuarial losses	\$ 540	\$ 5,097
Amortization of prior service cost	-	(7,928)
Total	<u>\$ 540</u>	<u>\$ (2,831)</u>

The projected benefit obligations for U.K. pension plans included above are \$10,900,000, \$9,785,000, and \$7,461,000 as of December 31, 2010, 2009, and 2008, respectively. The fair value of the plan assets for U.K. pension plans included above are \$8,430,000, \$8,266,000, and \$6,314,000 as of December 31, 2010, 2009, and 2008, respectively.

The discount rate assumptions for our U.S. pension plans and postretirement plans are based on a hypothetical yield curve and associated spot rate curve to discount the plan's projected cash flows. The yield curve utilized is the Citigroup Pension Discount Curve. Once the present value of projected benefit payments is calculated, the suggested discount rate is equal to the level rate that results in the same present value.

To develop the expected long-term rate of return on assets assumption, we considered the historical returns and future expectations for returns for each asset class, as well as the target asset allocation of the present portfolio. This resulted in the selection of the 6.5% for long-term rate of return on asset assumption for U.S. plans and 6.2% for U.K. plans.

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

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

The 2011 target plan asset allocation is:

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

The asset allocations were:

(In thousands of dollars)	As of December 31,			
	<u>2010</u>		<u>2009</u>	
<b>Asset Allocation for Plan Assets</b>				
Interest-bearing cash	\$ 1,972	4.7%	\$ 1,870	4.7%
Bond Mutual Funds	13,778	32.9%	13,162	33.3%
Equity Mutual Funds	26,174	62.4%	24,445	62.0%
Common stock	-	0.0%	-	0.0%
Total plan assets	<u>\$ 41,924</u>	<u>100.0%</u>	<u>\$ 39,477</u>	<u>100.0%</u>

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

	As of December 31,	
	<u>2010</u>	<u>2009</u>
<b>Assumed Health Care Cost Trend Rates</b>		
Health care cost trend rate assumed for next year	9%	9%
Rate to which the cost trend is expected to decline	5%	5%
Year that the rate reaches the ultimate trend rate	2014	2013

## Sensitivity Analysis

An increase or decrease of one percentage point in the assumed health care trends would have the following approximate effects for the year ended December 31, 2010 (in thousands of dollars):

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 0	\$ 0
Effect on the health care component of the accumulated postretirement benefit obligation	2	(3)

## Payments to Pension and Postretirement Plans

We contributed \$1,512,000 to our pension plans in 2010 and \$982,000 in 2009.

In 2011, we plan to contribute approximately \$2,318,000 to our U.S. pension plans and nothing to our U.K. pension plans. The benefits of the postretirement health care plan are funded on a pay-as-you go basis and are funded on a cash basis as benefits are paid.

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

(In thousands of dollars)	<u>Pension</u>	<u>Postretirement healthcare</u>
2011	\$ 2,559	\$ 915
2012	2,587	436
2013	2,665	251
2014	2,701	96
2015	2,782	4
Years 2016-2020	14,130	50

## Defined Contribution Plans

We sponsor two voluntary savings plans for U.S. employees. One plan is for eligible salaried employees and the other plan is for hourly employees covered by certain labor agreements. These plans allow participants to make contributions pursuant to section 401(k) of the Internal Revenue Code. The salaried plan has Company matching contribution provisions, while the hourly plan does not. Charges were \$1,207,000, \$1,182,000, and \$1,177,000 for the years ended December 31, 2010, 2009, and 2008, respectively.

## 19. STOCK-BASED COMPENSATION

In connection with our emergence from bankruptcy on December 6, 2007, our executive officers received restricted stock awards of 524,737 common shares at no cost to them. An additional award of 108,335 common shares was made on April 30, 2008, to certain other key employees. Both of the awards vest at 12% on each of the first three years' anniversaries of the grant date, and 32% each on the fourth and fifth anniversaries, based upon continuation of employment. In February and November 2008, our Board of Directors received restricted stock grants of 160,000 that vest 50% upon the first and second anniversaries. Additionally, there is a change of control provision in the aforementioned awards. As a nonpublic company, there is not an active viable market for our common stock; accordingly, we used a calculated value of \$3.00, \$8.00, \$11.55, and \$11.55 on a per share basis to determine the value of the awards related to the November 2008 grant, the April 2008 grant, the February 2008, and December 2007, grants, respectively. Our calculation assumed a risk-free interest rate of 3.0%, volatility of 39.1%, and that no dividends would be paid.

