

Remy International, Inc.

Quarterly Report (Unaudited)

For the Nine Months Ended September 30, 2010

The accompanying unaudited consolidated financial statements in this Quarterly Report should be read in conjunction with the consolidated financial statements and notes thereto included in the Remy International, Inc. Annual Report for the year ended December 31, 2009.

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Remy International, Inc.
Consolidated Balance Sheets

(In thousands of dollars, except share information)	September 30, 2010 <u>(Unaudited)</u>	December 31, 2009 <u></u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 67,270	\$ 30,171
Trade accounts receivable (less allowances of \$2,096, and \$2,734)	187,627	164,588
Other receivables	12,712	16,845
Inventories	140,803	130,506
Deferred income taxes	3,446	3,163
Prepaid expenses and other current assets	<u>13,501</u>	<u>7,334</u>
Total current assets	425,359	352,607
Property, plant and equipment	185,781	172,715
Less accumulated depreciation and amortization	<u>51,324</u>	<u>37,235</u>
Property, plant and equipment, net	134,457	135,480
Deferred financing costs, net of amortization	1,995	2,523
Goodwill	273,786	273,786
Intangibles, net	122,858	134,312
Other noncurrent assets	<u>29,735</u>	<u>28,547</u>
Total assets	<u>\$ 988,190</u>	<u>\$ 927,255</u>
Liabilities and Equity:		
Current liabilities:		
Short-term debt	\$ 21,148	\$ 22,969
Accounts payable	152,196	128,100
Accrued interest	6,178	1,592
Accrued restructuring	517	2,190
Other current liabilities and accrued expenses	142,330	122,693
Current maturities of long-term debt	<u>1,918</u>	<u>2,340</u>
Total current liabilities	324,287	279,884
Long-term debt, less current maturities:		
Senior Secured Revolver Credit Agreement	-	3,237
First Lien Credit Agreement	147,507	147,817
Second Lien Credit Agreement	49,677	49,625
Third-Priority Floating Secured PIK Notes	133,040	134,424
Capital leases	<u>2,564</u>	<u>2,802</u>
Total long-term debt, net of current maturities	332,788	337,905
Postretirement benefits other than pensions	1,327	1,552
Accrued pension benefits	17,761	17,816
Deferred income taxes	28,867	30,269
Other noncurrent liabilities	25,566	41,296
Redeemable preferred stock:		
Class A shares, 27,000 shares issued and outstanding	49,014	42,093
Class B shares, 60,000 shares issued and outstanding	108,830	93,452
Equity:		
Remy International, Inc. shareholders' equity:		
Common stock, Par value of \$.0001; 130,000,000 shares authorized; 10,755,704 shares issued, 10,579,647 outstanding and 176,057 treasury shares at September 30, 2010, and 10,629,739 shares issued and outstanding as of December 31, 2009.	1	1
Additional paid-in capital	106,360	112,471
Retained earnings (accumulated deficit)	12,835	(10,535)
Accumulated other comprehensive loss	<u>(27,768)</u>	<u>(27,468)</u>
Total Remy International, Inc. shareholders' equity	91,428	74,469
Noncontrolling interest	<u>8,322</u>	<u>8,519</u>
Total equity	<u>99,750</u>	<u>82,988</u>
Total liabilities and equity	<u>\$ 988,190</u>	<u>\$ 927,255</u>

See accompanying notes to consolidated financial statements.

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

(In thousands of dollars)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009 (As restated)	2010	2009 (As restated)
Net sales	\$ 279,973	\$ 223,729	\$ 819,759	\$ 670,121
Cost of goods sold	219,362	169,775	644,236	532,218
Gross profit	60,611	53,954	175,523	137,903
Selling, general and administrative expenses	31,756	23,625	89,564	72,011
Restructuring and other charges	(345)	1,003	1,131	6,028
Operating income	29,200	29,326	84,828	59,864
Interest expense	10,720	11,813	31,702	37,399
Income before income taxes	18,480	17,513	53,126	22,465
Income tax expense	3,639	1,936	11,292	3,881
Net income	14,841	15,577	41,834	18,584
Less net income attributable to noncontrolling interest	991	941	3,113	2,443
Net income attributable to Remy International, Inc.	13,850	14,636	38,721	16,141
Preferred stock dividends	(7,954)	(6,524)	(22,298)	(18,815)
Net income (loss) attributable to common shareholders	\$ 5,896	\$ 8,112	\$ 16,423	\$ (2,674)

See accompanying notes to consolidated financial statements.

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

(In thousands of dollars)	Nine months ended September 30,	
	2010	2009 (As restated)
Cash Flows from Operating Activities:		
Net income	\$ 41,834	\$ 18,584
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	22,994	26,275
Amortization of debt issuance costs	528	528
Noncash compensation expense	836	1,411
Gain on postretirement benefits	-	(11,987)
Gain on cancellation of interest rate swaps	(337)	(337)
Gain on extinguishment of customer obligations and debt	(1,142)	(1,856)
Interest on PIK notes	-	12,573
Deferred income taxes	(1,792)	466
Accrued pension and postretirement benefits, net	(2,038)	9,005
Restructuring and other charges	1,131	6,028
Cash payments for restructuring charges	(2,804)	(9,268)
Changes in operating assets and liabilities, net of restructuring charges:		
Accounts receivable	(19,598)	(33,028)
Inventories	(11,324)	35,880
Accounts payable	22,478	(1,295)
Other current assets and liabilities, net	25,534	(7,739)
Other noncurrent assets, liabilities, and other	(17,438)	(11,231)
Net cash provided by operating activities	58,862	34,009
Cash Flows from Investing Activities:		
Net proceeds on sale of assets	-	6,000
Purchases of property, plant and equipment	(11,474)	(6,132)
Net cash used in investing activities	(11,474)	(132)
Cash Flows from Financing Activities:		
Change in short-term debt and revolver	(5,284)	(24,721)
Payments made on long-term debt, including capital leases	(1,438)	(2,074)
Distributions to noncontrolling interest, net	(1,710)	(1,430)
Net cash used in financing activities	(8,432)	(28,225)
Effect of exchange rate changes on cash and cash equivalents	(1,857)	(2,428)
Net increase in cash and cash equivalents	37,099	3,224
Cash and cash equivalents at beginning of period	30,171	18,744
Cash and cash equivalents at end of period	\$ 67,270	\$ 21,968
Supplemental information:		
Purchases of property, plant & equipment in accounts payable	\$ 3,258	\$ 698

See accompanying notes to consolidated financial statements.

