

Remy International, Inc.

**Condensed Consolidated Financial Statements
(Unaudited)**

For the quarterly period ended September 30, 2011

Remy International, Inc.
Unaudited Condensed Consolidated Financial Statements

	<u>Page</u>
Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010	3
Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010	4
Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010	5
Notes to Condensed Consolidated Financial Statements	6

Remy International, Inc.
Consolidated balance sheets

(In thousands, except share data)	September 30, 2011	December 31, 2010
	(Unaudited)	
Assets:		
Current assets:		
Cash and cash equivalents	\$ 83,597	\$ 37,514
Trade accounts receivable (less allowances of \$1,658 and \$2,364)	199,845	190,001
Other receivables	15,979	16,258
Inventories	149,711	143,021
Deferred income taxes	7,601	3,966
Prepaid expenses and other current assets	12,023	16,304
Total current assets	468,756	407,064
Property, plant and equipment	204,814	190,841
Less accumulated depreciation and amortization	(68,727)	(55,743)
Property, plant and equipment, net	136,087	135,098
Deferred financing costs, net of amortization	6,510	7,386
Goodwill	270,314	270,314
Intangibles, net	99,574	119,119
Other noncurrent assets	36,012	30,175
Total assets	\$ 1,017,253	\$ 969,156
Liabilities and Equity:		
Current liabilities:		
Short-term debt	\$ 12,871	\$ 18,334
Current maturities of long-term debt	3,346	3,347
Accounts payable	154,828	157,095
Accrued interest	68	1,043
Accrued restructuring	1,077	612
Other current liabilities and accrued expenses	155,497	144,871
Total current liabilities	327,687	325,302
Long-term debt, net of current maturities	294,329	317,769
Postretirement benefits other than pensions	1,136	1,371
Accrued pension benefits	19,492	21,002
Deferred income taxes	28,603	29,905
Other noncurrent liabilities	33,245	30,218
Redeemable preferred stock:		
Class A shares	—	51,581
Class B shares	—	114,535
Equity:		
Remy International, Inc. stockholders' equity:		
Common stock, Par value of \$.0001; 130,000,000 shares authorized; 31,467,367 shares issued, and 116,057 treasury shares at September 30, 2011, and 10,755,704 shares issued and 176,057 treasury shares at December 31, 2010.	3	1
Additional paid-in capital	313,956	103,932
Retained earnings (accumulated deficit)	45,527	(14,453)
Accumulated other comprehensive loss	(54,775)	(21,357)
Total Remy International, Inc. stockholders' equity	304,711	68,123
Noncontrolling interest	8,050	9,350
Total equity	312,761	77,473
Total liabilities and equity	\$ 1,017,253	\$ 969,156

See accompanying notes to condensed consolidated financial statements.

Remy International, Inc.
Consolidated statements of operations
(Unaudited)

(In thousands, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net sales	\$ 300,363	\$ 279,973	\$ 910,275	\$ 819,759
Cost of goods sold	243,702	221,619	700,219	646,493
Gross profit	56,661	58,354	210,056	173,266
Selling, general, and administrative expenses	36,450	31,757	103,096	89,565
Intangible assets impairment charges	5,600	—	5,600	—
Restructuring and other charges	783	1,943	1,364	3,419
Operating income	13,828	24,654	99,996	80,282
Interest expense	7,740	10,720	23,637	31,702
Income before income taxes	6,088	13,934	76,359	48,580
Income tax expense	4,244	3,639	13,649	11,292
Net income	1,844	10,295	62,710	37,288
Less net income attributable to noncontrolling interest	647	991	2,730	3,113
Net income attributable to Remy International, Inc.	1,197	9,304	59,980	34,175
Preferred stock dividends	—	(7,954)	(2,114)	(22,298)
Loss on extinguishment of preferred stock	—	—	(7,572)	—
Net income attributable to common stockholders	\$ 1,197	\$ 1,350	\$ 50,294	\$ 11,877
Basic earnings per share:				
Earnings per share	\$ 0.04	\$ 0.13	\$ 1.75	\$ 1.16
Weighted average shares outstanding	30,063	10,287	28,760	10,270
Diluted earnings per share:				
Earnings per share	\$ 0.04	\$ 0.13	\$ 1.70	\$ 1.15
Weighted average shares outstanding	30,926	10,420	29,597	10,360

See accompanying notes to condensed consolidated financial statements.