Noncash compensation expense related to the awards was recognized for the years ended December 31, as follows (in thousands of dollars):

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Share based compensation expense	\$ 1,196	\$ 1,825	\$ 1,800

A summary of the status of our nonvested restricted stock awards as of December 31, 2010, and changes during the year ended December 31, 2010, is presented below:

<b>Nonvested Units</b>	<u>Restricted stock awards</u>	<u>Weighted- average grant-date fair value</u>
Nonvested at January 1, 2010	418,735	\$ 10.57
Granted	-	-
Vested	(130,516)	10.47
Forfeited	<u>(17,067)</u>	8.00
Nonvested at December 31, 2010	<u><u>271,152</u></u>	\$ 10.79

As of December 31, 2010, there was \$1,829,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plan. Such cost is expected to be recognized over a weighted-average period of approximately 2 years.

On January 4, 2011, executive officers and other key employees received restricted stock awards of 744,089 common shares. The executive officers and other key employees' awards are vested 50% time based and 50% performance based. The time based shares are equally vested over a three year period. One-third of the performance based shares will be available to vest in each of the calendar years 2011, 2012, and 2013, based on a target Adjusted EBITDA, for each of the years. Adjusted EBITDA is defined as earnings before interest, income taxes, depreciation and amortization, restructuring expenses and certain items such as noncash compensation expense, loss on extinguishment of debt, intangible asset impairment charges, and reorganization items. Our Board of Directors received restricted stock awards of 340,455 common shares. One-half of the restricted stock shares granted to the Board of Directors vest at each anniversary of the grant date.

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

## 20. LEASE COMMITMENTS

We occupy space and use certain equipment under operating lease arrangements. Rent expense, calculated on a straight-line basis, totaled \$5,832,000, \$6,077,000, and \$8,769,000 for the years ended December 31, 2010, 2009, and 2008, respectively. Rental commitments at December 31, 2010, for long-term non-cancellable operating leases consummated as of December 31, 2010 (not reflected as accrued restructuring) are as follows:

(In thousands of dollars)	
2011	\$ 4,328
2012	3,827
2013	3,029
2014	2,471
2015	1,845
Thereafter	2,917

## 21. GEOGRAPHIC INFORMATION

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

Information is as follows:

(In thousands of dollars)	Years Ended December 31,		
	2010	2009	2008
Net sales to external customers:			
United States	\$ 667,198	\$ 603,353	\$ 757,370
Europe	117,245	106,184	128,090
Other Americas	119,829	79,710	102,250
Asia Pacific	199,527	121,498	113,095
Total net sales	<u>\$ 1,103,799</u>	<u>\$ 910,745</u>	<u>\$ 1,100,805</u>

(In thousands of dollars)	As of December 31,	
	2010	2009
Long-lived assets:		
United States	\$ 456,941	\$ 461,071
Europe	34,267	36,788
Other Americas	47,400	49,402
Asia Pacific	23,484	27,387
Total long-lived assets	<u>\$ 562,092</u>	<u>\$ 574,648</u>

## 22. OTHER COMMITMENTS AND CONTINGENCIES

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

### *Oakley vs. Remy International, Inc.*

In connection with Remy's termination of its retiree medical program and modification of its retiree life insurance coverage, certain retirees filed a lawsuit challenging Remy's right to terminate such coverage provided to UAW retirees and their spouses. Remy then filed a declaratory judgment action against plaintiffs to confirm its authority to modify retiree medical coverage. Remy continues to deny liability and intends to vigorously defend the action. At this stage of the case, it is too early to make any definitive assessment of the exposure.

### *Alternator Recall*

In the first quarter of 2010, we became aware of a potential component deficiency in a limited number of our alternator products sold after December 31, 2009. While the investigation as to the cause of the instances is ongoing, the potential defect resulted from a third party supplied subcomponent that could, in certain cases on specific vehicle applications, result in a fire. To date there have been no injuries associated with this issue. We have notified the National Highway Traffic Safety Administration ("NHTSA") of the issue and have begun to voluntarily recover the potentially affected units sold. We are no longer supplying products with the specific questionable third party supplied subcomponent. The vendor supplying the subassembly has been notified of the issue. We initiated these actions as part of a proactive effort to contain all potential products and promote consumer safety. As a result of this issue, we incurred \$4,645,000 in certain costs and customer reimbursement obligations during the year ended December 31, 2010. We will pursue recovery from the applicable vendor based upon existing contractual terms.