REMY INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. DESCRIPTION OF THE BUSINESS AND LIQUIDITY

Business

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

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

As of September 30, 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 shares. Additionally, the significant investor and board members held, as of September 30, 2010, 1,000 shares of our Series B preferred and \$50,306,000 of Remy’s First Lien Credit Agreement and Third-Priority Floating Secured PIK Notes at face value which were purchased on the open market.

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

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

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

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

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

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

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

While there can be no certainty as to the ability to achieve the forecasted results, we believe the actions that have occurred, or are expected to occur, are such that we will be able to meet our loan covenant requirements throughout 2010 and maintain a level of liquidity sufficient to meet our obligations as they become due through 2010. We have reduced our outstanding borrowing under our revolver from \$3,237,000 at December 31, 2009, to zero at September 30, 2010. If we are unable to meet the covenant requirements through the execution of our plan, we may need to obtain waivers or amendments to our loan covenants. There is no assurance that such waivers or amendments can be obtained or obtained at a reasonable cost. At September 30, 2010, we were in full compliance with all covenants.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Consolidated Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP) for interim financial information. Accordingly, certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted. These statements include all adjustments (consisting of normal recurring adjustments) that management believes are necessary to present fairly our financial position, results of operations, and cash flows. We believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with the consolidated financial statements and the notes thereto included in the latest Remy International, Inc., Annual Report.

Operating results for the interim periods presented in this report are not necessarily indicative of the results that may be expected for any future interim period or for the full year.

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 September 30, 2010, and December 31, 2009. All significant intercompany accounts and transactions have been eliminated.

2007 Reorganization

On October 8, 2007, the predecessor to Remy International, Inc. (Remy Worldwide Holdings, Inc. and its domestic subsidiaries) including Remy International, Inc. (jointly the "Debtors") filed voluntary petitions under a prepackaged arrangement for relief under chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code"), in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). The Debtors' Chapter 11 cases were

jointly-administered under Case No. 07-11481 (KJC). During bankruptcy, the Debtors operated their businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. Our subsidiaries in Canada, Europe, Asia Pacific, Mexico and Brazil were not included in the filings. On November 20, 2007, the Bankruptcy Court confirmed the Plan of Reorganization pursuant to chapter 11 of the United States Bankruptcy Code (the "Plan of Reorganization").

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

Evaluation of Subsequent Events

We have evaluated subsequent events through November 8, 2010, the date the September 30, 2010 consolidated interim financial statements are available for issuance. Other than disclosed in Note 21, we have no material subsequent events to report.

Use of Estimates

The preparation of the consolidated financial statements in conformity with 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. 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 (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. We generally limit core returns to the quantity of similar, remanufactured cores previously sold to the customer.

Core Liability

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

Core Inventory

Upon receipt of a core, we record inventory at lower of cost or fair market value. The value of a core declines over its estimated useful life (ranging from 4 to 30 years) and is devalued accordingly. Carrying value of the core inventory is evaluated by comparing current prices obtained from core brokers to carrying cost. The devaluation of core carrying value is reflected as a charge to cost of goods sold. Core inventory that is deemed to be obsolete or in excess of current

and future projected demand is written down to the lower of cost or market and charged to cost of goods sold. Core inventories are classified as “Inventories” in the accompanying consolidated balance sheets.

Customer Contract Intangibles

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

Customer Obligations

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

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

Right of Core Return

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

Research and Development

We conduct research and development programs that are expected to contribute to future earnings. Such costs are included in selling, general and administrative expenses in the consolidated statements of operations.

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 a credit to the related expense in the statement of operations. Grants related to assets are recorded as deferred income and recognized on a straight line basis over the useful life of the related asset. We continue to evaluate these grants for compliance with the conditions attached to the related grants.

As of September 30, 2010, we have deferred income of \$1,537,000 related to government grants. The amount recognized as government grants was as follows (In thousands of dollars):

	Three months ended, September 30,		Nine months ended, September 30,	
	2010	2009	2010	2009
Reduction of cost of goods sold recognized	\$ 1,386	\$ -	\$ 3,883	\$ -
Reduction of selling, general, and administrative	\$ 1,088	\$ 420	\$ 2,498	\$ 962

Cash and Cash Equivalents

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

Trade Accounts Receivable and Allowance for Doubtful Accounts

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

Inventories Other than Core Inventory

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

Property, Plant and Equipment

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

Valuation of Long-Lived Assets

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

Tooling

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

Goodwill and Other Intangible Assets

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

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

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

Foreign Currency Translation

Each of our foreign subsidiaries' functional currency as of September 30, 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 their purchases and sales are denominated in U.S. dollars and Hungary for which the Euro is the functional currency 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 consolidated statements of operations. We evaluate each of our foreign subsidiaries functional currency on an ongoing basis.