Remy International, Inc.
Consolidated statements of cash flows
(Unaudited)

(In thousands of dollars)	Nine months ended September 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net income	\$ 62,710	\$ 37,288
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	26,126	22,052
Amortization of debt issuance costs	1,357	1,470
Noncash compensation expense	4,038	836
Deferred income taxes	(1,748)	(1,792)
Accrued pension and postretirement benefits, net	(3,435)	(2,038)
Impairment charges	5,600	—
Restructuring charges	1,364	3,419
Cash payments for restructuring charges	(899)	(2,804)
Other	(1,028)	(1,479)
Changes in operating assets and liabilities, net of restructuring charges:		
Accounts receivable	(9,391)	(19,598)
Inventories	(7,739)	(11,324)
Accounts payable	(2,809)	22,478
Other current assets and liabilities, net	(11,231)	23,934
Other noncurrent assets, liabilities, and other	(8,562)	(15,838)
Net cash provided by operating activities	54,353	56,604
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(15,134)	(11,474)
Government grant proceeds related to capital expenditures	1,318	—
Net cash used in investing activities	(13,816)	(11,474)
Cash Flows from Financing Activities:		
Change in short-term debt and revolver	(26,569)	(5,284)
Payments made on long-term debt, including capital leases	(2,508)	(1,438)
Distributions to noncontrolling interest, net	(2,166)	(1,710)
Net proceeds from common stock rights offering	122,177	—
Dividend payments on preferred stock	(37,399)	—
Redemption of preferred stock	(44,869)	—
Debt issuance costs	(141)	—
Net cash provided by (used in) financing activities	8,525	(8,432)
Effect of exchange rate changes on cash and cash equivalents	(2,979)	401
Net increase in cash and cash equivalents	46,083	37,099
Cash and cash equivalents at beginning of period	37,514	30,171
Cash and cash equivalents at end of period	\$ 83,597	\$ 67,270
Supplemental information:		
Noncash investing and financing activities		
Purchases of property, plant and equipment in accounts payable	\$ 2,297	\$ 3,258

See accompanying notes to condensed consolidated financial statements.

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.

During the three months ended March 31, 2011, 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 565 shares of our Series B preferred shares for common stock. The remaining preferred shares owned by the board members were redeemed on January 31, 2011.

As of September 30, 2011, the significant investor held a 47% ownership interest in Remy, comprised of 14,805,195 shares of our common stock. Additionally, the significant investor held \$29,775,000 in our Term B Loan as of September 30, 2011.

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

Interim Condensed Consolidated Financial Statements

The accompanying unaudited condensed 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 our audited consolidated financial statements and the notes thereto for the year ended December 31, 2010.

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.

Evaluation of Subsequent Events

We have evaluated subsequent events through November 7, 2011, the date our September 30, 2011 consolidated interim financial statements are available for issuance, and 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.

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 September 30, 2011, we had \$38,776,000 of the grant award remaining.

In addition, we received various grants and subsidies from foreign jurisdictions during the three and nine month periods ended September 30, 2011, and 2010, respectively.

As of September 30, 2011, we had deferred revenue of \$5,290,000 related to government grants. The amounts recognized in the accompanying consolidated statements of operations as government grants were as follows (in thousands of dollars):

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Reduction of cost of goods sold	\$ 1,255	\$ 1,386	\$ 4,151	\$ 3,883
Reduction of selling, general, and administrative expenses	\$ 1,466	\$ 1,088	\$ 5,415	\$ 2,498

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 \$21,215,000 and \$23,906,000 as of September 30, 2011 and December 31, 2010, 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.

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.

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 our estimated obligations, which resulted in a \$3,500,000 increase to the warranty reserve, or \$0.34 per share for the nine months ended September 30, 2010. The Company believes that this change in estimate better reflects the Company's obligations of all warranty claims.