### *HCS Factoring Litigation*

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

insurance provider related to this issue for \$875,000 in 2010. We have accordingly recorded an other receivable and credit to selling, general, and administrative expenses as of December 31, 2009.

*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 accompanying consolidated statement of operations for the year ended December 31, 2008.

*Grissom Air Force Base Environmental Issue*

We have been notified by the United States Department of Justice (DOJ) that they are seeking reimbursement from us on behalf of the United States Air Force of a maximum of fifty-percent (50%) of the costs incurred to date and future costs to cleanup trichloroethylene (TCE) contamination that in some measure was allegedly caused by our production process at a former facility we rented on the Grissom Air Force Base. We recorded an environmental liability accrual in November 2007, for this contingency, which we believed was the best estimate at that time of the total cost associated with this issue. During the first quarter of 2011, we settled this issue for amounts accrued as of December 31, 2010 of approximately \$300,000.

**23. SUPPLEMENTAL CASH FLOW INFORMATION**

Supplemental cash flow information is as follows:

(In thousands of dollars)	Years Ended December 31,		
	2010	2009	2008
Cash paid for interest	\$ 39,670	\$ 30,318	\$ 38,929
Cash paid for income taxes, net of refunds received	16,072	8,733	6,351

During the year ended December 31, 2009, we entered into certain customer agreements which extinguished certain customer obligations of approximately \$23,038,000 and resulted in a deferred gain of approximately \$8,152,000. The gain is being deferred and recognized to reflect the pattern of economic benefit. The amount recognized as a reduction of cost of goods sold during the years ended December 31, 2010, and 2009, was \$1,553,000 and \$2,270,000, respectively.

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

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

## 24. QUARTERLY FINANCIAL INFORMATION (unaudited)

(In thousands of dollars, except per share information)

(In thousands of dollars)	Quarter Ended				Total Year 2010
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	
Net sales	\$ 260,417	\$ 279,369	\$ 279,973	\$ 284,040	\$ 1,103,799
Gross profit	52,668	62,244	58,354	63,772	237,038
Restructuring and other charges	491	985	1,943	544	3,963
Net income (loss)	10,764	16,229	10,295	(16,097)	21,191
Net income (loss) attributable to common shareholders	2,751	7,776	1,350	(25,530)	(13,653)
Basic earnings (loss) per share	\$ 0.27	\$ 0.76	\$ 0.13	\$ (2.48)	\$ (1.33)
Diluted earning (loss) per share	\$ 0.27	\$ 0.73	\$ 0.13	\$ (2.48)	\$ (1.33)

(In thousands of dollars)	Quarter Ended				Total Year 2009
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	
Net sales	\$ 212,422	\$ 233,970	\$ 223,729	\$ 240,624	\$ 910,745
Gross profit	31,950	51,999	53,954	52,119	190,022
Restructuring and other charges	1,333	3,692	1,003	1,555	7,583
Net income (loss)	(7,257)	10,264	15,577	(4,524)	14,060
Net income (loss) attributable to common shareholders	(13,839)	3,053	8,112	(12,119)	(14,793)
Basic earnings (loss) per share	\$ (1.37)	\$ 0.30	\$ 0.80	\$ (1.19)	\$ (1.46)
Diluted earning (loss) per share	\$ (1.37)	\$ 0.30	\$ 0.80	\$ (1.19)	\$ (1.46)

We recorded a \$19,403,000 loss on early extinguishment of debt during the fourth quarter 2010, as a result of the repayment of \$153,829,000 in aggregate principal amount of our outstanding First Lien Credit Facility, \$50,000,000 outstanding principal of our Second Lien Credit Facility, and \$133,039,599 in aggregate principal amount of our outstanding Third-Priority Floating Rate Secured PIK Notes. The loss includes the call premium on the Third-Priority Floating Rate Secured PIK Notes, the write-off of associated deferred financing fees, and the original issue discount on the First and Second Lien Credit Facilities. The loss on extinguishment is separately stated on our accompanying consolidated statements of operations.

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

During the second quarter 2009, we completed a one-time sale of inventory resulting in net sales recognition of \$35,485,000.