Derivative Financial Instruments

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

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

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

Warranty

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

Income Taxes

We compute on a quarterly basis an estimated annual effective tax rate considering ordinary income and related income tax expense. Ordinary income refers to income (loss) before income tax expense excluding significant, unusual, or infrequently occurring items. The tax effect of an unusual or infrequently occurring item is recorded in the interim period in which it occurs. To the extent we cannot reliably estimate annual projected taxes for a taxing jurisdiction, taxes on ordinary income for such a jurisdiction are reported in the period in which they are incurred, which is the case for our domestic tax jurisdictions. Other items included in income tax expense in the periods in which they occur include the cumulative effect of changes in tax laws or rates, foreign exchange gains and losses, adjustments to uncertain tax

positions, and adjustments to our valuation allowance due to changes in judgment in the realizability of deferred tax assets in future years.

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

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

Pension and Postretirement Plans

We maintain limited defined benefit pension plans and other postretirement benefit plans, as well as a supplemental employee retirement plan covering certain executives. Costs associated with these plans are based on actuarial computations. Inherent in these valuations are key assumptions regarding discount rates, expected return on plan assets, rates of compensation increases, and the rates of health care benefit increases. If future trends in these assumptions prove to differ from management's assumptions, revisions to the plan assets and benefit obligations may be required.

Earnings Per Share

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

Correction of an Error

In 2009, we identified certain accounting irregularities in one of our foreign locations requiring a correction of an error pursuant to FASB ASC Topic 250, *Accounting Changes and Error Corrections*. The irregularities resulted in a loss related primarily to the years 2001 through 2007, the periods associated with our Predecessor Company. As a result of application of the provisions of FASB ASC Topic 852 in November 2007, the majority of the error should be reflected in our fresh-start adjustments. As of December 31, 2009, we have accordingly adjusted our goodwill to reflect the impact of this error. We did not restate the December 31, 2008 balance sheet due to immateriality. In 2009, goodwill and deferred income tax assets were increased by \$1,206,000 and \$340,000, respectively, with an increase to accounts payable of \$1,546,000.

Restatement of previously issued interim consolidated financial statements

During the fourth quarter 2009, we identified certain accounting adjustments in consolidation of one of our foreign operations and fourth quarter adjustments related to VAT taxes in another of our foreign entities, both of which related to prior interim periods in 2009. The adjustments had a significant impact on the fourth quarter results. We have restated the interim periods of 2009 to reflect these fourth quarter adjustments. For the three and nine months ended September 30, 2009, cost of good sold has been restated by \$1,539,000 and \$3,170,000, respectively, selling, general, and administrative expenses has been restated by \$499,000 and \$1,407,000, respectively, and income tax expense has been restated downwards by \$205,000 and \$2,322,000, respectively, for the related tax effect in the consolidated statement of operations. As a result, our net income previously reported has been decreased by \$1,833,000 and \$2,255,000 for the three and nine months ended September 30, 2009, respectively.

Change in Estimate

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 their estimated obligations, which resulted to a \$3,500,000 increase to the warranty reserve. The company believes that this change in estimate better reflects the company's obligations of all warranty claims.

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

New Accounting Pronouncements

In July 2010, the FASB issued Accounting Standard Update ("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. 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.

3. FAIR VALUE MEASUREMENTS

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

As such, fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, FASB ASC Topic 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

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

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

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

Assets and liabilities remeasured and disclosed at fair value on a recurring basis at September 30, 2010 and December 31, 2009, are set forth in the table below (In thousands of dollars):

	September 30, 2010			December 31, 2009		
	Asset/ (Liability)	Level 2	Valuation Technique	Asset/ (Liability)	Level 2	Valuation Technique
Interest rate swap contracts	\$ (5,618)	\$ (5,618)	C	\$ (4,613)	\$ (4,613)	C
Foreign exchange contracts	1,845	1,845	C	534	534	C
Commodity contracts	4,633	4,633	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.

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 11). 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 September 30, 2010, and December 31, 2009, we had the following outstanding foreign currency contracts that were entered into to hedge forecasted purchases and revenues, respectively (In thousands):

Foreign Currency Contract	Currency Denomination	
	September 30, 2010	December 31, 2009
South Korean Won/ US Dollar Forward	\$30,373	\$25,514
Brazilian Real/ US Dollar Forward	\$3,600	\$10,800
Mexican Peso Collar	\$12,231	\$35,289
Hungarian Forint/ Euro Forward	€13,500	€7,200
Hungarian Forint/ US Dollar Forward	\$975	\$0
Euro/ Great Britian Pound Forward	£600	£0

Accumulated unrealized net gains of \$1,154,000 and \$338,000 were recorded in "Accumulated other comprehensive income (loss)" as of September 30, 2010, and December 31, 2009, respectively. As of September 30, 2010, gains of \$964,000 are expected to be reclassified to the consolidated statement of operations within the next twelve months. The Mexican Peso collar is an undesignated hedge and changes in the fair value are recorded as cost of goods sold in the statement of operations. There was no hedge ineffectiveness during the nine months ended September 30, 2010. As a result of a decline in activity during 2009, we became over hedged resulting in \$150,000 of loss on hedge ineffectiveness for the nine months ended September 30, 2009.

Interest Rate Risk

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

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

Since the interest rate swaps hedge the variability of interest payments on variable rate debt with the same terms, they qualify for cash flow hedge accounting treatment. As of September 30, 2010, and December 31, 2009, accumulated unrealized net losses of \$5,618,000 and \$4,613,000 respectively, were recorded in "Accumulated other comprehensive income (loss)" as a result of these hedges. As of September 30, 2010, losses of \$3,742,000 are expected to be reclassified to the consolidated statement of operations within the next twelve months. There was no hedge ineffectiveness during the nine months ended September 30, 2010, and 2009, respectively.