Earnings per Share

Basic earnings per share is calculated by dividing net earnings by the weighted average shares outstanding during the period. Diluted earnings per share is based on the weighted average number of shares outstanding plus the assumed issuance of common shares and related adjustment to net income attributable to common stockholders related to all potentially dilutive securities. For the three months ended September 30, 2011, and 2010, in applying the treasury stock method, equivalent shares of unvested restricted stock and restricted stock units of 863,352 and 133,169 shares, respectively, were included in the weighted average shares outstanding in the diluted calculation. For the nine months ended September 30, 2011, and 2010, in applying the treasury stock method, equivalent shares of unvested restricted stock and restricted stock units of 836,830 and 90,349 shares, respectively, were included in the weighted average shares outstanding in the diluted calculation.

Recent Accounting Adoptions

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 did not have a material impact on our consolidated financial position, results of operations or cash flows.

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 became effective for fiscal years beginning after December 15, 2010. The adoption of this guidance 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 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 for 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 position, results of operations or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, to ensure that fair value has the same meaning in U.S. GAAP and in IFRSs and that their respective fair value measurement and disclosure requirements are the same. ASU No. 2011-04 is effective for us for interim and annual periods beginning on or

after December 15, 2011. The adoption of ASU No. 2011-04 is expected to increase our disclosures, but is not expected to have an impact on our consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220), *Presentation of Comprehensive Income*, to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. ASU No. 2011-05 is effective for us for interim and annual periods beginning on or after December 15, 2011. The adoption of ASU No. 2011-05 is expected to increase our disclosures, but is not expected to have an impact on our consolidated financial position, results of operations or cash flows.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles-Goodwill and Other (Topic 350), *Testing Goodwill for Impairment*, to simplify how entities test goodwill for impairment. ASU No. 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. ASU No. 2011-08 is effective for us for interim and annual periods beginning on or after December 15, 2011. The adoption of ASU No. 2011-05 is expected to simplify our goodwill impairment testing, but is not expected to have an impact on our consolidated financial position, results of operations or cash flows.

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 September 30, 2011, and December 31, 2010, are set forth in the table below:

(In thousands of dollars)	As of September 30, 2011			As of December 31, 2010		
	Asset/ (liability)	Level 2	Valuation technique	Asset/ (liability)	Level 2	Valuation technique
Interest rate swap contracts	\$ (4,608)	\$ (4,608)	C	\$ (5,001)	\$ (5,001)	C
Foreign exchange contracts	(14,402)	(14,402)	C	1,016	1,016	C
Commodity contracts	(8,882)	(8,882)	C	9,471	9,471	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. 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 fifteen months to hedge against currency rate fluctuations, some of which are designated as hedges.

As of September 30, 2011, and December 31, 2010, we had the following outstanding foreign currency contracts that were entered into to hedge forecasted purchases and revenues, respectively:

(In thousands)	Currency denomination	
	September 30, 2011	December 31, 2010
Foreign currency contract		
South Korean Won Forward	\$ 49,722	\$ 38,144
Mexican Peso Collar and Forward	\$ 92,677	\$ 23,316
Brazilian Real Forward	\$ 11,400	\$ —
Hungarian Forint Forward	€ 20,600	€ 14,400

Accumulated unrealized net losses of \$(9,209,000) and net gains of \$712,000 were recorded in "Accumulated other comprehensive income (loss)" as of September 30, 2011, and December 31, 2010, respectively. As of September 30, 2011, net losses of \$(7,646,000) are expected to be reclassified to the consolidated statement of operations within the next twelve months. Any ineffectiveness during the three and nine month period ended September 30, 2011, and 2010, respectively was immaterial. We have certain Mexican Peso forward contracts which are undesignated hedges and changes in the fair value are recorded as cost of goods sold in the statement of operations.

Interest Rate Risk

In December 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. There was no hedge ineffectiveness during the three and nine month periods ended September 30, 2010. 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, we recognized the remaining amounts of the interest rate swaps in "Accumulated other comprehensive income (loss)" as interest expense in December 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. 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.

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 fifteen 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 forty-one commodity price hedge contracts outstanding at September 30, 2011, and thirty-one commodity price hedge contracts outstanding at December 31, 2010, with combined notional quantities of 4,734.14 and 5,034.62 metric tons of copper, respectively. We had 19.95 metric tons of aluminum commodity contracts outstanding as of December 31, 2010. These contracts mature within the next fifteen months. These contracts were designated as cash flow hedging instruments. Accumulated unrealized net losses of \$(8,768,000) and net gains of \$9,138,000 were recorded in "Accumulated other comprehensive income (loss)" as of September 30, 2011, and December 31, 2010, respectively. As of September 30, 2011, net losses of \$(7,657,000) are expected to be reclassified to the accompanying consolidated statement of operations within the next 12 months. Hedge ineffectiveness during the three and nine month periods ended September 30, 2011, and 2010, 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:

		Asset derivatives				Liability derivatives			
(In thousands of dollars)	Balance sheet location	September 30, 2011	December 31, 2010	Balance sheet location	September 30, 2011	December 31, 2010			
Derivatives designated as hedging instruments:									
Commodity contracts	Prepaid expenses and other current assets	\$ —	\$ 9,471	Other current liabilities and accrued expenses	\$ 7,771	\$ —			
Commodity contracts	Other noncurrent assets	—	—	Other noncurrent liabilities	1,111	—			
Foreign currency contracts	Prepaid expenses and other current assets	1,188	1,154	Other current liabilities and accrued expenses	10,872	—			
Foreign currency contracts	Other noncurrent assets	358	—	Other noncurrent liabilities	2,572	—			
Total derivatives designated as hedging instruments		\$ 1,546	\$ 10,625		\$ 22,326	\$ —			
Derivatives not designated as hedging instruments:									
Foreign currency contracts	Prepaid expenses and other current assets	\$ —	\$ —	Other current liabilities and accrued expenses	\$ 2,504	\$ 138			
Interest rate swap contracts	Prepaid expenses and other current assets	—	—	Other current liabilities and accrued expenses	2,192	2,303			
Interest rate swap contracts	Other noncurrent assets	—	—	Other noncurrent liabilities	2,416	2,698			
Total derivatives not designated as hedging instruments		\$ —	\$ —		\$ 7,112	\$ 5,139			

The following tables disclose the effect of our derivative instruments on the accompanying consolidated statement of operations for the three month period ended September 30, 2011 (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)
Commodity contracts	\$ (10,232)	Cost of goods sold	\$ 1,392	Cost of goods sold	\$ (191)
Foreign currency contracts	(12,852)	Cost of goods sold	767	Cost of goods sold	—
	<u>\$ (23,084)</u>		<u>\$ 2,159</u>		<u>\$ (191)</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	\$ (3,520)
Interest rate swap	Interest expense	(509)

The following tables disclose the effect of our derivative instruments on the accompanying consolidated statement of operations for the three month period ended 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	2,052	Cost of goods sold	21	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 accompanying consolidated statement of operations for the nine month period ended September 30, 2011 (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)
Commodity contracts	\$ (10,236)	Cost of goods sold	\$ 7,671	Cost of goods sold	\$ (192)
Foreign currency contracts	(9,811)	Cost of goods sold	2,959	Cost of goods sold	—
	<u>\$ (20,047)</u>		<u>\$ 10,630</u>		<u>\$ (192)</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	\$ (2,432)
Interest rate swap	Interest expense	(1,511)

The following tables disclose the effect of our derivative instruments on the accompanying consolidated statement of operations for the nine month period ended 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	\$ (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	1,116	Cost of goods sold	300	Cost of goods sold	—
	<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

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.

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 three months ended September 30, 2011, and 2010, was \$1,575,000, and \$1,759,000, and for the nine months ended September 30, 2011 and 2010, was \$5,143,000, and \$5,134,000, respectively. Gross amounts factored under these facilities as of September 30, 2011, and December 31, 2010, were \$205,462,000 and \$178,398,000, 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)	September 30, 2011	December 31, 2010
Raw materials	\$ 50,819	\$ 46,722
Core inventory	26,541	27,041
Work-in-process	10,631	9,568
Finished goods	61,720	59,690
	<u>\$ 149,711</u>	<u>\$ 143,021</u>

6. Property, plant and equipment

Depreciation and amortization expense of property, plant, and equipment for the nine months ended September 30, 2011, and 2010, was \$14,280,000, and \$13,993,000, respectively.