During 2008, we terminated certain interest swap agreements resulting in a gain that is amortized as an offset to interest expense over the original term of the agreements. At September 30, 2010, and December 31, 2009, the deferred gain, net of income taxes, recorded in "Accumulated other comprehensive income (loss)" was \$250,000 and \$587,000, respectively. As of September 30, 2010, net gains of \$250,000 are expected to be reclassified into the consolidated statement of operations within the next twelve months.

These interest rate swaps reduce our overall interest rate risk. However, due to the remaining outstanding borrowings on the First Lien and Third-Priority PIK Notes and other borrowing facilities that continue to have variable interest rates, management believes that interest rate risk to us could be material if there are significant adverse changes in interest rates.

Commodity Price Risk

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

We had thirty-one commodity price hedge contracts outstanding at September 30, 2010, and six commodity price hedge contracts outstanding at December 31, 2009, with combined notional quantities of 4,074.77 and 623.69 metric tons of copper, respectively, and 87.98 and no metric tons of aluminum, respectively. These contracts all mature within the next twelve months. These hedges were designated as cash flow hedging instruments for accounting purposes. Accumulated unrealized net gains of \$4,633,000 and of \$93,000 were recorded in "Accumulated other comprehensive income (loss)" as of September 30, 2010, and December 31, 2009, respectively. As of September 30, 2010, gains of \$4,633,000 are expected to be reclassified to the consolidated statement of operations within the next 12 months. There was no hedge ineffectiveness during the nine months ended September 30, 2010, and 2009, respectively.

Other

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

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

Any derivative instrument designated initially, but no longer effective as a hedge or initially not effective as a hedge, is recorded at fair value and the related gains and losses are recognized in the consolidated statements of operations. Our

undesignated hedges are primarily foreign currency hedges as the entity with the derivative transaction does not bear the foreign currency risk.

The following table discloses the fair values and balance sheet locations of our derivative instruments (In thousands of dollars):

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	September 30, 2010	December 31, 2009	Balance Sheet Location	September 30, 2010	December 31, 2009
Derivatives designated as hedging instruments:						
Interest rate swap contracts	Prepaid expenses and other current assets	\$ -	\$ -	Other current liabilities and accrued expenses	\$ 3,742	\$ -
Interest rate swap contracts	Other noncurrent assets	-	230	Other noncurrent liabilities	1,876	4,843
Commodity contracts	Prepaid expenses and other current assets	4,633	93	Other current liabilities and accrued expenses	-	-
Foreign currency contracts	Prepaid expenses and other current assets	1,850	384	Other current liabilities and accrued expenses	309	-
Total derivatives designated as hedging instruments		<u>\$ 6,483</u>	<u>\$ 707</u>		<u>\$ 5,927</u>	<u>\$ 4,843</u>
Derivatives not designated as hedging instruments:						
Foreign currency contracts	Prepaid expenses and other current assets	\$ 303	\$ 150	Other current liabilities and accrued expenses	\$ -	\$ -

The following tables disclose the effect of our derivative instruments on the consolidated statement of operations for the three months ending September 30, 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	\$ (1,392)	Interest expense, net	\$ (1,157)	Interest expense, net
Commodity contracts	6,680	Cost of goods sold	340	Cost of goods sold	-
Foreign currency contracts	<u>2,052</u>	Cost of goods sold	<u>21</u>	Cost of goods sold	-
	<u>\$ 7,340</u>		<u>\$ (796)</u>		<u>\$ -</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	\$ 251			

The following tables disclose the effect of our derivative instruments on the consolidated statement of operations for the three months ending September 30, 2009 (In thousands of dollars):

	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)
Derivatives Designated as Cash Flow Hedging Instruments					
Interest rate swap contracts	\$ (1,731)	Interest expense, net	\$ (1,065)	Interest expense, net	\$ -
Foreign currency contracts	<u>1,950</u>	Cost of goods sold	<u>259</u>	Cost of goods sold	<u>-</u>
	<u>\$ 219</u>		<u>\$ (806)</u>		<u>\$ -</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	\$ 125			

The following tables disclose the effect of our derivative instruments on the consolidated statement of operations for the nine months ending September 30, 2010 (In thousands of dollars):

	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)
Derivatives Designated as Cash Flow Hedging Instruments					
Interest rate swap contracts	\$ (4,623)	Interest expense, net	\$ (3,618)	Interest expense, net	\$ -
Commodity contracts	5,063	Cost of goods sold	523	Cost of goods sold	-
Foreign currency contracts	<u>1,116</u>	Cost of goods sold	<u>300</u>	Cost of goods sold	<u>-</u>
	<u>\$ 1,556</u>		<u>\$ (2,795)</u>		<u>\$ -</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	\$ 933			

The following tables disclose the effect of our derivative instruments on the consolidated statement of operations for the nine months ending September 30, 2009 (In thousands of dollars):

	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)
Derivatives Designated as Cash Flow Hedging Instruments					
Interest rate swap contracts	\$ (2,745)	Interest expense, net	\$ (2,553)	Interest expense, net	\$ -
Foreign currency contracts	(31)	Cost of goods sold	(6,809)	Cost of goods sold	(150)
	<u>\$ (2,776)</u>		<u>\$ (9,362)</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	\$ 16			

Concentrations of Credit Risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist primarily of accounts receivable and cash investments. We require placement of cash in financial institutions evaluated as highly creditworthy. Our customer base includes global light and commercial vehicle manufacturer and a large number of retailers, distributors and installers of automotive aftermarket parts. Our credit evaluation process and the geographical dispersion of sales transactions help to mitigate credit risk concentration.