7. Goodwill and other intangible assets

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

(In thousands of dollars)	As of September 30, 2011			As of December 31, 2010		
	Carrying value	Accumulated amortization	Net carrying value	Carrying value	Accumulated amortization	Net carrying value
Definite-life intangibles:						
Intellectual property	\$ 12,157	\$ 3,356	\$ 8,801	\$ 11,230	\$ 3,087	\$ 8,143
Customer relationships	35,500	12,255	23,245	35,500	9,608	25,892
Customer contract	73,241	53,913	19,328	71,373	40,489	30,884
Trade names	—	—	—	6,000	—	6,000
Total	120,898	69,524	51,374	124,103	53,184	70,919
Indefinite-life intangibles:						
Trade names	48,200	—	48,200	48,200	—	48,200
Intangible assets, net	\$ 169,098	\$ 69,524	\$ 99,574	\$ 172,303	\$ 53,184	\$ 119,119
Goodwill	\$ 270,314	\$ —	\$ 270,314	\$ 270,314	\$ —	\$ 270,314

Definite-lived 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.

In the third quarter of 2011, we fully impaired our defined-life intangible trade name by \$5,600,000, and recorded the loss in the consolidated statement of operations in intangible asset impairment charges. The impairment was the result of an anticipated change in revenue being generated by the products sold under our trade name to products sold under our customer's private label brand.

8. Other noncurrent assets

Other noncurrent assets primarily consisted of core return rights of \$31,248,000 and \$25,440,000 as of September 30, 2011, and December 31, 2010, respectively.

9. Other current liabilities and accrued expenses

Other current liabilities and accrued expenses consist of the following:

(In thousands of dollars)	September 30, 2011	December 31, 2010
Accrued warranty	\$ 27,316	\$ 28,433
Accrued wages and benefits	32,940	43,790
Current portion of customer obligations	4,535	8,866
Rebates, stocklifts, discounts and returns	19,646	14,530
Current deferred revenue	4,652	3,963
Other	66,408	45,289
	\$ 155,497	\$ 144,871

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

(In thousands of dollars)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Balance at beginning of period	\$ 31,512	\$ 23,179	\$ 32,510	\$ 28,780
Provision for warranty	12,884	44,391	36,031	16,151
Payments and charges against the accrual	(12,412)	(36,247)	(36,557)	(13,608)
Balance at end of period	\$ 31,984	\$ 31,323	\$ 31,984	\$ 31,323

10. Other noncurrent liabilities

Other noncurrent liabilities consist of the following:

(In thousands of dollars)	September 30, 2011	December 31, 2010
Customer obligations and contracts, net of current portion	\$ 4,252	\$ 6,418
Noncurrent deferred revenue	5,934	7,144
Other	23,059	16,656
	\$ 33,245	\$ 30,218

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 September 30, 2011, and December 31, 2010, was \$1,929,000 and \$2,899,000, respectively. The current balance included in "Other current liabilities and accrued expenses" as of September 30, 2011, and December 31, 2010, was \$970,000 for both periods.

11. Restructuring and other charges

Total restructuring and other charges of \$1,364,000 were recorded for the nine months ended September 30, 2011. These charges consisted of \$906,000 of employee termination benefits, and \$458,000 of lease termination and other exit costs. The charges related to reductions in force in both Europe and the United States, and exit costs in Europe and our manufacturing operations in Virginia.

Total restructuring and other charges of \$3,419,000 were recorded during the first nine months of 2010. These charges consisted of employee termination benefits of \$1,135,000, lease termination costs and other exit costs of \$(4,000), and asset impairments of \$2,288,000. 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. During the three months ended September 30, 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 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 following table summarizes the activity in our accrual for restructuring for the nine months ended September 30 (in thousands of dollars):

2011	Termination benefits		Exit costs		Total
Accrual at December 31, 2010	\$	487	\$	125	\$ 612
Provision		246		17	263
Payments		(346)		(8)	(354)
Accrued at March 31, 2011	\$	387	\$	134	\$ 521
Provision		290		28	318
Payments		(204)		(60)	(264)
Accrual at June 30, 2011	\$	473	\$	102	\$ 575
Provision		370		413	783
Payments		(210)		(71)	(281)
Accrual at September 30, 2011	\$	633	\$	444	\$ 1,077

2010	Termination benefits		Exit costs		Total
Accrual at December 31, 2009	\$	582	\$	1,608	\$ 2,190
Provision		189		302	491
Payments		(286)		(535)	(821)
Accrual at March 31, 2010	\$	485	\$	1,375	\$ 1,860
Provision		926		59	985
Payments		(521)		(275)	(796)
Accrual at June 30, 2010	\$	890	\$	1,159	\$ 2,049
Provision		20		(365)	(309)
Payments		(536)		(687)	(1,223)
Accrual at September 30, 2010	\$	374	\$	107	\$ 517

Significant components of restructuring expenses were as follows (in thousands of dollars):

	Total expected costs	Expense incurred in			Estimated future expense
		2011	2010	2009	
2011 Activities					
Severance	\$ 821	\$ 794	\$ —	\$ —	\$ 27
Exit costs	442	441	—	—	1
	\$ 1,263	\$ 1,235	\$ —	\$ —	\$ 28
2010 Activities					
Severance	\$ 1,779	\$ 112	\$ 1,667	\$ —	\$ —
Exit costs	227	17	210	—	—
	\$ 2,006	\$ 129	\$ 1,877	\$ —	\$ —
2009 Activities					
Severance	\$ 2,446	\$ —	\$ 30	\$ 2,416	\$ —
Exit costs	950	—	75	875	—
	\$ 3,396	\$ —	\$ 105	\$ 3,291	\$ —

12. Debt

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

(In thousands of dollars)	September 30, 2011	December 31, 2010
Asset-Based Revolving Credit Facility-Maturity date of December 17, 2015	\$ —	\$ 21,273
Term B Loan-Maturity date of December 17, 2016	295,090	297,000
Total Senior Credit Facility and Notes	295,090	318,273
Capital leases	2,585	2,843
Less current maturities	(3,346)	(3,347)
Long-term debt less current maturities	<u>\$ 294,329</u>	<u>\$ 317,769</u>

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 September 30, 2011, 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 \$62,165,000 on September 30, 2011. The ABL agreement matures on December 17, 2015.

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. The Term B facility is subject to an excess cash calculation which may require the payment of additional principal on an annual basis. At September 30, 2011, the average borrowing rate, including the impact of the interest rate swaps, was 7.5%.

As of September 30, 2011, the estimated fair value of our Term B Loan was \$288,817,000. The estimated fair value was \$6,273,000 less than the carrying value. 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. 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, 2011, and December 31, 2010. 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 September 30, 2011. 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 three Korean banks with a total facility amount of approximately \$12,717,000 of which \$11,869,000 is borrowed at average interest rates of 5.06% at September 30, 2011. In Hungary, there is a revolving credit facility and a note payable with two separate banks for a credit facility of \$6,234,000 of which \$951,000 is borrowed at average interest rates of 4.46% at September 30, 2011. Also, in Belgium we have revolving loans with two banks for a credit facility of \$3,817,000 of which \$51,000 is borrowed at average interest rates of 2.75% at September 30, 2011.

Capital Leases

Capital leases have been capitalized using 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 \$3,440,000 at September 30, 2011, and approximately \$3,724,000 at December 31, 2010, net of accumulated amortization.

13. Redeemable preferred stock

On January 14, 2011, we received the requisite two-thirds common stockholder 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 allowed 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."

14. Stockholders' equity

On January 14, 2011, we received the requisite two-thirds common stockholder 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 \$11.00 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 stockholders exercised rights for 19,732,786 shares of common stock for \$216,961,000, consisting of cash proceeds of approximately \$123,426,000, and the cancellation of 48,004 shares of preferred stock having an aggregate liquidation preference and accrued dividends of approximately \$93,535,000. Costs directly attributable to the January 2011 rights offering recorded as an offset of the proceeds in additional paid-in capital were approximately \$1,249,000. 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 13.

15. 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.

Income tax expense of \$4,244,000 for the three months ended September 30, 2011, consisted of deferred U.S. federal tax of \$2,025,000 domestic state and local income taxes of \$201,000, and taxes in various foreign jurisdictions of \$2,018,000. Income tax expense of \$3,639,000 for the three months ended September 30, 2010, consisted of U.S. federal tax of \$152,000, domestic state and local taxes of \$286,000, and taxes in various foreign jurisdictions of \$3,201,000.