Accounts Receivable Factoring Arrangements

We have entered into factoring agreements with various domestic and European financial institutions to sell our accounts receivable under nonrecourse agreements and treated as a sale. The transactions are accounted for as a reduction in accounts receivable as the agreements transferred effective control over and risk related to the receivables to the buyers. We do not service any domestic accounts after the factoring has occurred. We do not have any servicing assets or liabilities. We utilize factoring arrangements as an integral part of financing for us. The cost of factoring such accounts receivable is reflected in the consolidated statements of operations as interest expense with other financing costs. The cost of factoring such accounts receivable for the three months ended September 30, 2010 and 2009 was \$1,759,000 and \$1,798,000 and for the nine months ended September 30, 2010 and 2009 was \$5,134,000, and \$6,033,000, respectively. Gross amounts factored under these facilities as of September 30, 2010, and December 31, 2009, was \$158,766,000 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

Inventories consist of the following (In thousands of dollars):

	September 30, 2010	December 31, 2009
Raw materials	\$ 77,251	\$ 70,990
Work-in-process	8,613	7,832
Finished goods	54,939	51,684
	<u>\$ 140,803</u>	<u>\$ 130,506</u>

6. PROPERTY, PLANT AND EQUIPMENT

Depreciation and amortization expense of property, plant, and equipment for the nine months ended September 30, 2010, and 2009, was \$13,993,000 and \$15,120,000, respectively.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets consist of the following (In thousands of dollars):

	September 30, 2010			December 31, 2009		
	Carrying Value	Accumulated Amortization	Net	Carrying Value	Accumulated Amortization	Net
Definite-life intangible assets:						
Intellectual property	\$ 10,851	\$ 2,901	\$ 7,950	\$ 9,796	\$ 2,550	\$ 7,246
Customer relationships	35,500	9,066	\$ 26,434	35,500	6,279	29,221
Customer contracts Intangibles	70,370	36,096	\$ 34,274	67,108	23,463	43,645
	<u>\$ 116,721</u>	<u>\$ 48,063</u>	<u>\$ 68,658</u>	<u>112,404</u>	<u>32,292</u>	<u>80,112</u>
Indefinite-life intangible assets:						
Trade names	54,200	-	54,200	54,200	-	54,200
Intangible assets, net	<u>\$ 170,921</u>	<u>\$ 48,063</u>	<u>\$ 122,858</u>	<u>\$ 166,604</u>	<u>\$ 32,292</u>	<u>\$ 134,312</u>
Goodwill	\$ 273,786	-	\$ 273,786	\$ 273,786	-	\$ 273,786

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

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

8. OTHER NONCURRENT ASSETS

Other noncurrent assets primarily consist of core return rights of \$26,013,000 and \$24,491,000 as of September 30, 2010, and December 31, 2009, respectively.

9. OTHER CURRENT LIABILITIES AND ACCRUED EXPENSES

Other current liabilities and accrued expenses consist of the following (In thousands of dollars):

	September 30, 2010	December 31, 2009
Accrued warranty	\$ 27,822	\$ 23,179
Accrued wages and benefits	36,989	29,887
Current portion of customer obligations	8,797	13,190
Rebates, stocklifts, discounts and returns	16,240	11,922
Current deferred revenue	3,960	3,233
Current portion of derivative interest rate swap	3,742	-
Other	44,780	41,282
	<u>\$ 142,330</u>	<u>\$ 122,693</u>

Changes to our combined accrued current and non current warranty were as follows (In thousands of dollars):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Balance at beginning of period	\$ 28,780	\$ 23,314	\$ 23,179	\$ 24,932
Provision for warranty	16,151	13,559	44,391	35,504
Payments and charges against the accrual	(13,608)	(13,596)	(36,247)	(37,159)
Balance at end of period	<u>\$ 31,323</u>	<u>\$ 23,277</u>	<u>\$ 31,323</u>	<u>\$ 23,277</u>

10. OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities, net of current portion, consist of the following (In thousands of dollars):

	September 30, 2010	December 31, 2009
Customer obligations and contracts, net of current portion	\$ 8,542	\$ 14,586
Fair value of contract obligations, net of amortization	855	8,570
Noncurrent deferred revenue	4,415	6,357
Noncurrent accrued warranty	3,501	-
Other	8,253	11,783
	<u>\$ 25,566</u>	<u>\$ 41,296</u>

11. RESTRUCTURING AND OTHER CHARGES

Total restructuring and other charges of \$1,167,000 were recorded during the first nine months of 2010. These charges and credits consisted of employee termination benefits of \$1,171,000, and lease termination settlement and other exit costs of (\$4,000). The charges primarily related to a reduction in force at one of our Hungary facilities and closure of our distribution center in Mississippi and our manufacturing operations in Virginia and settlement of lease obligations in Mexico. During the three months ended September 30, 2010, we settled a lease agreement for an amount less than we had accrued in previous periods resulting in the reversal of restructuring charges of \$454,000. The restructuring accrual as of September 30, 2010 is \$517,000.

Total restructuring and other charges of \$6,028,000 were recorded during the first nine months of 2009. These charges consisted of employee termination benefits of \$4,157,000, lease termination costs and other exit costs of \$1,141,000, and asset impairment charges of \$730,000. The charges mainly related to consolidation efforts in the United Kingdom and the closure of an engineering center in Poland and further reduction in force in North America resulting from the current economic conditions. The restructuring accrual as of September 30, 2009, is \$2,953,000.

The following table summarizes the activity in our accrual for restructuring through September 30, 2010 (In thousands of dollars):

	Termination Benefits	Exit Costs	Total
Accrual at December 31, 2008	\$ 4,972	\$ 1,951	\$ 6,923
Provision	1,255	80	1,335
Payments	<u>(1,950)</u>	<u>(189)</u>	<u>(2,139)</u>
Accrual at March 31, 2009	4,277	1,842	6,119
Provision	2,113	967	3,080
Payments	<u>(4,004)</u>	<u>(1,316)</u>	<u>(5,320)</u>
Accrual at June 30, 2009	2,386	1,493	3,879
Provision	789	94	883
Payments	<u>(1,668)</u>	<u>(141)</u>	<u>(1,809)</u>
Accrual at September 30, 2009	<u>\$ 1,507</u>	<u>\$ 1,446</u>	<u>\$ 2,953</u>
Accrual at December 31, 2009	\$ 582	\$ 1,608	\$ 2,190
Provision	189	302	491
Payments	<u>(286)</u>	<u>(535)</u>	<u>(821)</u>
Accrual at March 31, 2010	485	1,375	1,860
Provision	926	59	985
Payments	<u>(521)</u>	<u>(275)</u>	<u>(796)</u>
Accrual at June 30, 2010	890	1,159	2,049
Provision	56	(365)	(309)
Payments	<u>(536)</u>	<u>(687)</u>	<u>(1,223)</u>
Accrual at September 30, 2010	<u>\$ 410</u>	<u>\$ 107</u>	<u>\$ 517</u>

Significant components of restructuring expenses for the approved activities are:

(In thousands of dollars)	Total Expected Costs	Expense Incurred in			Estimated Future Expense
		Nine months ended September 30, 2010	Twelve months ended December 31, 2009	Twelve months ended December 31, 2008	
2010 Activities					
Severance	\$ 1,651	\$ 1,141	\$ -	\$ -	\$ 510
Lease termination and related facility ongoing costs	328	192	-	-	136
	<u>\$ 1,979</u>	<u>\$ 1,333</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 646</u>
2009 Activities					
Severance	\$ 2,446	\$ 30	\$ 2,416	\$ -	\$ -
Lease termination and related facility ongoing costs	950	75	875	-	-
	<u>\$ 3,396</u>	<u>\$ 105</u>	<u>\$ 3,291</u>	<u>\$ -</u>	<u>\$ -</u>
2008 Activities					
Severance	\$ 8,292	\$ -	\$ 2,087	\$ 6,205	\$ -
Lease termination and related facility ongoing costs	6,677	(271)	1,438	5,510	-
	<u>\$ 14,969</u>	<u>\$ (271)</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.

12. DEBT

Borrowings under long-term debt arrangements, net of original issue discounts, consist of the following (In thousands of dollars):

	September 30, 2010	December 31, 2009
Senior Secured Revolving Credit Agreement - <i>Maturity date of December 6, 2012</i>	\$ -	\$ 3,237
First Lien Credit Agreement - <i>Maturity date of December 6, 2013</i>	149,107	149,417
Second Lien Credit Agreement - <i>Maturity date of June 6, 2014</i>	49,677	49,625
Third-Priority Floating Rate Secured PIK Notes - <i>Maturity date of December 1, 2014</i>	133,040	134,424
Total Senior Credit Facility and Notes	<u>331,824</u>	<u>336,703</u>
Other debt	-	430
Capital leases	2,882	3,112
Less current maturities	<u>(1,918)</u>	<u>(2,340)</u>
Long-term debt less current maturities	<u>\$ 332,788</u>	<u>\$ 337,905</u>

The Revolving Credit Agreement allows for borrowing up to \$120,000,000 and is secured by substantially all of our assets, and provides working capital for general corporate purposes. It bears interest, varying with the level of available borrowing, at a defined Index Rate plus .75% - 1.25% per annum or, at our election, at an applicable LIBOR Rate plus 1.75% - 2.25% per annum and is paid monthly. At September 30, 2010, the revolver balance was zero. 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 \$63,527,000 as of September 30, 2010. This credit agreement matures on December 6, 2012.

The First Lien Credit Agreement in the original amount of \$160,000,000 less original issue discount of \$7,800,000 is secured by substantially all assets and certain common stock of our wholly-owned subsidiaries. The loan bears interest at a defined Index Rate plus 4.5% per annum or, at our election, at an applicable LIBOR Rate plus 5.5% per annum and is paid quarterly. Principal payments in the amount of \$400,000 are due at the end of each calendar quarter with termination and final payment no later than December 6, 2013. At September 30, 2010, and December 31, 2009, the average borrowing rate, including the impact of the interest rate swaps, was 7.91% and 7.85%, respectively.

The Second Lien Credit Agreement in the original amount of \$50,000,000 less original issue discount of \$500,000 is secured by substantially all assets and certain common stock of our wholly-owned subsidiaries. The loan bears interest at a defined Index Rate plus 7.5% per annum or, at our election, at an applicable LIBOR Rate plus 8.5% per annum and is paid quarterly. The Agreement is payable in full on June 6, 2014. At September 30, 2010, and December 31, 2009, the average borrowing rate, including the impact of the interest rate swap, was 12.08% and 12.08%, respectively.

On December 6, 2007, as part of our prepackaged bankruptcy exit we issued \$100,000,000 Third-Priority Floating Rate Secured PIK (payment-in-kind) Notes due December 1, 2014. Interest is payable in PIK securities or cash based upon our free cash flow coverage ratio and at our option if the free cash flow coverage ratio is favorable. Interest is payable semiannually (June 1 and December 1) for cash interest at LIBOR plus 9.5%, or as additional PIK securities at LIBOR plus 12.0%. At September 30, 2010, and December 31, 2009, the PIK borrowing rate was 10.26% and 12.48%, respectively. We intend to pay the current accrued interest in cash, and have accordingly reflected it in accrued interest in the consolidated balance sheet. We have issued PIK notes for all payments due on interest for these notes through November 30, 2009. The PIK Notes are third in priority to any and all security interests of the First Lien and Second Lien credit agreements.