Income tax expense of \$13,649,000 for the nine months ended September 30, 2011, consisted of deferred U.S. federal tax of \$2,025,000, domestic state and local income taxes of \$1,408,000, and taxes in various foreign jurisdictions of \$10,216,000. Income tax expense of \$11,292,000 for the nine months ended September 30, 2010, consisted of U.S. federal tax of \$152,000, domestic state and local taxes of \$581,000, and taxes in various foreign jurisdictions of \$10,559,000.

We continue to have a valuation allowance for our domestic U.S. income tax assets amounting to \$95,645,000 at September 30, 2011, which is net of a decrease of \$19,018,000 for the nine months ended September 30, 2011 in the net operating loss deferred tax asset from operating results.

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 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.

We have total uncertain tax positions of \$5,840,000 at September 30, 2011 that have been recorded as liabilities, and we are uncertain as to if or when such amounts may be settled. During the three and nine months ended September 30, 2011, we recorded uncertain tax positions in income tax expense of \$2,125,000 and \$2,325,000, respectively.

The effective income tax rate for the three and nine months ended September 30, 2011, differs from the U.S. federal income tax rate primarily due to the effect of foreign taxable income and the release of the valuation allowance against the U.S. net operating losses reported in the financial statements.

16. Employee benefit plans

The components of expense for the plans were as follows (in thousands of dollars):

Pension benefits:

Components of expense	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Service costs	\$ 66	\$ 62	\$ 197	\$ 185
Interest costs	690	694	2,071	2,084
Expected return on plan assets	(544)	(499)	(1,631)	(1,496)
Recognized net actuarial loss	140	112	419	335
Net periodic pension cost	\$ 352	\$ 369	\$ 1,056	\$ 1,108

Postretirement health care and life insurance plans:

Components of expense	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Interest costs	\$ 25	\$ 30	\$ 74	\$ 91
Amortization of prior service cost	(1,982)	(1,981)	(5,946)	(5,946)
Recognized net actuarial loss (gain)	1,282	1,273	3,846	3,821
Net periodic cost (benefit)	\$ (675)	\$ (678)	\$ (2,026)	\$ (2,034)

Cash Flows - Employee Benefit Plans

We contributed \$1,900,000 to our pension plans in the nine months ended September 30, 2011. We expect to contribute a total of \$2,073,000 to our U.S. pension plans in 2011. The postretirement health care plan is funded as benefits are paid.

17. 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.

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. As a nonpublic company, there is not an active viable market for our common stock; accordingly, we used a calculated value of \$11.00. We based this valuation primarily on the \$11.00 per share price offered in the January 2011 rights offering. Since the shares sold in this rights offering were not freely tradable at issuance, the offering price includes a discount for lack of marketability, and we determined that this price approximates fair value as of the grant date.

Noncash compensation expense related to the awards was recognized for the three and nine months ended September 30, as follows (in thousands of dollars):

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Stock-based compensation expense	\$ 1,351	\$ 278	\$ 4,039	\$ 836

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.

18. Other comprehensive income

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net income	\$ 1,844	\$ 10,295	\$ 62,710	\$ 37,288
Other comprehensive income (loss):				
Foreign currency translation adjustments	(10,464)	9,833	(3,908)	2,021
Currency forward contracts, net of tax	(10,775)	2,031	(9,921)	816
Commodity contracts, net of tax	(11,624)	6,340	(17,907)	4,540
Interest rate swaps and collar contract, net of tax	—	(347)	—	(1,342)
Employee benefit plans, net of tax	(560)	(596)	(1,682)	(1,789)
Total other comprehensive income (loss), net of tax	(33,423)	17,261	(33,418)	4,246
Comprehensive income	(31,579)	27,556	29,292	41,534
Less: Comprehensive income attributable to noncontrolling interest	647	991	2,730	3,113
Less: Other Comprehensive income attributable to noncontrolling interest- Foreign currency translation	135	—	302	—
Comprehensive income attributable to Remy International, Inc.	\$ (32,361)	\$ 26,565	\$ 26,260	\$ 38,421

19. Business segment and geographical information

We are a leading global vehicular parts designer, manufacturer, remanufacturer, marketer and distributor. Products we manufacture include starter motors, alternators, and hybrid electric 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, and because the nature of products, production processes, customers and methods of distribution are similar.