As of September 30, 2010, and 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 were \$344,695,000 and \$274,752,000 respectively. The estimated fair values were \$12,872,000 higher and \$58,714,000 lower respectively, 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 September 30, 2010, and December 31, 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 appropriate for transactions of this nature. We believe we are in compliance with all covenants as of September 30, 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 \$19,702,000 of which \$14,448,000 is borrowed at average interest rates of 5.03% at September 30, 2010. In Hungary, we have revolving credit facilities with three banks for \$5,989,000 of which \$5,627,000 is borrowed at average interest rates of 5.12% at September 30, 2010. In Belgium, we have revolving credit facilities with two banks for \$3,802,000 of which \$1,073,000 is borrowed at average interest rates of 2.29%. In Brazil, we have a credit line for \$1,771,000 with nothing borrowed at September 30, 2010. In China, we have credit facilities with two banks for \$4,425,000 secured by certain receivables with nothing borrowed at September 30, 2010.

Capital Leases

Capital leases have been capitalized using nominal interest rates ranging from 5.8% to 15.1%. We had assets under capital leases of approximately \$3,774,000 at September 30, 2010, and \$4,054,000 at December 31, 2009, net of accumulated depreciation.

13. EMPLOYEE BENEFIT PLANS

The components of expense for the plans are as follows (In thousands of dollars):

Pension Benefits:

Components of Expense	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Service costs	\$ 62	\$ 66	\$ 185	\$ 197
Interest costs	694	679	2,084	2,036
Expected return on plan assets	(499)	(416)	(1,496)	(1,251)
Recognized net actuarial loss	112	158	335	474
Net periodic pension cost	<u>\$ 369</u>	<u>\$ 486</u>	<u>\$ 1,108</u>	<u>\$ 1,456</u>

Postretirement Health Care and Life Insurance Plans:

Components of Expense	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Interest costs	\$ 30	\$ 83	\$ 91	\$ 249
Amortization of prior service cost	(1,981)	(8)	(5,946)	(23)
Recognized net actuarial loss (gain)	1,858	(155)	5,575	(466)
FASB ASC Topic 715-60-35-150 gain (Note 20)	0	(11,987)	0	(11,987)
Net periodic pension cost	<u>\$ (93)</u>	<u>\$ (12,067)</u>	<u>\$ (280)</u>	<u>\$ (12,227)</u>

Cash Flows – Employee Benefit Plans

We contributed \$935,000 to our pension plans in the first nine months of 2010. We expect to contribute a total of \$1,172,000 to our U.S. pension plans in 2010. The postretirement health care plan is funded as benefits are paid.

14. INCOME TAXES

Income tax expense of \$11,292,000 relating to continuing operations for the first nine months ending September 30, 2010 consisted of current and deferred U.S. federal tax of \$179,000 with deferred relating to goodwill amortization and trade name impairments, domestic state and local income taxes of \$554,000, and taxes in various foreign jurisdictions of \$10,559,000. Income tax expense of \$3,881,000 relating to continuing operations for the nine months ending September

30, 2009 consisted of a \$1,257,000 provision for U.S. federal and state deferred income taxes, domestic state and local taxes of \$578,000 and taxes in various foreign jurisdictions of \$2,046,000. We established a valuation allowance for our domestic U.S. income tax assets amounting to \$104,534,000 at September 30, 2010, of which \$4,730,000 relates to a reduction of the net operating loss deferred tax asset from operating results. Given the liquidity environment we operate in, there could be certain matters that arise outside our control, which could limit the availability of net operating loss carryforwards to offset taxable income.

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

We have total unrecognized tax benefits of \$1,600,000 that have been recorded as liabilities, and we are uncertain as to if or when such amounts may be settled. No significant events have occurred in the third quarter to cause an adjustment of such liability. The effective income tax rate for the six months ended September 30, 2010, differs from the U.S. federal income tax rate primarily due to the effect of foreign taxable income and the utilization of net operating loss carryforwards based on current income in the U.S.

15. SHAREHOLDERS' EQUITY

On June 1, 2010, we amended our Amended and Restated Certificate of Incorporation. The Amendment authorizes the Corporation 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.

16. STOCK-BASED COMPENSATION

In connection with our emergence from bankruptcy on December 6, 2007, our executive officers received restricted stock awards of 506,842 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 will vest at 12% on each of the first three years' anniversaries of the grant date, and 32% each on the fourth and fifth anniversaries, based upon continuation of employment. In February and November 2008, our Board of Directors received restricted stock grants of 160,000 that vest 50% upon the first and second anniversaries. Additionally, there is a change of control provision in the aforementioned awards. As a nonpublic company, there is not an active viable market for our common stock; accordingly, we used a calculated value of \$3.00, \$8.00, \$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, and the February 2008 and December 2007 grants, respectively. Restricted shares forfeited of 176,057 are held by the Remy Executive Restricted Stock Plan and are treated as Treasury Shares until they are regranted. Our calculation assumed a risk-free interest rate of 3.0%; volatility of 39.1%; and that no dividends would be paid.

Non cash compensation expense related to the awards was recognized as follows (In thousands of dollars):

	Three months ended, September 30,		Nine months ended, September 30,	
	2010	2009	2010	2009
Share based compensation expense recognized	\$ 278	\$ 470	\$ 836	\$ 1,411

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.

17. OTHER COMPREHENSIVE INCOME (LOSS)

Our comprehensive income (loss) was as follows (In thousands of dollars):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net income	\$ 14,841	\$ 15,577	\$ 41,834	\$ 18,584
Other comprehensive income:				
Foreign currency translation adjustments	5,287	4,067	(2,525)	3,564
Currency forward contracts, net of tax	2,031	1,320	816	5,056
Commodity contracts, net of tax	6,340	-	4,540	-
Interest rate swaps and collar contract, net of tax	(347)	(779)	(1,342)	(530)
Employee benefit plans, net of tax	(596)	(427)	(1,789)	(437)
Total other comprehensive income (loss), net of tax	12,715	4,181	(300)	7,653
Comprehensive income	27,556	19,758	41,534	26,237
Less: Comprehensive income attributable to noncontrolling interest	991	941	3,113	2,443
Comprehensive income attributable to Remy International, Inc.	\$ 26,565	\$ 18,817	\$ 38,421	\$ 23,794

18. OTHER COMMITMENTS AND CONTINGENCIES

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

Alternator Recall

In the first quarter of 2010, we learned of a potential component deficiency in a limited number of our alternator products sold after December 31, 2009. While the investigation as to the cause of the instances is ongoing, the potential defect may have occurred in a third party supplied subcomponent that could, in certain cases on specific vehicle applications, result in a fire. To date there have been no injuries associated with this issue. We have notified the National Highway Traffic Safety Administration (“NHTSA”) of the issue and have begun to voluntarily recover the potentially affected units sold. We are no longer supplying products with the specific questionable third party supplied subcomponent. The vendor supplying the subassembly has been notified of the issue. We initiated these actions as part of a proactive effort to contain all potential products and promote consumer safety. We will likely incur certain costs and customer reimbursement obligations as a result of this issue. We have accrued \$2,937,000 in our warranty accrual related to this issue as of September 30, 2010. We will pursue recovery from the applicable vendor based upon existing contractual terms.

19. BUSINESS SEGMENTS AND GEOGRAPHIC AREA INFORMATION

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

We are a multi-national corporation with operations in many countries, including the U.S., Canada, Mexico, Brazil, China, Hungary, South Korea, the United Kingdom, Belgium and Tunisia. As a result, our financial results could be

significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which we distribute our products. Our operating results are exposed to changes in exchange rates between the U.S. dollar and non U.S. currencies. Exposure to variability in foreign currency exchange rates is managed primarily through the use of natural hedges, whereby funding obligations and assets are both denominated in the local currency, and through selective currency hedges. From time to time, we enter into exchange agreements to manage our exposure arising from fluctuating exchange rates related to specific transactions. Sales are attributed to geographic locations based on the point of sale.

Information for continuing operations is as follows (In thousands of dollars):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net sales to external customers:				
United States	\$ 175,916	\$ 142,241	\$ 502,574	\$ 460,880
Europe	27,172	25,432	86,728	75,842
Other Americas	31,404	22,561	88,397	53,904
Asia Pacific	45,481	33,495	142,060	79,495
Total net sales	<u>\$ 279,973</u>	<u>\$ 223,729</u>	<u>\$ 819,759</u>	<u>\$ 670,121</u>

20. SUPPLEMENTAL CASH FLOW INFORMATION

During the quarter ended September 30, 2009, we entered into certain customer agreements which extinguished certain customer obligations of approximately \$23,038,000 and resulted in a deferred gain of approximately \$8,152,000. The gain is being deferred and recognized to reflect the pattern of economic benefit consumed.

The amount recognized as a reduction of cost of goods sold was as follows (In thousands of dollars):

	Three months ended, September 30,		Nine months ended, September 30,	
	2010	2009	2010	2009
Reduction of cost of goods sold recognized	\$ 356	\$ 499	\$ 1,142	\$ 1,856

During the nine months ended September 30, 2010, we recorded customer contract intangibles of \$3,262,000 by incurring customer obligations. These obligations are paid monthly and quarterly over the life of the agreements. These customer contract intangible additions have a weighted average useful life of 3.25 years.

21. PREFERRED EXCHANGE OFFER TERMINATION

On September 29, 2010, we announced the offering to exchange newly-issued shares of our Common Stock for any and all outstanding shares of Series A Preferred Stock and Series B Preferred Stock (the "Exchange Offer") and sought consents to amend the Certificate of Designation for both series of Preferred (the "Consent Solicitation"). Each share of Preferred Stock was to be exchanged for Common Stock in an amount equal to the liquidation preference of \$1,000 per share, plus all accrued and unpaid dividends, up through the settlement date, anticipated to be October 29, 2010. The newly-issued shares of Common Stock, in exchange for the Preferred, were valued at \$9.00 per share, and if all shares of Preferred Stock were exchanged on the settlement date, Remy would issue approximately 18,016,824 new shares of Common Stock, or 207.09 shares of Common Stock for each share of Preferred Stock. Prior to launching the Exchange Offer, Remy entered into an agreement with two of our Preferred Holders, which represent approximately 84% of the outstanding Preferred Stock, to exchange their Preferred Stock for Common under the terms of the Exchange Offer and consent to amend the respective Series A and Series B designations to, among other amendments, make the Preferred Stock callable after December 1, 2010 pursuant to the terms of the Consent Solicitation. The Offering was subject to additional terms and conditions as set forth in the Exchange Offer and Consent Solicitation Statement sent to the

Preferred Shareholders. The Exchange Offer required approval by consent of 66 2/3% of the Company's Common Stockholders, which will be solicited through a Shareholder Consent, which would also have amended the Company's Restated Certificate of Incorporation.

On October 11, 2010, we suspended the Exchange Offer and Consent Solicitation relating to shares of our Series A Preferred Stock and Series B Preferred Stock and terminated our ongoing common stock shareholder consent relating to approval of the exchange offer and proposed amendments to our certificate of incorporation. As a result, the Company will not accept any shares of our preferred stock for exchange or consents to amend the related preferred stock designations and will not accept any shareholder consents to approve the exchange offer or the proposed amendments to our certificate of incorporation.