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 about our net sales by region was as follows:

(In thousands of dollars)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net sales to external customers:				
United States	\$ 187,320	\$ 175,916	\$ 573,742	\$ 502,574
Europe	27,561	27,172	90,139	86,728
Other Americas	27,836	31,404	75,946	88,397
Asia Pacific	57,646	45,481	170,448	142,060
Total net sales	\$ 300,363	\$ 279,973	\$ 910,275	\$ 819,759

20. Other commitments and contingencies

We are party to various legal actions and administrative proceedings and subject to various claims arising in the ordinary course of business, including those relating to commercial transactions, product liability, safety, health, taxes, environmental and other matters. We review these matters on an ongoing basis and follow the provisions of Financial Accounting Standards Codification Topic 450, *Contingencies*, when making accrual and disclosure decisions. For legal proceedings where it has been determined that a loss is both probable and reasonably estimable, a liability based on known facts and which represents our best estimate has been recorded. We believe that the ultimate liability, if any, in excess of amounts already provided for in the financial statements 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 2009, we elected to terminate our retiree medical program and modify our retiree life insurance coverage. On November 4, 2009, certain retirees filed a purported class action lawsuit in the U.S. District Court for Middle District of Tennessee, Nashville Division (Civil Action No.: 2:09cv107), titled *Douglas Oakley, et al. v. Remy International, Inc.*, challenging our right to terminate such coverage provided to retirees who were members of the United Auto Workers union and their spouses. On April 1, 2010, this case was moved to the U.S. District Court, Southern District of Indiana, Indianapolis Division. We continue to deny liability and intend to vigorously defend this action. Due to the early stage of this case, it is not possible to make an estimate of the amount of loss, if any, that could result from this case at this time, although management believes the range of possible exposures would not have a material 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 for a brief time after December 31, 2009. The root cause was tracked to a potential defect in a third-party-supplied subcomponent that could, in certain cases on specific vehicle applications, result in a fire. We are unaware of any injuries associated with this issue to date. We notified the National Highway Traffic Safety Administration, or NHTSA, of the issue and conducted a voluntary campaign to recover the potentially affected units, and we have continued to report our progress to NHTSA in quarterly reports. We initiated these actions as part of a proactive effort to contain all potential products and promote consumer safety, and we have been able to recover a majority of the suspect units to date. 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 submitted our last quarterly report to NHTSA on October 31, 2011 related to this alternator recall. As of September 30, 2011, we had \$202,000 accrued as warranty within other current liabilities and accrued expenses for this recall.

Grissom Air Force Base environmental matter

We were involved in settlement negotiations with the U.S. Department of Justice concerning a claim for reimbursement from us of up to 50% of past and future cleanup costs in connection with a former facility we leased on the Grissom Air Force Base. On June 9, 2011, we settled this matter with a Consent Decree in the U.S. District Court for the Northern District of Indiana, South Bend Division (captioned *United States of America v. Western*

Reman Industrial, Inc.) pursuant to which we were required to pay \$300,000 to the United States Air Force for response costs.

Remy, Inc. vs. Tecnomatic S.p.A.

On September 12, 2008, Remy International, Inc. filed suit against Tecnomatic in the U.S. District Court, Southern District of Indiana, Indianapolis Division (Civil Action No.: 1:08-CV-1227-SEB-JMS), titled *Remy, Inc. vs. Tecnomatic S.p.A.*, for breach of contract, among other claims, with respect to a machine Tecnomatic manufactured for us to build stators. On December 9, 2008, Tecnomatic filed a counterclaim in the amount of \$111,000.

Tecnomatic filed a lawsuit on March 9, 2011 in U.S. District Court, N. D. of Illinois, against Remy International, Inc., its Mexican subsidiaries and two other entities alleging breach of confidentiality agreement, misrepresentation and misappropriation of technology and requests damages of \$110,000,000. We believe this action is without merit and an attempt to push us to settle the prior case. The Illinois Court granted our motion to transfer the case to U.S. District Court, Southern District of Indiana, Indianapolis Division, and the two pending actions were merged by the Indiana Court. The new trial date has not yet been determined.